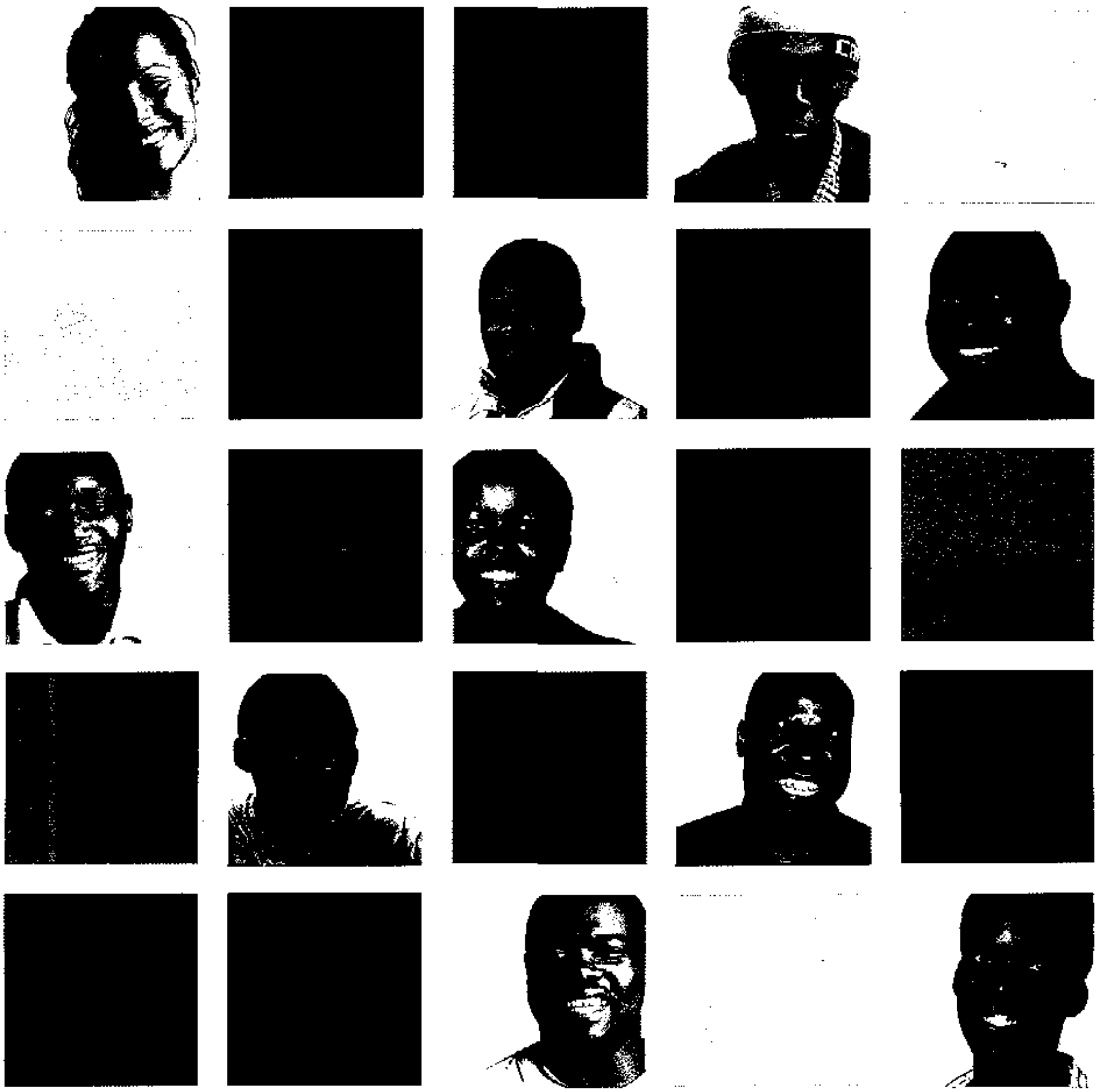
BRITISH AMERICAN TOBACCO
KENYA



annual review
& financial statements
2007

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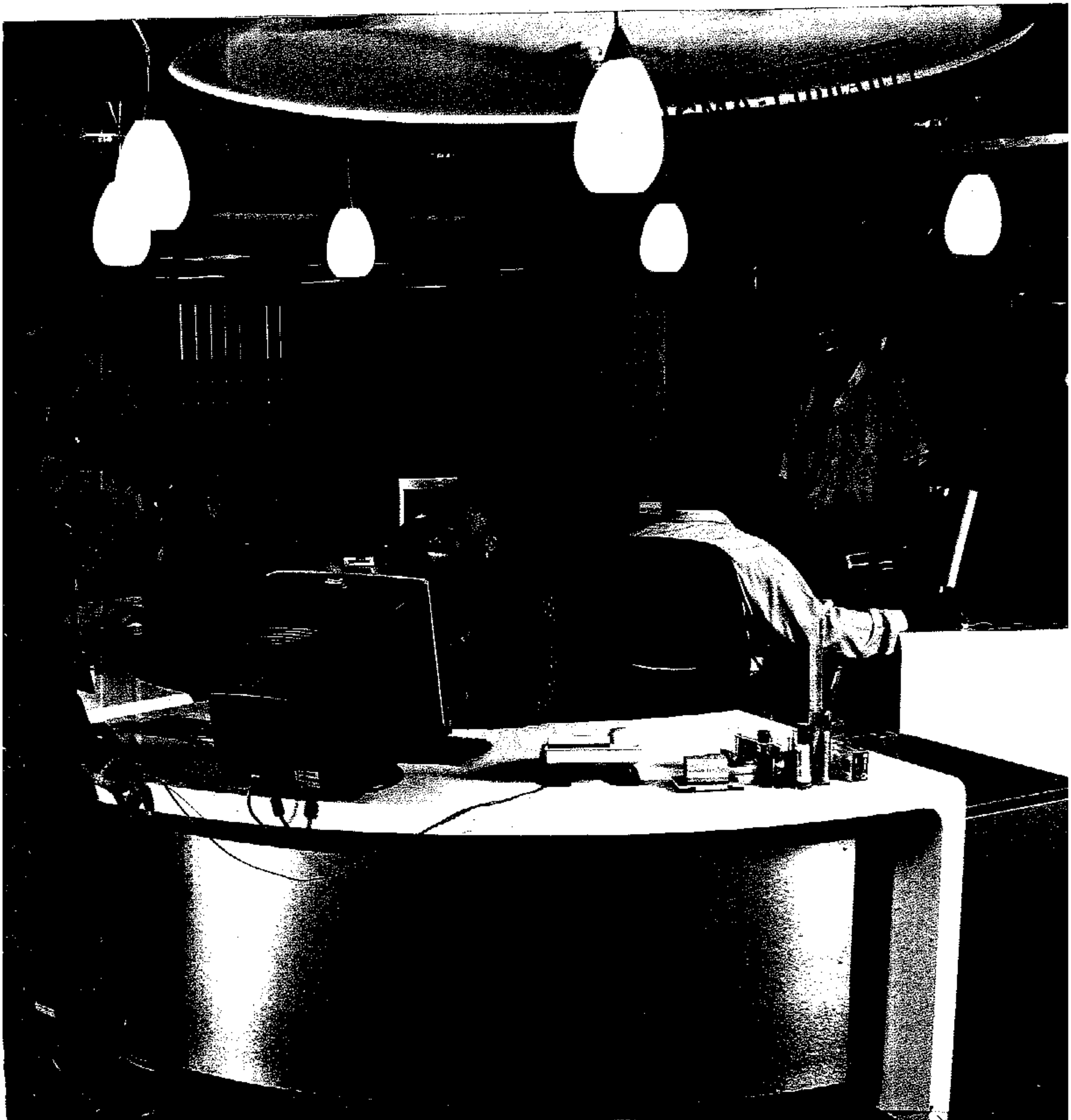


The new look human resource service centre

BRITISH AMERICAN
TOBACCO
KENYA

Our winning organisation

Board of Directors and Directors' Profiles

Mr. E Mwaniki (69)
Non-Executive Chairman
Appointed to the Board as Non-Executive Director of the Company in April 1995. He has been the Non-Executive Chairman of the Company since November 1995. He has vast business knowledge and has worked for several blue-chip companies both locally and internationally. He currently sits on the Boards of East African Breweries Limited, East African Packaging Industries Limited, Lion of Kenya Insurance Company Limited and Kenya Airways Limited.

Mr. N Maistre (45)
Managing Director
Appointed to the Board in December 2006. He previously worked as the Managing Director, BAT Levant and Yemen. He has held various positions in British American Tobacco Group where he has worked for the last 16 years, having joined the Group from Rothmans International.

Mr. A N Ngugi (70)
Non Executive Director
Appointed to the Board in April 2000. He has over 30 years experience in the corporate sector, having worked in various organisations in Kenya. He is a former CEO of Kenya Association of Manufacturers and former Chairman of BOC Kenya Limited. He is currently serving as Chairman of the Kenya Anti-Corruption Commission Advisory Board.







Mr. L Senra (34)
Finance Director
Appointed to the Board in July 2006. He previously worked as Strategic and Finance Planning Manager for Souza Cruz, a BAT subsidiary. He has held several positions in the finance department in British American Tobacco Group, having joined the Group as a Management Trainee.

Prof. J H Kimura (63)
Non-Executive Director
Appointed to the Board in July 2001. He is an accountant by profession and is currently the Chairman of Higher Education Loans Board. He is also a member of the Board of Directors of UAP Provincial Insurance Company Limited, Development Bank of Kenya Limited and Chairman of Ndakaini Dam Environmental Conservation Association.

Ms. R T Ngobi (47)
Company Secretary
Appointed Company Secretary in August 2002. She previously worked with Unilever Kenya Limited as Company Secretary with responsibilities for legal support and services to Unilever's operations in Kenya, Uganda, Tanzania and Ethiopia at the time. She is currently also the Area Legal Counsel for British American Tobacco Sub-Saharan Africa Limited.

Mr. G R May (65)
Non-Executive Director
Appointed to the Board in September 2005. He has a rich accounting background and is a Fellow of the Institute of Chartered Accountants in England and Wales. He has worked in various countries and has a long history of 37 years with PricewaterhouseCoopers. He is currently the Regional Representative of the Eastern Africa Association.

Mr. H Eloff (50)
Non-Executive Director
Appointed to the Board in March 2007. He has a long and distinguished career in Operations with British American Tobacco Group having joined the group from Rothmans International. He was previously based in London as the Regional Manufacturing Manager responsible for Africa Middle East. He is currently the Demand Chain General Manager for Sub-Saharan Africa Area based in Nairobi.

Mr. M Oduor-Otieno (51)
Non-Executive Director
Appointed to the Board in June 2007. He is currently the CEO of Kenya Commercial Bank. He has a wealth of experience in the corporate sector having previously worked at Barclays Bank and British American Tobacco Kenya.

Mr. J Dowd (40)
Non-Executive Director
Appointed to the Board in July 2007. He has held various marketing positions in British American Tobacco Group where he has worked for the last 7 years, having joined the Group from Rothmans International. He is currently the Marketing Director for East Africa Zone.

Ms. J W Michuki (52)
Non-Executive Director
Appointed to the Board in July 2005. She is an advocate and has extensive experience in gender and human rights development. She is a gender consultant and founder member of the Federation of Kenya Women Lawyers (FIDA-K). She is also the Chairperson of the Institute of Education in Democracy.

Mr. J D Pike (53)
Non-Executive Director
Appointed to the Board in November 2005. He has a long and distinguished career with British American Tobacco Group and was previously the Managing Director of British American Tobacco, Pakistan. He is currently the Area Director, British American Tobacco Sub-Saharan Africa Limited based in Nairobi.

Mr. M M Wanyoike (58)
Non-Executive Director
Appointed to the Board in January 2001. He worked in different roles within the Company in Kenya and the East African Region, culminating in his appointment as Human Resources Director. Upon retiring from full time employment with the Company in December 2000, he took up Human Relations consultancy.

Notice of the 2008 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Sixth Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ballroom, Hotel Inter-Continental, Nairobi, on 7 May 2008, 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 31 December 2007, together with the reports of the Chairman, Directors and Auditor thereon.
2. To declare a dividend.
3. To elect Directors:

   i. Mr. H Eloff who was appointed to the Board on 20 March 2007, retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

   ii. Mr. M Oduor-Otieno who was appointed to the Board on 1 June 2007 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election

   iii. Mr. J Dowd who was appointed to the Board on 13 July 2007 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

   iv. Ms. J W Michuki, Mr. J D Pike and Mr. G R May retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

   v. Mr. A N Ngugi having attained the age of 70 on 23 July 2007 retires in terms of section 186 (2) of the Companies Act (CAP 486) and being eligible, by virtue of this Special Notice given under section 186 (5), offers himself for re-election.

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

By Order of the Board

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

18 March, 2008

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.

1. 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 6 May 2008.

Building on our success.

There were many challenges to the business in 2007 but I am pleased to report that on British American Tobacco Kenya's 100th anniversary the company delivered steady volume growth and a significant increase in operating profit. 2007 was also a year when the company continued to take important steps in securing a sustainable future. Underpinning economic growth in Kenya are strong performances in Agricultural Production, Manufacturing, Tourism, Transport & Communication.

Evanson Mwaniki
Chairman

Operating environment

Before the post-election turmoil at the end of the year, Kenya's economic progress had been encouraging. A GDP growth rate of more than 6%, inflation in single digits and interest rates relatively stable at between 7% and 8% reflected the country's prudent economic policies of recent years.

During the year, the Kenya Shilling appreciated 7% against the US Dollar, 4% against the British Pound and 7% against the Euro. The appreciation was helped by improved inflows from agricultutal exports, remittances from Kenyans abroad, foreign investor funds and other capital inflows.

On a less positive note the national infrastructure remains close to breaking point and, as such, is an impediment to faster growth within the Kenyan economy. It is clear that insufficient investment in the road network and congestion at Mombasa port are negatively impacting many businesses including our own.

Tobacco industry operating environment

The Finance Bill featured a sharp increase in the rate of excise on cigarettes. In addition, changes were proposed to the structure of excise whereby cigarettes would be taxed according to their physical characteristics. This restructuring of excise represented a positive move in the fight against illicit trade. Unfortunately, Parliament saw it fit to reject the most beneficial of the cigarette excise reforms.

The Tobacco Control Act of 2007 was given Presidential assent in September. This Act is very welcome indeed. It brings regulatory certainty to the industry and ensures that all players in our industry are bound by the same rules. The challenge for the government is to ensure that the Act is introduced as planned and effectively enforced.

2007 also saw the government play a more active role in the fight against illicit trade in cigarettes. There is much still to be done, but there is no doubt that more effective enforcement by the authorities has not only improved our own volumes, but also government revenue from cigarettes.

Performance

Despite the challenges of the operating environment, domestic sales volume increased by 12% during 2007. This encouraging performance was largely due to improvements in our distribution capability, portfolio initiatives and the authorities' focus on tackling illicit traders.

Factory output increased by 19%, driven by export volumes as the company further established itself as a regional centre of excellence for manufacturing.

Results

Gross turnover increased by 23% to Shs 15.8 bn compared to Shs 12.7 bn in 2006. Pre-tax profit was Shs 2.1 bn, a 17% increase in 2007. This encouraging performance was driven by higher sales volume and pricing initiatives in the domestic market, prudent cost management and supply chain savings. Profit after tax stood at Shs 1.4 bn, compared to Shs 1.2 bn in 2006, whilst our contribution to government revenue in excise, corporation tax and value added tax increased by 25% to Shs 7 bn.

Dividend

The Directors recommend a final dividend of Shs 10.50 per Shs 10 ordinary share. When added to the interim dividends already paid out, this final dividend brings the total dividend for the year to Shs 17.00 per share. The dividend payment is subject to withholding tax and will be paid on 7 May, 2008 to the shareholders on the share register at the close of business on 22 April, 2008.

Outlook

In last year's annual report we predicted "business as usual" before and after the election period. Like most commentators, we were surprised and dismayed by the civil unrest that followed the election. It is inevitable that this unrest will take its toll on the social and economic development of Kenya. The depth of that impact is still unclear.

From the perspective of our own company, during the troubles we were able to fall back on excellent business contingency plans and have minimised any negative impact from both a manufacturing and distribution point of view. We are encouraged by the progress we are seeing towards stability. Should this be maintained, prospects for our business will continue to be bright.

New Directors

I would like to welcome to the Board of British American Tobacco Kenya three new members. Mr. H Eloff joined us in March 2007, Mr. M Oduor-Otieno joined us in June 2007 and Mr. J Dowd joined us in July 2007.

Finally on behalf of the Board, I wish to thank our staff, farmers, suppliers, business partners, the Government of Kenya and other stakeholders for their continued support. Let us keep up the team spirit.

Thank you

Evanson Mwaniki
Chairman

Taarifa ya Mwenyekiti

Evanson Mwaniki
Mwenyekiti

Kujenga ufanisi wetu.

Kulikuwa na changamoto nyingi katika biashara yetu mwaka wa 2007, lakini nina furaha kueleza kwamba wakati wa kuadhimisha sherehe za miaka 100 tangu kuanzishwa kwa kampuni ya British American Tobacco Kenya, kampuni iliwasilisha ongezeko kubwa la bidhaa na kupata ongezeko muhimu la faida ya utengenezaji bidhaa. Mwaka wa 2007 pia ulikuwa mwaka wa kampuni kuendelea kuchukua hatua muhimu katika kudumisha shughuli zetu siku zijazo. Shughuli muhimu zilizoleta ukuaji wa kiuchumi nchini zilitokana na matokeo bora katika Kilimo, Utengenezaji bidhaa, Utalii, Uchukuzi na Mawasiliano.

Mazingira ya shughuli zetu

Kabla ya ghasia za baada ya uchaguzi mnamo mwisho wa mwaka, maendeleo ya uchumi wa Kenya yalikuwa ya kuridhisha. Pato la taifa la GDP liliongezeka kwa kiwango cha zaidi ya asilimia sita, kiwango cha gharama ya maisha kilikuwa thabiti na viwango vya riba vilikuwa thabiti kwa kati ya asilimia 7 na asilimia 8. Hivi vilidhihirisha maongozi bora ya kiuchumi katika miaka ya hivi punde.

Mnamo mwaka huo, shilingi ya Kenya ilipanda thamani kwa asilimia 7 dhidi ya Dola ya Marekani, asilimia 4 dhidi ya Pauni ya Uingereza na asilimia 7 dhidi ya Euro. Kupanda thamani kwa shilingi kulisaidiwa na kuimarika kwa uuzaji bidhaa za kilimo katika nchi za nje, kuletwa humu nchini pesa za wakenya wanaoishi nchi za ng'ambo, pesa za wawekezaji wa kigeni na mapato mengine.

Katika hali isiyo ya kuridhisha muundo msingi wa kitaifa umeendelea kuharibika na hivyo kuwa kikwazo cha ukuaji wa haraka wa uchumi wa nchi hii. Ni wazi kwamba kutokuweko kwa uwekezaji wa kutosha katika mtandao wa barabara na msongamano wa shehena za mizigo katika bandari ya Mombasa vimeathiri biashara nyingi ikiwemo biashara yetu.

Mazingira ya shughuli za sekta ya tumbaku

Mswada wa kifedha ulisababisha ongezeko la kiwango cha ushuru wa sigara. Vile vile, mabadiliko yalipendekezwa kwa mtindo wa ushuru ambapo sigara zitatozwa ushuru kulingana na muundo wake. Marekebisho haya ya ushuru yalileta hatua nzuri katika kupambana na biashara haramu. Kwa bahati mbaya, bunge lilikataa marekebisho yenye manufaa ya ushuru wa sigara. Sheria ya tumbaku ya mwaka 2007 nchini iliidhinishwa na Rais mwezi Septemba. Sheria hii ilifurahiwa vilivyo. Ilileta usimamizi wa sekta hii na kuhakikisha kwamba washiriki wote katika sekta yetu wanazingatia sheria hii. Changamoto kwa serikali ni kuhakikisha kwamba sheria hii inaanza kutekelezwa kama ilivyopangwa. Mwaka wa 2007 pia uliwezesha serikali kutekeleza jukumu muhimu katika kupambana na biashara haramu ya sigara. Bado kuna mengi yanayohitaji kufanywa, lakini hakuna shaka hatua za idara na maafisa wanaohusika zimeimarisha viwango vya bidhaa zetu na pia mapato ya serikali kutokana na biashara ya sigara.

Kazi

Licha ya majukumu ya mazingira ya shughuli zetu, uuzaji bidhaa zetu humu nchini uliongezeka kwa asilimia 12 mnamo mwaka wa 2007. Kazi hii ya kuridhisha ilitokana na kuimarika kwa uwezo wa ugawaji bidhaa zetu, nafasi ya juhudi zetu na maafisa wa idara zinazohusika katika kukabiliana na wafanyibiashara haramu. Utoaji bidhaa kiwandani mwetu uliongezeka kwa asilimia 19, kufuatia mahitaji ya kiwango kikubwa cha bidhaa za kuuzwa nchi za nje, huku kampuni ikiwa kama kituo kikuu cha eneo hili cha utengenezaji bidhaa bora.

Matokeo

Pato liliongezeka kwa asilimia 23 hadi kufikia shilingi bilioni 15.8 ikilinganisha na shilingi bilioni 12.7 mwaka wa 2006. Faida kabla ya ushuru ilikuwa shilingi bilioni 2.1 sawa na ongezeko la asilimia 17 mwaka wa 2007. Matokeo haya ya kuridhisha yalitokana na uuzaji wa kiwango kikubwa cha bidhaa zetu na bei nafuu ya bidhaa hizo katika soko la humu nchini, usimamizi bora wa gharama na vituo vya ugawaji bidhaa na vile vya shughuli za akiba. Faida baada ya ushuru ilikuwa shilingi bilioni 1.4 ikilinganishwa na shilingi bilioni 1.2 mwaka wa 2006, ilhali mchango wetu kwa pato la serikali katika ushuru wa bidhaa, ushuru wa kampuni na ushuru ziada wa thamani VAT uliongezeka kwa asilimia 25 hadi kufikia shilingi bilioni 7.

Mgao wa faida

Wakurugenzi wanapendekeza mgao wa mwisho wa faida wa shilingi 10.50 kwa hisa ya shilingi 10. Ukiongezewa mgao wa muda wa faida uliolipwa tayari, mgao wa mwisho wa faida kwa mwaka huo utakuwa shilingi 17.00 kwa hisa. Malipo ya mgao wa faida yatakatwa ushuru wa kibiashara na yatalipwa tarehe 7 Mei, 2008 kwa wenyehisa waliosajiliwa wakati wa kufunga biashara tarehe 22 Aprili, 2008.

Mtazamo

Katika taarifa ya kila mwaka ya mwaka uliopita, tulibashiri "biashara kama kawaida" kabla na baada ya kipindi cha uchaguzi. Kama wengi wasemavyo, tulishangazwa na kuhuzunishwa na ghasia za wenyewe kwa wenyewe zilizofuatia uchaguzi. Ni wazi kwamba ghasia hizi zimekuwa na madhara yake kwa maendeleo ya kijamii na kiuchumi ya nchi hii. Kiwango cha athari hizo bado hakiko wazi.

Kutoka kwa mtazamo wa kampuni yetu, wakati wa vurugu hizo tuliweza kurudi nyuma kwenye mipango ya kuboresha biashara yetu na tumepunguza athari zozote mbaya za utengenezaji na ugawaji wa bidhaa zetu. Tumetiwa moyo na maendeleo tunayoshuhudia kufikia uthabiti. Ikiwa hali kama hii itadumishwa basi biashara yetu itaendelea kunawiri.

Wakurugenzi wapya

Ningependa kuwakaribisha kwenye Halmashauri ya kampuni ya British American Tobacco Kenya wanachama watatu wapya. Bwana H Eloff alijiunga nasi mwezi Machi, 2007, Bwana M Oduor-Otieno akajiunga mwezi Juni, 2007 na Bwana J Dowd akajiunga nasi mwezi Julai, 2007. Mwisho, kwa niaba ya Halmashauri, nawashukuru wafanyikazi, wakulima, wagawaji, washirika wa kibiashara, Serikali ya Kenya na washika dau wengine kwa msaada wao. Tudumishe moyo wa umoja.

Asanteni
Evanson Mwaniki
Mwenyekiti

Delivering our strategy.

In 2007, the team at British American Tobacco Kenya delivered excellent business results in a highly competitive and challenging environment. Our results are the product of the talent, hard work, spirit and drive of our people.

Nicolas Maistre
Managing Director

It is entirely appropriate therefore that the underlying theme of this Report for shareholders is a celebration of the people who continue to take this company from strength to strength. Not just our employees – but also our partners with whom we drive our company to ever greater heights and who share in the fruits of our success.

Regulation of our industry

During 2007 we looked to government to provide a more stable framework in which our business could operate. The results were mixed.

Tobacco Control Act

On the positive side, we saw Presidential assent given to the Tobacco Control Act. It may sound perverse for a cigarette company to welcome an Act of Parliament which severely restricts our marketing freedoms and places constraints on public smoking, but we are strong supporters of this legislation.

For the best part of a decade, the Kenyan Parliament has been engaged in heated debate around tobacco legislation. This provided an ongoing distraction to our business and created a situation where, while our company was marketing within our own code of conduct, other players were free to engage in activities that we would consider inappropriate.

The Kenya Tobacco Control Act is the result of a long, broad-based and, on the whole, rational debate. The Act creates a level playing field for our industry and, generally speaking, represents a reasonable regulation for tobacco in this country with a realistic implementation period.

While we may not agree with everything enshrined in the Kenya Tobacco Control Act, such as the composition of the Tobacco Control Board without industry representation, we recognise it as a good example of legislation that is properly considered, properly debated and reflective of a thorough consultative process during which all stakeholders had an opportunity to state their views.

The challenge now facing the authorities is to ensure that the Act is implemented on time and that all players are compliant.

We call on the government to ensure that any player who fails to meet the new standards on time is subject to the penalties clearly outlined in the Act.

Excise

It was a challenging year for our company on the excise front. The Finance Bill tabled by the Minister for Finance proposed significant changes to the rate and structure of excise on cigarettes in Kenya.

Excise rates increased substantially – the increase averaging over 20% across our portfolio.

This large hike was accompanied by a proposed restructuring of excise whereby cigarettes would be taxed at different rates according to their physical characteristics rather than the price at which they are sold.

This was not only a logical step towards regional harmonisation in cigarette excise, but also an important instrument in the fight against illicit trade. Under the proposed structure it would have been much easier for the authorities to identify how much excise was due.

Unfortunately, Parliament amended the Minister's proposals. While most of the excise rate increase was retained, the new structure was rejected.

We continue to believe that the excise structure needs to be reformed to create tax bands based on physical characteristics and we urge the government to revisit this issue in 2008.

We also encourage the government to be mindful of the established link between high tax rates on cigarettes and the incidence of illicit trade. After the large excise increases in 2007, we appeal to the government to show restraint in 2008. A significant excise rate increase on cigarettes in 2008 will simply encourage illicit trade and threaten government's existing income within our sector.

Still on the subject of illicit trade, in 2007, the authorities in Kenya made some significant inroads into the problem of illegal cigarettes. We saw several instances of meaningful action being taken against illicit traders and this not only helped our own volumes, it also increased government revenues from legal cigarettes.

There is still very much to do in tackling illicit trade in cigarettes in Kenya and we will continue to cooperate with the authorities to tackle this issue. But we must recognise the good work done in 2007.

Volume growth in the domestic market

The crackdown on illicit trade was one of the factors that contributed towards our volume growth in 2007. The other key main factors were the further development of our portfolio strategy and significant improvements in our distribution capability and performance.

Portfolio strategy

2007 was a year when our Global Drive Brands began to make a real impact in the market. Globally, British American Tobacco places special emphasis on a number of brands which we call Global Drive Brands. By focusing on these few brands, the Group is able to drive efficiencies in brand development and support activities aligned to globally homogenous consumer segments.

Two Global Drive Brands are available in the Kenyan market – Dunhill and Pall Mall. Together, the volume sold of these two brands doubled in 2007, versus 2006. This is a very encouraging result.

While developing our Global Drive Brands, we have not lost sight of our traditional sources of strength. For example, Sportsman and Safari continued to do well in 2007.

Distribution effectiveness

Our encouraging performance in 2007 was also helped by further developments in our distribution capability. We took a "back to basics" approach whereby we critically assessed all aspects of our distribution infrastructure.

By reshaping our territories and optimising both our own structure and our distributor base we are seeking to realise significant improvements including:

- Continuity of supply leading to fewer "out of of stock situations"
- Better coverage in remote areas of the country
- Enhanced service for our retailers.

Demand chain

Our Demand Chain organisation includes procurement, manufacturing and supply chain. We made significant progress in all of these areas.

Today, Kenya is a Regional Demand Chain Centre of Excellence within British American Tobacco – one of only four such centres of excellence in the whole of the Africa Middle East region.

Since 2005, some Shs 1.4 bn has been invested in the Nairobi factory and over 100 additional employees have been recruited. The Kenya-based Demand Chain organisation now services 14 markets within our region.

This is a massive organisational transformation. In 2002, less than 20% of the cigarettes manufactured in the Nairobi factory were exported. In 2007, 63% of the factory's output was exported. Total factory volumes have almost tripled in the last five years.

In 2007, the focus of the Demand Chain was on establishing world class standards of product quality and customer service and on realising the financial and operational synergies that come from such a large and integrated organisation.

To give just one example, in 2007 the Demand Chain organisation was able to extract significant savings through more efficient and larger scale procurement of production inputs.

Social responsibility

British American Tobacco Kenya is proud of its status as one of this country's most successful and innovative companies. For many years, and certainly before it became fashionable, we have recognised the concept of corporate social responsibility.

During 2007 we continued to play our role as a corporate citizen supporting our traditional platform of Jua Kali – bringing to Shs 35 mn the total amount we have contributed to this sector since 1999. We also supported a number of other initiatives aimed at empowering Kenyans to realise their full potential in life.

Our people

In July 2007, British American Tobacco Kenya celebrated its 100th birthday and we celebrated in style with a party for all of our employees. We will all remember that day for a very long time.

Having fun and celebrating our successes is part of what makes British American Tobacco a great place to work. But in today's environment where competition for the best people is fierce, we recognise that if we are to attract and retain Kenya's top talent, we need a comprehensive employment proposition.

To that end, in 2007 we further developed our talent strategy and took decisive steps in creating a world class working environment for our team with a major refurbishment of our head office.

Looking ahead

The global vision of BAT is to achieve leadership of the tobacco industry. The four building blocks of our strategy are Growth, Productivity, Responsibility and developing a Winning Organisation. Each component of the strategy is essential for building profit growth, enhancing shareholder value and long term business sustainability.

Totally aligned to the global strategy of British American Tobacco, the way forward for the company in Kenya is very clear.

Growth

We will continue to seek opportunities to grow our share of the Kenyan cigarette market, principally through the development of our portfolio strategy focused on our Global Drive Brands, and through continuous improvement of our distribution capability.

Productivity

As Kenya further consolidates its status as a Demand Chain Centre of Excellence we continually seek savings from complexity reduction, centralised sourcing, streamlined processes and other initiatives. We have aggressive savings targets in 2008 and most of these will feed through to the bottom line.

Responsibility

We look forward to an orderly implementation of the Tobacco Control Act which ensures equal treatment of all players in the industry. We will also continue to work with the authorities to address the problem of illicit trade – through their enforcement activities and excise strategy for cigarettes.

Within the context of the restrictions placed on us by the Tobacco Control Act, we will also seek to maintain our corporate social investment activities in Kenya.

Winning organisation

We will maintain our status as one of Kenya's best employers, working to further improve the culture in our organisation, the capabilities of our people and the robustness of our leadership pipeline. We will provide further opportunities for our Kenyan professionals to advance within the organisation – either through opportunities within this country, or by joining the ranks of Kenyans enjoying development within British American Tobacco's international operations.

Thank you

Nicolas Maistre,
Managing Director

Our People.

Here are some of our managers who are delivering the company's future.

1.	J T Kimani	*East Africa Zone Security Manager*
2.	S Mugwe	*Head of Leaf*
3.	I Gikemi-Muriithi	*HR Business Partner, Operations*
4.	H R Kifalu	*Head of Leaf Processing*
5.	J Mwanga	**SSA Area Quality Manager*
6.	S W Wafula	*Shared Services Finance Manager*
7.	S N Nthama	*Finance Projects Manager*
8.	J Adell-Owino	*Corporate & Regulatory Affairs Manager*
9.	V Egessa	**SSA Area Global Service Desk Customer Service Manager*
10.	J M Wanjagi	**SSA Area Procurement Manager*
11.	A Murunga	*Project Manager (Optimisation)*
12.	T M Wambua	*East Africa Zone AIT Manager*
13.	G Odongo	*Senior Legal Counsel*
14.	G Kagucia	*Marketing Finance Manager*
15.	V K Cheruiyot	**SSA Area Supply and Logistics Manager*
16.	P O Ogolla	*West Africa Zone Strategic Account Manager*

*SSA - *Sub-Saharan Africa*

Growth

Portfolio strategy

Throughout 2007 we continued our strategy of increasing the volumes of our Global Drive Brands while maintaining our focus on the brands that have been our traditional sources of strength.

Global Drive Brands

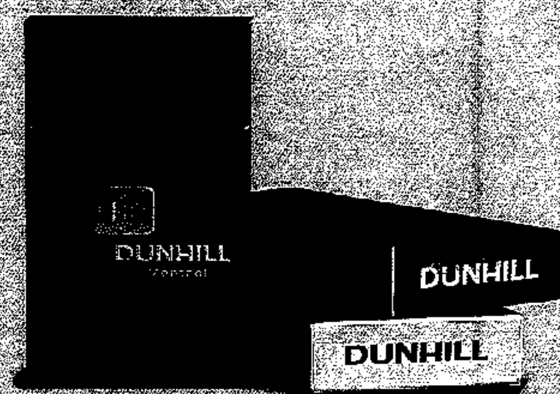
The BAT Group globally places special focus on a number of key brands that we call the Global Drive Brands (GDBs). Two of these have been launched in Kenya – Dunhill and Pall Mall. 2007 was a highly encouraging year for our GDB portfolio which doubled in sales volume versus 2006.

Dunhill was launched into the premium segment in 2005 and has made steady progress. The key development of Dunhill in 2007 was the launch of Dunhill 10s. The initial performance of Dunhill 10s is very encouraging.

Pall Mall was launched in 2006 in a hinge-lid format. While the brand made some initial progress in that format, during 2007 we changed to a soft-pack for Pall Mall. Changing the pack format has made the Pall Mall offer more attractive to adult smokers in the mid price segment. The brand, available in full flavour, lights and menthol variants, is growing fast.

The encouraging volume growth in 2007 was driven by significant progress in the following areas:

- **Portfolio strategy development**
- **Pricing initiatives**
- **Improvements in distribution capability**
- **More effective action against illicit trade by the authorities.**



Other Brands

Our GDB portfolio was a particular area of focus in 2007, but at the same time we have continued to focus on maintaining the relevance and strength of our local brand portfolio, for example Sportsman, Safari and Embassy which all turned in strong performances during the year.

Growing with BAT

Pricing strategy

We suffered a large excise increase in mid year. Always mindful of the limited spending power of the Kenyan adult smoker, we successfully implemented price increases across our portfolio in such a way as to maintain our market share.

Enhanced distribution

A key focus in 2007 was to optimise our distribution capability with the objectives of reducing out of stock situations, achieving better market penetration particularly in remote areas of the country, and improving service levels for our retailers.

We achieved this by undertaking a comprehensive bottom-up review of our distribution capability. The full fruits of this project will only be seen in 2008, but we have already taken decisive steps in reorganising our territories and making significant improvements to optimise our own structure and the way we work with our distributors. It was encouraging to see immediate benefits from this project, which will continue into the current year.

Kembuiya, Trolley owner

"I needed to start a small retail business but I could not afford to build a Kiosk. I had a makeshift structure which was always susceptible to vandalism and other risks. BAT provided a good business opportunity for me. As a trolley vendor, I get a lot of support from BAT. This arrangement gives me business stability and security of stocks. My sales increased because I had an attractive retail outlet. I treasure my business partnership with BAT!"

Nathan Odhiambo, Likoni Road Kiosk owner

"I used to own a makeshift structure on Likoni Road. BAT then provided me with a decent kiosk from which I sell various products. From my revenue I provide for and educate my family. I can honestly say that I am grateful to BAT for the partnership we have shared and I continue to grow with BAT. "

Productivity

As an international business, British American Tobacco is saving money by turning a global company operating in over 180 countries into an integrated enterprise that can really take advantage of its scale.

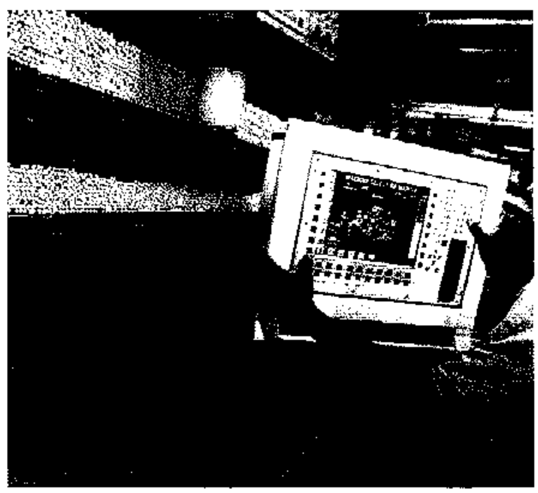
In recent years the focus of British American Tobacco in Kenya has been to establish a Demand Chain Centre of Excellence, delivering the full benefits of a regionally integrated approach to manufacturing, procurement and supply chain operations. Since 2005, Shs 1.4 bn has been invested in the Demand Chain Operation to facilitate this initiative. 2007 was a year of consolidation in the Demand Chain as the business started to reap the full benefits of regional integration. We made significant advances in:-

- Manufacturing capability and performance
- Supply chain efficiency
- Leaf operations

Manufacturing capability and performance

Contract manufacture

The Nairobi factory is one of the four strategic factories in British American Tobacco's Africa Middle East Region, manufacturing products for 15 markets including the domestic market. Progress has been swift. Whereas in 2005 44% of the Nairobi factory output was for sister companies, by the end of 2007, that figure had reached 63%.



Machinery and infrastructure

We installed new machinery to meet the production demand for Mauritius. We also launched 10s packs in the Kenyan market. We continued the installation of an additional high speed soft cup line to replace four lower speed packing machines. This is supported by the expansion of our power distribution system targeted for completion during the first quarter of 2008.

To meet market demand efficiently, we invested in SAP, a fully integrated planning and financial system which has enhanced transparency and communication across our organisation. Investment in production and IT infrastructure will be in excess of Shs 1 bn in 2007 and 2008.

Increasing capabilities of our people

We have improved our technical training function to ensure that our people are fully equipped to play their part in the realisation of the Regional Demand Chain strategy. Training is of a technical and non-technical nature.

Empowering and motivating our teams on the factory floor

Self Directed Work Teams

British American Tobacco believes that staff should be innovative and confident in their ability to achieve continuously improved performance, motivated by an enterprising spirit. A key development in 2007, was the implementation of a concept called Self Directed Work Teams (SDWT).

Duncan Mureithi, SDWT team leader:

"We take responsibility for our work, creating a better working environment that supports efficiency and growth. We set our own vision, mission, targets and rewards which are discussed with management and we commit ourselves to deliver against these targets. We have registered impressive improvements in quality, productivity and cleanliness whilst reducing waste levels in production. In 2007 our teams produced record production figures improving productivity by over 30% during the year. This spirit of co-operation and teamwork is now spreading fast across the factory floor. This project won the BAT East Africa Leadership Results Award for 2007 and has now been packaged as best practice for implementation in other BAT factories in Africa. I am proud to be associated with our winning team."

Supply chain efficiency

Driving savings in our supply chain

We have pursued several initiatives over the last few years which include reductions in product complexity and specification rationalisation. Process reviews have helped us establish world class standards of quality and customer service and achieve the financial and operational synergies that are available from our integrated organisation.

As we consolidate supply within strategic factories, we increase efficiency and reduce costs whilst freeing up the commercial team to focus on sales.

Our tobacco leaf operations

Leaf Operations

Strengthening our partnership with our farmers

In 2007 the company contracted over 5,000 farmers, some 1,000 of whom have been partnering with the company for over 10 years. Once again, our focus was on capacity building, quality and productivity.

Our 2007 metrics illustrate our success in delivering on these focus areas. Cumulated average yield was 1,150 kilos per hectare which represents a growth of over 10%. Overall the gross payout to farmers increased by 20% versus 2006 and amounted to Shs 350 mn.

Providing support where it counts

In 2007, the company has continued to seek value adding solutions with the aim of improving the farmers' operating environment. We worked with suppliers of inputs to avail goods and services at competitive rates and which are delivered closer to the farmers' locations.

We also negotiated competitive loan rates to enable farmers to source inputs and gain access to banking facilities. In addition, the company hired the services of experts to give free seminars in financial management to our farmers.

The environment

Wood fuel is used to cure tobacco leaf. Our priority is to ensure that our farmers are managing their environment responsibly. In the 2006/2007 season, we provided over 4.5 mn seedlings to farmers and other partners for tree planting countrywide at a subsidised cost. Once again the sustainability of our afforestation programme won in the Silver Category of the Total EcoChallenge Awards. So far we have planted over 45 mn trees.

4.5 mn seedlings were provided to farmers and other partners for tree planting in 2007 through the afforestration programme.

Partnering with BAT Kenya

Mzee Steven Nyaga

[illegible]

Winning Organisation

Across the British American Tobacco Group our people strategy is to ensure that we have outstanding individuals working in an environment in which they can flourish. During 2007, British American Tobacco Kenya reviewed its Winning Organisation strategy and we implemented some significant steps towards creating a future fit organisation.

The main focus areas were:-

- Development of our talent strategy
- Enhancing our employee rewards proposition
- Building a world class environment for our team

Development of our talent strategy

Our talent strategy targets Management Trainees and Mid - Career Recruits. In 2007, we took on 49 people. There are various opportunities for growth within the BAT group. Our organisation views Kenya as a talent hub within our region – a place where we are able to recruit high potential talent to fill the talent pipeline within this country and beyond. It is a measure of the success of our strategy that at the end of 2007, 18 Kenyans were enjoying career development programmes within BAT's operations outside Kenya.

Enhancing our employee rewards proposition

As part of our talent retention strategy, we offer competitive rewards and a broad employee value proposition which recognises the individual's desire for a culture in which they can perform and develop. Once again in 2007, we engaged our employees through the "Your Voice" exercise, a climate survey that the company uses to seek feedback from employees on all aspects of their lives with BAT. Feedback from the survey is actioned by the employees themselves.

Building a world class environment

During 2007, we took further steps to provide a world class working environment for our company. An amount of Shs 72 mn was invested to refurbish the head office. Further improvements are planned for 2008.

British American Tobacco Kenya Limited.

Management Trainees.

In January 2007 British American Tobacco Kenya recruited its latest group of young, energetic graduates from Kenyan universities to join the Challenge Initiative, a two year Management Trainee programme. A year down the line, John remarks that, "Joining BAT is like opening a door and seeing the entire world" and all the other Management Trainees agree that the programme is really developing them in ways they never imagined. Evelyn says, "the opportunities for exposure, learning and the challenges are limitless…you get to identify, initiate and implement projects that stretch and challenge you to be innovative. I am privileged to be part of this team."

Dadson Mwaura who joined BAT in 1997 as a Distribution Representative and is now the Market Research and Information Manager in Turkey says, "People stay with BAT because they have a passion for the business. They are excited about the opportunities to make the most of their talents and skills. But most importantly, they derive personal fulfilment from what they do – this is what truly defines our winning organisation. At British American Tobacco, our people are the foundation for success of the company. Their diverse mixture of cultures and backgrounds are the cornerstone for our success and growth."

Dadson Mwaura, in Istanbul.

Shareholding Structure

Major Shareholders as at 18 March 2008	No. of Shares	% Shareholding
Molensteegh Invest BV	60,000,000	60.00
Board of Trustees NSSF	13,245,600	13.24
Barclays (K) Nominees Ltd Non Resident A/c 9296	2,116,331	2.12
The Jubilee Insurance Co. of Kenya Ltd	1,050,615	1.05
Kenya Commercial Bank of Nominees Ltd A/c 769G	1,023,800	1.02
Barclays (K) Nominees Ltd A/c 1256	897,000	0.90
Old Mutual Insurance Co. Ltd	877,734	0.88
Barclays (K) Nominees Ltd A/c 1853	800,032	0.80
Kenya Commercial Bank of Nominees Ltd A/c 744	699,206	0.70
Barclays (K) Nominees Ltd A/c 9376	508,000	0.51
Others	18,781,682	18.78
Total	**100,000,000**	**100.00**

Summary of shareholders as at 18 March 2008			
Shareholder	**No. of Shareholders**	**No. of Shares**	**% Shareholding**
Kenyans	5,321	37,008,401	37.01
Foreign	78	62,930,971	62.93
East African	24	60,628	0.06
Total	**5,423**	**100,000,000**	**100.00**

Distribution of Shareholders as at 18 March 2008			
Shareholding	**No. of shareholders**	**No. of shares**	**% Shareholding**
Less than 500	2,491	658,108	0.66
501 to 5,000	2,458	4,061,072	4.06
5,001to 10,000	215	1,548,575	1.55
10,001 to 100,000	221	7,022,696	7.02
100,001 to 1,000,000	33	9,273,203	9.27
above 1,000000	5	77,436,346	77.44
Total	**5,423**	**100,000,000**	**100.00**

Corporate Information

Board of Directors

Mr. E Mwaniki*	(Chairman)
Mr. N Maistre	(Managing Director)
Mr. L Senra	(Finance Director)
Mr. J D Pike*	
Mr. H Eloff*	
Mr. J Dowd*	
Mr. M M Wanyoike*	
Mr. A N Ngugi*	
Prof. J H Kimura*	
Ms. J W Michuki*	
Mr. G R May*	
Mr. M Oduor-Otieno*	

Audit Committee

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

Nominations Committee

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

Remuneration Committee

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Mr. E Mwaniki*	
Mr. J D Pike*	
Ms. J W Michuki*	
Mr. N Maistre	
Mr. L Senra	
Mr. D Sewgobind	(Secretary)

Corporate Social Responsibility Committee

Ms. J W Michuki*	(Chairman)
Mr. M M Wanyoike*	
Mr. N Maistre	permanent invitee
Mr. S Mugwe	permanent invitee
Mr. S Wafula	permanent invitee
Mr. K Gretton	(Secretary)

Auditor

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Transfer Agents

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Bank House, Moi Avenue
P. O. Box 8484-00100
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Advocates

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Williamson House,
4th Ngong Avenue,
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Bankers

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

Secretary and Registered Office

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P.O. Box 30000-00100
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Telephone: 6942000

*Non-Executive Directors

BRITISH AMERICAN TOBACCO KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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

Report on the consolidated financial statements

We have audited the accompanying financial statements of British American Tobacco Kenya Limited (the company) and its subsidiaries (together, the group), as set out on pages 35 to 59. These financial statements comprise the consolidated balance sheet at 31 December 2007 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2007 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2007 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books;
iii) the company's balance sheet is in agreement with the books of account.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

18 March 2008

Consolidated
Income Statement

	Notes	For the year ended 31 December 2007 Shs'000	2006 Shs'000
Gross turnover		15,770,234	12,859,171
Excise duty and value added tax		(6,351,328)	(5,045,016)
Revenue	6	9,418,906	7,814,155
Other operating income		359,246	44,383
Cost of operations	7	(7,670,148)	(6,049,576)
Operating profit	8	2,108,004	1,808,962
Net finance cost	10	(58,408)	(62,436)
Profit before income tax		2,049,596	1,746,526
Income tax expense	11	(663,949)	(545,104)
Profit for the year (of which Shs 1,385,647,000 has been dealt with in the accounts of the company)		1,385,647	1,201,422
Earnings per share			
Basic and diluted earnings per share (Shs)	13	13.86	12.01
Dividends			
Interim dividends – paid in the year	12	650,000	450,000
Proposed final dividend for the year	12	1,050,000	750,000
Total dividends		**1,700,000**	**1,200,000**

Consolidated
Balance Sheet

	Notes	2007 Shs'000	2006 Shs'000
		As at 31 December	
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	1,223,110	733,204
Retained earnings		1,420,117	1,711,258
Proposed dividends	12	1,050,000	750,000
Total equity		4,693,250	4,194,485
Non-current liabilities			
Retirement benefits obligation	16	28,551	92,911
Deferred income tax	17	1,003,639	668,048
Total non-current liabilities		1,032,190	760,959
Total equity and non-current liabilities		5,725,440	4,955,444
Non-current assets			
Property, plant and equipment	18	5,099,280	3,972,185
Intangible assets	19	177,148	237,884
Prepaid operating lease rentals	20	205	208
Total non-current assets		5,276,633	4,210,277
Current assets			
Inventories	22	1,996,969	1,793,477
Receivables and prepayments	23	1,544,316	1,195,666
Current income tax		22,394	82,659
Cash and bank balances	24	429,574	493,962
Total current assets		3,993,253	3,565,764
Current liabilities			
Payables and accrued expenses	25	2,191,416	1,919,523
Provisions for liabilities and charges	26	537,436	492,348
Borrowings	27	815,594	408,726
Total current liabilities		3,544,446	2,820,597
Net current assets		448,807	745,167
Total assets		5,725,440	4,955,444

The financial statements on pages 35 to 59 were approved for issue by the Board of Directors on 18 March 2008 and signed on its behalf by:

N Maistre
Managing Director

L Senra
Finance Director

Corporate Information

Board of Directors

Mr. E Mwaniki*	(Chairman)
Mr. N Maistre	(Managing Director)
Mr. L Senra	(Finance Director)
Mr. J D Pike*	
Mr. H Eloff*	
Mr. J Dowd*	
Mr. M M Wanyoike*	
Mr. A N Ngugi*	
Prof. J H Kimura*	
Ms. J W Michuki*	
Mr. G R May*	
Mr. M Oduor-Otieno*	

Audit Committee

Prof. J H Kimura*	(Chairman)
Mr. G R May*	
Mr. M Oduor-Otieno*	
Mr. J D Pike*	
Mr. N Maistre	permanent invitee
Mr. L Senra	permanent invitee
Mr. S Mugwe	permanent invitee
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Nominations Committee

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Ms. J W Michuki*	
Mr. N Maistre	
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Corporate Social Responsibility Committee

Ms. J W Michuki*	(Chairman)
Mr. M M Wanyoike*	
Mr. N Maistre	permanent invitee
Mr. S Mugwe	permanent invitee
Mr. S Wafula	permanent invitee
Mr. K Gretton	(Secretary)

Auditor

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

Transfer Agents

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

Report on the consolidated financial statements

We have audited the accompanying financial statements of British American Tobacco Kenya Limited (the company) and its subsidiaries (together, the group), as set out on pages 35 to 59. These financial statements comprise the consolidated balance sheet at 31 December 2007 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2007 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2007 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books;
iii) the company's balance sheet is in agreement with the books of account.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

18 March 2008

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Mr. N Maistre	(Managing Director)
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BRITISH AMERICAN TOBACCO KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

Table of Contents

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2007, 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 Dividend
The net profit for the year of Shs 1,385,647,000 has been added to retained earnings. During the year an interim dividend of Shs 650,000,000 (2006 : Shs 450,000,000) was paid. The Directors recommend the approval of a final dividend of Shs 1,050,000,000 (2006: Shs 750,000,000).

Board of Directors
The following changes have taken place in the Board of Directors since the last Annual General Meeting: Mr. H Mule and Mr. D K Kiilu resigned from the Board on 31 March and 3 May 2007, respectively 2007.

The following new Directors were appointed to the Board in accordance with Article 95 of the Articles of Association:

- Mr. H Eloff on 20 March 2007
- Mr. M Oduor-Otieno on 1 June 2007
- Mr. J Dowd on 13 July 2007

In accordance with Article 95 Messrs H Eloff, M Oduor-Otieno and J Dowd 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 Ms. J W Michuki, Mr. J D Pike and Mr. G R May retire from the Board by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. A N Ngugi having attained the age of 70 on 23 July 2007 retires in terms of section 186 (2) of the Companies Act (Cap 486) and being eligible by virtue of a Special Notice given under section 186 (5) offers himself for re-election.

Auditor
The Company's auditor, PricewaterHouseCoopers has expressed willingness 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

18 March 2008

Taarifa ya Wakurugenzi

Wakurugenzi wanawasilisha taarifa yao pamoja na taarifa za ukaguzi wa hesabu za pesa kwa mwaka uliomalizikia tarehe 31 Desemba, 2007 zinazoelezea shughuli za kampuni.

Shughuli Kuu
Shughuli kuu za kampuni ni utengenezaji na uuzaji wa sigara na bidhaa za tumbaku.

Faida iliyopatikana
Faida baada ya matozo ya mwaka huo ya shilingi 1,385,647,000 iliongezwa kwenye mapato. Mnamo mwaka huo mgao wa muda wa faida wa shilingi 650,000,000 (2006: Shilingi 450,000,000) ulilipwa. Wakurugenzi wanapendekeza kuidhinishwa kwa mgao wa mwisho wa faida wa shilingi 1,050,000,000 (2006: Shilingi 750,000,000)

Halmashauri ya Wakurugenzi
Mabadiliko yafuatayo yalifanywa kwenye Halmashauri ya Wakurugenzi tangu mkutano mkuu wa kila mwaka: Bwana H Mule na Bwana D K Kiilu walijiuzulu kutoka kwa Halmashauri tarehe 31 Machi, na tarehe 3 Mei, mtawalia mwaka wa 2007.

Wakurugenzi wapya wafuatao waliteuliwa kwenye Halmashauri kuambatana na kifungu nambari 95 cha sheria za kampuni:

- Bwana H Eloff tarehe 20 Machi 2007
- Bwana M Oduor-Otieno tarehe 1 Juni 2007
- Bwana J Dowd tarehe 13 Julai 2007

Kuambatana na kifungu nambari 95 cha sheria za kampuni Mabwana H Eloff, M Oduor-Otieno na J Dowd wanajiuzulu kutoka kwa Halmashauri wakati wa mkutano mkuu wa kila mwaka na kwa vile muda unawaruhusu wamejitoa kuchaguliwa tena.

Kuambatana na kifungu nambari 89 cha sheria za kampuni, Bi. J W Michuki, Bwana J D Pike na Bwana G R May wanastaafu kwenye Halmashauri kwa mzunguko wakati wa mkutano mkuu wa kila mwaka na kwa vile mudaunawaruhusu,wanajiwasilishailikuchaguliwatena.

Bwana A N Ngugi ambaye alitimu umri wa miaka 70 tarehe 23 Julai 2007 anastaafu kuambatana na kifungu nambari 186 sehemu ya 2 cha sheria za kampuni na kwa vile muda unamruhusu kuambatana na ilani maalum iliyotolewa chini ya kifungu nambari 186 sehemu ya 5 anajiwasilisha ili kuchaguliwa tena.

Mkaguzi wa Hesabu
Mkaguzi wa hesabu za pesa za kampuni, PricewaterHouseCoopers ameelezea nia yake ya kuendelea kuihudumia kampuni kuambatana na kifungu nambari 159(2) cha sheria za kampuni.

Kwa Amri ya Halmashauri

R T Ngobi (Ms)
Katibu wa Kampuni

18 Machi 2008

Statement of Directors' Responsibilities

The Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the Group's profit or loss. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company and of the Group's profit in accordance with International Financial Reporting Standards. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the Directors to indicate that the Company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

N Maistre
Managing Director

L Senra
Finance Director

18 March 2008

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

Report on the consolidated financial statements

We have audited the accompanying financial statements of British American Tobacco Kenya Limited (the company) and its subsidiaries (together, the group), as set out on pages 35 to 59. These financial statements comprise the consolidated balance sheet at 31 December 2007 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2007 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2007 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books;
iii) the company's balance sheet is in agreement with the books of account.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

18 March 2008

Company

[illegible]

	Notes	As at 31 December 2007 Shs'000	 2006 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	1,223,110	733,204
Retained earnings		1,420,117	1,711,258
Proposed dividends	12	1,050,000	750,000
Total equity		4,693,250	4,194,485
Non-current liabilities			
Retirement benefits obligations	16	28,551	92,911
Deferred income tax	17	1,005,692	669,658
Total non-current liabilities		1,034,243	762,569
Total equity and non-current liabilities		5,727,493	4,957,054
Non-current assets			
Property, plant and equipment	18	5,099,280	3,972,185
Intangible assets	19	177,148	237,884
Prepaid operating lease rentals	20	205	208
Investment in subsidiaries	21	12,000	12,000
Total non-current assets		5,288,633	4,222,277
Current assets			
Inventories	22	1,980,943	1,758,177
Receivables and prepayments	23	1,583,767	1,247,544
Current income tax		33,792	81,081
Cash and bank balances	24	404,283	311,278
Total current assets		4,002,785	3,398,080
Current liabilities			
Payables and accrued expenses	25	1,995,097	1,769,032
Provisions for liabilities and charges	26	537,436	492,348
Borrowings	27	1,031,392	401,923
Total current liabilities		3,563,925	2,663,303
Net current assets		438,860	734,777
Total assets		5,727,493	4,957,054

The financial statements on pages 35 to 59 were approved for issue by the Board of Directors on 18 March 2008 and signed on its behalf by:

N Maistre
Managing Director

L Senra
Finance Director

Consolidated
Statement of Changes in Equity

	Notes	Share Capital Shs'000	Share Premium Shs'000	Revaluation Surplus Shs'000	Retained Earnings Shs'000	Proposed Dividends Shs'000	Total Shs'000
Year ended 31 December 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
Year ended 31 December 2007							
At start of year		1,000,000	23	733,204	1,711,258	750,000	4,194,485
Transfer of excess depreciation		-	-	(33,161)	33,161	-	-
Deferred tax on transfer		-	-	9,949	(9,949)	-	-
Revaluation in the year		-	-	733,026	-	-	733,026
Deferred tax on revaluation		-	-	(219,908)	-	-	(219,908)
Net gains recognised directly in equity		-	-	489,906	23,212	-	513,118
Profit for the year		-	-	-	1,385,647	-	1,385,647
Total recognised income for 2007		-	-	489,906	1,408,859	-	1,898,765
Dividends:							
- Final for 2006		-	-	-	-	(750,000)	(750,000)
- First interim for 2007	12	-	-	-	(450,000)	-	(450,000)
- Second interim for 2007	12	-	-	-	(200,000)	-	(200,000)
- Proposed final for 2007	12	-	-	-	(1,050,000)	1,050,000	-
At end of year		1,000,000	23	1,223,110	1,420,117	1,050,000	4,693,250

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 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
Year ended 31 December 2007							
At start of year		1,000,000	23	733,204	1,711,258	750,000	4,194,485
Transfer of excess depreciation		-	-	(33,161)	33,161	-	-
Deferred tax on transfer		-	-	9,949	(9,949)	-	-
Revaluation in the year		-	-	733,026	-	-	733,026
Deferred tax on revaluation		-	-	(219,908)	-	-	(219,908)
Net gains recognised directly in equity		-	-	489,906	23,212	-	513,118
Profit for the year		-	-	-	1,385,647	-	1,385,647
Total recognised income for 2007		-	-	489,906	1,408,859	-	1,898,765
Dividends:							
- Final for 2006		-	-	-	-	(750,000)	(750,000)
- First interim for 2007	12	-	-	-	(450,000)	-	(450,000)
- Second interim for 2007	12	-	-	-	(200,000)	-	(200,000)
- Proposed final for 2007	12	-	-	-	(1,050,000)	1,050,000	-
At end of year		1,000,000	23	1,223,110	1,420,117	1,050,000	4,693,250

Consolidated
Cash Flow Statement

	Notes	2007 Shs'000	2006 Shs'000
		For the year ended 31 December	
Operating activities			
Cash generated from operations	29	2,169,118	2,412,896
Interest received		6,666	1,076
Interest paid		(24,416)	(39,379)
Income tax paid		(488,001)	(611,247)
Net cash generated from operating activities		1,663,367	1,763,346
Investing activities			
Purchase of property, plant and equipment	18	(764,249)	(590,356)
Purchase of intangible assets	19	-	(242,945)
Proceeds from disposal of property, plant and Equipment		29,626	8,708
Net cash *used in investing activities*		(734,623)	(824,593)
Financing activities			
Dividends paid		(1,400,000)	(900,000)
Net cash used in financing activities		(1,400,000)	(900,000)
Net (decrease) / increase in cash and cash equivalents		(471,256)	38,753
Movement in cash and cash equivalents			
At start of year		85,236	46,483
(Decrease) / increase		(471,256)	38,753
At end of year	24	(386,020)	85,236

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 measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand.

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 2007, the following new and revised standards and interpretations became effective for the first time and have been adopted by the Group where relevant to its operations. The comparative figures have been restated as required, in accordance with the relevant requirements.

- IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the Group's capital and how it manages capital

- IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification or measurement of the Group's financial instruments.

The following amendment to an existing standard and new standard and interpretations will be mandatory for the Group's accounting periods beginning on or after 1 January 2008, but which the Group has not early adopted:

-IFRIC 11 – Group and Treasury Share Transactions – from 1 January 2008
-IFRIC 12 – Service Concession Arrangements – from 1 January 2008
-IFRS 8 – Operating segments – from 1 January 2009
-IAS 23 – Borrowing costs (revised) – from 1 January 2009

The Directors have assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group, other than IFRS8, which will result in changes to the reportable segments and the information disclosed in respect of those segments.

Notes to the Financial Statements

(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.

(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, which is the company's functional and presentation currency.

(ii) Transactions and balances
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.

Notes to the Financial Statements

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 fair value less subsequent depreciation for buildings. Valuation of land and buildings is carried out by external independent valuers at least once every five years as necessary to maintain the carrying amount close to the fair value. 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 and machinery : 7% per annum.
-Equipment and motor vehicles : 10% - 25 % 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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.

Notes to the Financial Statements

(vi) Capital risk management

The Group's objective when managing capital is to safeguard it's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

4 Critical accounting estimates and judgements

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

In the process of applying the Group's accounting policies, management has made judgements in determining:
-the classification of financial assets and liabilities
-whether assets are impaired
-provisions and contingent liabilities.

5 Segment reporting

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

The Group's revenues by destination are as follows:	**2007 Shs'000**	**2006 Shs'000**
Local sales	5,412,984	4,842,155
Exports and contract manufacture sales	4,005,922	2,972,000
	9,418,906	7,814,155

6 Revenue

The Group's revenues by type are as follows:	**2007 Shs'000**	**2006 Shs'000**
Goods	9,039,857	7,575,813
Services	379,049	238,342
	9,418,906	7,814,155

In 2006, direct costs attributable to the provision of services amounting to Shs 189,682,000 were netted off against the gross revenue in arriving at the reported revenue from services of Shs 48,660,000. These have now been reported as part of raw materials and consumables in Note 7. This reclassification has no impact on the reported profit for 2006.

7 Cost of operations

	2007 Shs'000	**2006 Shs'000**
Raw materials and consumables	4,793,877	3,900,144
Marketing and distribution costs	588,748	547,885
Administrative and other operating expenses	1,860,015	1,283,894
Depreciation of property, plant and equipment (Note 18)	366,769	312,589
Amortisation of intangible asset (Note 19)	60,736	5,061
Amortisation of prepaid operating lease rentals (Note 20)	3	3
	7,670,148	6,049,576

Notes to the Financial Statements

7 Cost of operations (continued)

In order to reflect the total cost attributable to the manufactured product, manufacturing process and support related costs incurred in 2006 amounting to Shs 847,954,000 have been reclassified from administrative and other expenses, previously Shs 2,131,848,000, to raw materials and consumables, previously Shs 2,862,508,000.

In addition, leaf processing costs of Shs 189,682,000 relating to 2006 have been reclassified from revenues to raw materials and consumables as explained in Note 6 above.

These reclassifications have no impact on the reported profit for 2006.

8 Operating profit

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

	2007 Shs'000	2006 Shs'000
Employee benefits expense (Note 9)	1,440,870	1,238,748
Auditor's remuneration	6,500	7,000

9 Employee benefits expense

	2007 Shs'000	2006 Shs'000
The following items are included within employee retirement benefits expense / (reversal):		
- Defined contribution scheme	50,263	44,703
- Unfunded retirement benefits obligation (Note 16)	(6,629)	697
- National Social Security Fund	1,567	2,241

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

10 Finance costs

	2007 Shs'000	2006 Shs'000
Interest income	6,666	1,076
Interest expense	(24,416)	(39,379)
Net foreign exchange losses	(40,658)	(24,133)
Net finance cost	(58,408)	(62,436)

11 Income tax expense

	2007 Shs'000	2006 Shs'000
Current income tax	548,266	438,383
Deferred income tax (Note 17)	115,683	106,721
Income tax expense	663,949	545,104

Notes to the Financial Statements

Continued

11 Income tax expense (continued)

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:

	2007 Shs'000	2006 Shs'000
Profit before income tax	2,049,596	1,746,526
Tax calculated at the statutory income tax rate of 30% (2006: 30%)	614,879	523,958
Tax effect of:		
Income not subject to tax	(18,612)	(11,753)
Expenses not deductible for tax purposes	47,110	31,891
Under provision of current income tax in prior years	-	6,347
Under / (over) provision of deferred income tax in prior years	20,572	(5,339)
Income tax expense	663,949	545,104

12 Dividends

At the annual general meeting to be held on 7 May 2008, a final dividend in respect of the year ended 31 December 2007 of Shs 10.50 per share (2006: Shs 7.50) amounting to Shs 1,050,000,000 (2006: Shs 750,000,000) is to be proposed. During the year, a first interim dividend of Shs 4.50 per share (2006: Shs 4.50) amounting to Shs 450,000,000 (2006: Shs 450,000,000) was paid on 8 September 2007.

A second interim dividend of Shs 2.00 per share (2006: nil) amounting to Shs 200,000,000 was paid on 20 December 2007.

The total dividend for the year is therefore Shs 17.00 per share (2006: Shs 12.00) amounting to a total of Shs 1,700,000,000 (2006: Shs 1,200,000,000). 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.

	2007	2006
Net profit attributable to equity holders (Shs'000)	1,385,647	1,201,422
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	13.86	12.01

There were no potentially dilutive shares outstanding at 31 December 2007 or 2006. 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 2006, 1 January 2007 and at 31 December 2007	100,000	1,000,000

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

Notes to the Financial Statements

Continued

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.

16 Unfunded retirement benefits obligation

The company has an obligation to fund additional "top up" retirement benefits to its management staff in addition to their retirement benefits under the defined contribution scheme. The company makes a provision for the additional "top up" retirement benefits costs for management staff based on the advice of independent actuaries.

An actuarial valuation of the company's obligation to fund the "top-up" retirement benefits was carried out at 31 December 2007 using the following actuarial assumptions:

Discount rate	13%
Future annual salary increase	11%
Future annual increase in contributions to provident fund	13%

The movement in the provision during the year was as follows:	2007 Shs'000	2006 Shs'000
At start of year	92,911	100,122
Charge to profit and loss account	-	697
Utilised in the year	(57,731)	(7,908)
Unutilised and reversal during the year	(6,629)	-
At end of year	28,551	92,911

17 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2006: 30%). The movement on the deferred income tax account is as follows:

	Group	
	2007 Shs'000	2006 Shs'000
At start of year	668,048	561,327
Charge to profit and loss account (Note 11)	115,683	106,721
Tax effect of revaluations	219,908	-
At end of year	1,003,639	668,048

Notes to the Financial Statements

17 Deferred income tax (continued)

Consolidated deferred income tax assets and liabilities, deferred income tax charge in the consolidated income statement and deferred income tax charge in equity are attributable to the following items:

	1 January 2007	Charged/ (credited) to Income Statement	Charged to equity	31 December 2007
Deferred income tax liabilities	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Property, plant and equipment				
- *on historical cost basis*	535,811	*66,303*	-	602,114
- on revaluation surplus	314,230	(9,949)	219,908	524,189
Unrealised exchange gains	1,407	32,578	-	33,985
	851,448	88,932	219,908	1,160,288
Deferred income tax assets				
Provisions	(127,172)	22,479	-	(104,693)
Unrealised exchange losses	(6,368)	(45,588)	-	(51,956)
Tax losses	(49,860)	49,860	-	-
	(183,400)	26,751	-	(156,649)
Net deferred income tax liability	668,048	115,683	219,908	1,003,639

Deferred income tax of Shs 9,949,000 (2006: Shs 9,990,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of the buildings.

Company deferred income tax assets and liabilities are attributable to the following items:

Deferred income tax liabilities	**2007 Shs'000**	**2006 Shs'000**
Property, plant and equipment		
- *on historical cost basis*	602,114	535,811
- on revaluation surplus	524,189	314,230
Unrealised exchange gains	33,985	1,407
	1,160,288	851,448
Deferred income tax assets		
Provisions	(102,640)	(125,562)
Unrealised exchange losses	(51,956)	(6,368)
Tax losses	-	(49,860)
	(154,596)	(181,790)
Net deferred income tax liability	1,005,692	669,658

Notes to the Financial Statements

18 Property, plant and equipment - Group and Company

	Land and buildings	Plant and machinery	Vehicles and equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2006				
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 and asset write down:				
-Cost	(1,396)	-	(100,670)	(102,066)
-Accumulated depreciation	-	-	98,099	98,099
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
Year ended 31 December 2007				
Opening net book amount	1,591,500	2,171,613	209,072	3,972,185
Reclassification	-	(97)	97	-
Additions	65,151	566,772	132,326	764,249
Disposals:				
-Cost	-	(4,122)	(56,719)	(60,841)
-Accumulated depreciation	-	1,746	55,684	57,430
Depreciation charge	(51,202)	(224,068)	(91,499)	(366,769)
Revaluation surplus	733,026	-	-	733,026
Closing net book amount	2,338,475	2,511,844	248,961	5,099,280
At 31 December 2007				
Cost or valuation	2,338,475	4,213,563	577,592	7,129,630
Accumulated depreciation	-	(1,701,719)	(328,631)	(2,030,350)
Net book amount	2,338,475	2,511,844	248,961	5,099,280

Notes to the Financial Statements

18 Property, plant and equipment - Group and Company (continued)

Freehold land and buildings were revalued at 31 December 2007, 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 the 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:

	2007 Shs'000	2006 Shs'000
Cost	765,568	679,187
Accumulated depreciation	(157,939)	(139,851)
Net book amount	607,629	539,336

19 *Intangible assets - Group and Company*

	2007 Shs'000	2006 Shs'000
Year ended 31 December 2007		
Opening net book amount	237,884	-
Additions	-	242,945
Amortisation	(60,736)	(5,061)
Closing net book amount	177,148	237,884
At 31 December 2007		
Cost	242,945	242,945
Accumulated amortisation	(65,797)	(5,061)
Net book amount	177,148	237,884

20 Prepaid operating lease rentals – Group and Company

	2007 Shs'000	2006 Shs'000
At start of year	208	211
Amortisation for the year	(3)	(3)
At end of year	205	208

Notes to the Financial Statements

(vi) Capital risk management

The Group's objective when managing capital is to safeguard it's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

4 Critical accounting estimates and judgements

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

In the process of applying the Group's accounting policies, management has made judgements in determining:
-the classification of financial assets and liabilities
-whether assets are impaired
-provisions and contingent liabilities.

5 Segment reporting

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

The Group's revenues by destination are as follows:	2007 Shs'000	2006 Shs'000
Local sales	5,412,984	4,842,155
Exports and contract manufacture sales	4,005,922	2,972,000
	9,418,906	7,814,155

6 Revenue

The Group's revenues by type are as follows:	2007 Shs'000	2006 Shs'000
Goods	9,039,857	7,575,813
Services	379,049	238,342
	9,418,906	7,814,155

In 2006, direct costs attributable to the provision of services amounting to Shs 189,682,000 were netted off against the gross revenue in arriving at the reported revenue from services of Shs 48,660,000. These have now been reported as part of raw materials and consumables in Note 7. This reclassification has no impact on the reported profit for 2006.

7 Cost of operations

	2007 Shs'000	2006 Shs'000
Raw materials and consumables	4,793,877	3,900,144
Marketing and distribution costs	588,748	547,885
Administrative and other operating expenses	1,860,015	1,283,894
Depreciation of property, plant and equipment (Note 18)	366,769	312,589
Amortisation of intangible asset (Note 19)	60,736	5,061
Amortisation of prepaid operating lease rentals (Note 20)	3	3
	7,670,148	6,049,576

Notes to the Financial Statements
Continued

(iv) Credit risk (continued)

No collateral is held for any of the above assets. All receivables that are either past due or impared are within their approved credit limits, and no receivables have had their terms renegotiated. None of the above assets are past due or impaired except for the following amounts in trade receivables:

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Past due not impaired:				
- up to 3 months	197,092	372,972	148,946	278,416
- 4 months to 6 months	305,267	45,866	299,658	34,661
- 7 months to 1 year	336,245	82,075	332,895	80,753
- due after 1 year	47,050	83,050	44,865	83,583
	885,654	583,963	826,364	477,413
Impaired	6,842	4,534	-	-

(v) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than one year years Shs'000	Between 1 and 2 years Shs'000	Between 2 to 5 years Shs'000	Over 5 years Shs'000
(a) Group				
At 31 December 2007:				
- borrowings	815,594	-	-	-
- trade and other payables	2,157,796	11,818	-	14,960
At 31 December 2006:				
- borrowings	408,726	-	-	-
- trade and other payables	1,629,168	214,457	40,668	14,960
(b) Company				
At 31 December 2007:				
- borrowings	1,031,392	-	-	-
- trade and other payables	1,968,319	11,818	-	14,960
At 31 December 2006:				
- borrowings	401,923	-	-	-
- trade and other payables	1,498,947	214,457	40,668	14,960

Notes to the Financial Statements

Continued

3 Financial risk management

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

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

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, British Pound and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities by regularly reviewing prices and ensuring proper working capital management. At 31 December 2007, if the Shilling had weakened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year for both Group and Company would have been Shs 76,174,000 (2006: Shs 66,683,000) higher, mainly as a result of US dollar receivables and bank balances.

At 31 December 2007, if the Shilling had weakened by 10% against the Euro, US dollar and British Pound with all other variables held constant, consolidated post tax profit for the year for both Group and Company would have been Shs 38,631,000 (2006: Shs 8,131,000) lower, mainly as a result of Euro, US dollar and British pound denominated trade payables.

(ii) Price risk

The Group is not exposed to equity securities price risk.

(iii) Cash flow and fair value interest rate risk

The Group and Company do not carry interest bearing assets. The Group and company have borrowings at floating rates. At 31 December 2007 and 2006, an increase / decrease of 100 basis points would have resulted to an insignificant change in consolidated post tax profit for both the Group and Company.

(iv) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group also has policies that limit the amount of credit exposure to any financial institution. The amount that best represents the Group's and Company's maximum exposure to credit risk at 31 December 2007 and 2006 is made up as follows:

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Cash and cash equivalents	429,574	493,962	404,283	311,278
Trade receivables	1,202,183	883,962	1,142,892	777,413
Other receivables	342,133	311,704	440,875	470,131
	1,973,890	1,689,628	1,988,050	1,558,822

Notes to the Financial Statements

Continued

(i) Retirement benefit obligations (continued)
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.

Effective 1 January 2006, the "top up" arrangement was discontinued and instead the employer contributions to the Provident Fund adjusted to replicate the benefits that would have previously been payable from the Provident Fund and the "top up" arrangement. The Group has put in place a provision to ensure that for the next five years employees' leaving benefits will not be less than they would have been under the previous arrangements.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the expected leaving benefits payable to the management staff under the current defined contribution retirement benefit scheme for the period up to 31 December 2010. The defined benefit obligation is calculated at least once every three years by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. In determining this cost, the actuarial value of the liabilities of the scheme are calculated, modelling their future growth, based on key assumptions agreed with management as described in Note 16.

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.

(p) Dividends

Dividends payable to the Group's shareholders are charged to equity and recognised as a liability in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(q) Investment in subsidiaries

Investments in subsidiaries are carried in the company's balance sheet at cost less provision for impairment losses. Where, in the opinion of the Directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Restructuring provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided in advance.

Notes to the Financial Statements

21 Investment in subsidiaries

	2007 Shs'000	2006 Shs'000
Shares at cost	12,000	12,000

The following are unlisted, wholly owned subsidiaries incorporated in Kenya, all of which have the same year end as the Company:

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

22 Inventories – Group and Company

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Finished goods	150,135	193,372	134,109	158,072
Work in progress	20,430	2,794	20,430	2,794
Raw materials and consumables	1,826,404	1,597,311	1,826,404	1,597,311
	1,996,969	1,793,477	1,980,943	1,758,177

23 Receivables and prepayments

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Trade receivables	54,752	120,208	(11,380)	9,125
Less: provision for impairment	(6,842)	(4,534)	-	-
Prepayments and other receivables	342,133	311,704	440,874	470,131
Due from related companies (Note 30)	1,154,273	768,288	1,154,273	768,288
	1,544,316	1,195,666	1,583,767	1,247,544

Movements on the provision for impairment of trade receivables are follows:

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
At start of year	(4,534)	(40,962)	-	-
Provision in the year	(6,842)	-	-	-
Receivable written off during the year	-	36,428	-	-
Unused amounts reversed	4,534	-	-	-
At end of year	(6,842)	(4,534)	-	-

Notes to the Financial Statements

Continued

28 Contingent liabilities

At 31 December 2007, the Group had no guarantees given on behalf of third parties (2006: Shs 124 mn).

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

29 Cash generated from operations

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

	2007 Shs'000	2006 Shs'000
Profit before income tax	2,049,596	1,746,526
Adjustments for:		
Depreciation of property, plant and equipment (Note 18)	366,769	312,589
Amortisation of intangible assets (Note 19)	60,736	5,061
Amortisation of prepaid operating lease rentals (Note 20)	3	3
Profit on disposal of property, plant and equipment	(26,215)	(4,741)
Interest income (Note 10)	(6,666)	(1,076)
Interest expense (Note 10)	24,416	39,379
Changes in working capital:		
- receivables and prepayments	(348,650)	(376,141)
- inventories	(203,492)	(319,410)
- payables and accrued expenses	271,893	995,378
- provisions for liabilities and charges	45,088	22,539
Change in retirement benefit obligations	(64,360)	(7,211)
Cash generated from operations	2,169,118	2,412,896

30 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 516,411,000 (2006: Shs 295,312,000).

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 72,765,000 (2006: Shs 68,723,000).

Notes to the Financial Statements

30 **Related party disclosures (continued)**

(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 2,841,302,000 (2006: Shs 2,141,191,000).

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

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Receivables from other related parties	1,154,273	768,288	1,154,273	768,288
Payables to parent company	231,852	347,878	214,616	347,878
Payables to other Group companies	419,951	325,946	419,951	315,487
Payables to related parties	651,803	673,824	634,567	663,365

(iv) Key management compensation	2007 Shs'000	2006 Shs'000
Salaries and other short-term employment benefits	160,320	116,798
Other long term benefits	49,722	40,879
Total remuneration of key management of the company	210,042	157,677

(v) Directors' remuneration	2007 Shs'000	2006 Shs'000
Fees for services as a Director	8,237	9,841
Other emoluments (included in key management compensation above)	118,257	78,281
Total remuneration of Directors of the company	126,494	88,122

31 **Capital commitments**

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

	2007 Shs'000	2006 Shs'000
Property, plant and equipment:	131,459	189,030

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 7 May 2008 in the Ballroom, Hotel InterContinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this ....,day of..2008
....(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 6 May 2008.*

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.

Notes to the Financial Statements

21 Investment in subsidiaries

	2007 Shs'000	2006 Shs'000
Shares at cost	12,000	12,000

The following are unlisted, wholly owned subsidiaries incorporated in Kenya, all of which have the same year end as the Company:

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

22 Inventories – Group and Company

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Finished goods	150,135	193,372	134,109	158,072
Work in progress	20,430	2,794	20,430	2,794
Raw materials and consumables	1,826,404	1,597,311	1,826,404	1,597,311
	1,996,969	1,793,477	1,980,943	1,758,177

23 Receivables and prepayments

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Trade receivables	54,752	120,208	(11,380)	9,125
Less: provision for impairment	(6,842)	(4,534)	-	-
Prepayments and other receivables	342,133	311,704	440,874	470,131
Due from related companies (Note 30)	1,154,273	768,288	1,154,273	768,288
	1,544,316	1,195,666	1,583,767	1,247,544

Movements on the provision for impairment of trade receivables are follows:

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
At start of year	(4,534)	(40,962)	-	-
Provision in the year	(6,842)	-	-	-
Receivable written off during the year	-	36,428	-	-
Unused amounts reversed	4,534	-	-	-
At end of year	(6,842)	(4,534)	-	-

Notes to the Financial Statements

Continued

23 Receivables and prepayments (continued)

The fair values of the current receivables are as follows:

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Trade receivables	47,910	115,674	(11,380)	9,125
Prepayments and other receivables	342,133	311,704	440,874	470,131
Due from related companies	1,067,241	718,349	1,067,241	718,349
	1,457,284	1,145,727	1,496,735	1,197,605

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 7.5% (2006: 6.5%).

24 Cash and cash equivalents

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Cash at bank and in hand	346,634	454,425	321,343	271,741
Short term bank deposits	82,940	39,537	82,940	39,537
	429,574	493,962	404,283	311,278

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks net of bank overdrafts.

	2007 Shs'000	2006 Shs'000
Cash at bank balances as above	429,574	493,962
Bank overdraft (Note 27)	(815,594)	(108,726)
Bank borrowing (Note 27)	-	(300,000)
	(386,020)	85,236

25 Payables and accrued expenses

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Trade payables	622,094	533,218	598,198	516,877
Due to related companies (Note 30)	651,803	673,824	634,567	663,365
Other payables and accrued expenses	917,519	712,481	762,332	588,790
	2,191,416	1,919,523	1,995,097	1,769,032

Notes to the Financial Statements

26 Provision for liabilities and charges

	Group Shs'000	Company Shs'000
Year ended 31 December 2006		
At start of the year	469,809	431,579
Provided in respect of the year	120,489	120,489
tilised during the year	(97,950)	(59,720)
At end of year	492,348	492,348
Year ended 31 December 2007		
At start of the year	492,348	492,348
Provided in respect of the year	67,166	67,166
Utilised during the year	(2,014)	(2,278)
Unutilised and reversed during the year	(20,064)	(19,800)
At end of year	537,436	537,436

Provisions comprise balances set up in ordinary course of business and are related to general liabilities to various stakeholders.

27 Borrowings

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Bank overdraft	815,594	108,726	1,031,392	101,923
Bank borrowings	-	300,000	-	300,000
	815,594	408,726	1,031,392	401,923

The weighted average effective interest rate on the bank overdraft was 7.5% (2006: 6.5%) at the year end. Bank overdrafts are unsecured. In the opinion of the Directors, the carrying amounts of short-term borrowings approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that Directors expect would be available to the Group at the balance sheet date.

Borrowing facilities:

The Group has the following undrawn committed borrowing facilities:

	2007 Shs'000	2006 Shs'000
Overdraft facilities	2,155,000	2,650,000
Bond guarantees	3,680,000	3,230,000
	5,835,000	5,880,000

These facilities expire within one year and are subject to renewal review at various dates during the year. Bond guarantees are issued to cover import duty, VAT and excise payable for all imported goods that are utilised to manufacture cigarettes for the export market.

Notes to the Financial Statements

Continued

28 Contingent liabilities

At 31 December 2007, the Group had no guarantees given on behalf of third parties (2006: Shs 124 mn).

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

29 Cash generated from operations

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

	2007 Shs'000	2006 Shs'000
Profit before income tax	2,049,596	1,746,526
Adjustments for:		
Depreciation of property, plant and equipment (Note 18)	366,769	312,589
Amortisation of intangible assets (Note 19)	60,736	5,061
Amortisation of prepaid operating lease rentals (Note 20)	3	3
Profit on disposal of property, plant and equipment	(26,215)	(4,741)
Interest income (Note 10)	(6,666)	(1,076)
Interest expense (Note 10)	24,416	39,379
Changes in working capital:		
- receivables and prepayments	(348,650)	(376,141)
- inventories	(203,492)	(319,410)
- payables and accrued expenses	271,893	995,378
- provisions for liabilities and charges	45,088	22,539
Change in retirement benefit obligations	(64,360)	(7,211)
Cash generated from operations	2,169,118	2,412,896

30 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 516,411,000 (2006: Shs 295,312,000).

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 72,765,000 (2006: Shs 68,723,000).

Notes to the Financial Statements

30 Related party disclosures (continued)

(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 2,841,302,000 (2006: Shs 2,141,191,000).

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

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Receivables from other related parties	1,154,273	768,288	1,154,273	768,288
Payables to parent company	231,852	347,878	214,616	347,878
Payables to other Group companies	419,951	325,946	419,951	315,487
Payables to related parties	651,803	673,824	634,567	663,365

(iv) Key management compensation

	2007 Shs'000	2006 Shs'000
Salaries and other short-term employment benefits	160,320	116,798
Other long term benefits	49,722	40,879
Total remuneration of key management of the company	210,042	157,677

(v) Directors' remuneration

	2007 Shs'000	2006 Shs'000
Fees for services as a Director	8,237	9,841
Other emoluments (included in key management compensation above)	118,257	78,281
Total remuneration of Directors of the company	126,494	88,122

31 Capital commitments

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

	2007 Shs'000	2006 Shs'000
Property, plant and equipment:	131,459	189,030

Notes

Notes

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 7 May 2008 in the Ballroom, Hotel InterContinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this ....,day of...2008

....(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 6 May 2008.

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.