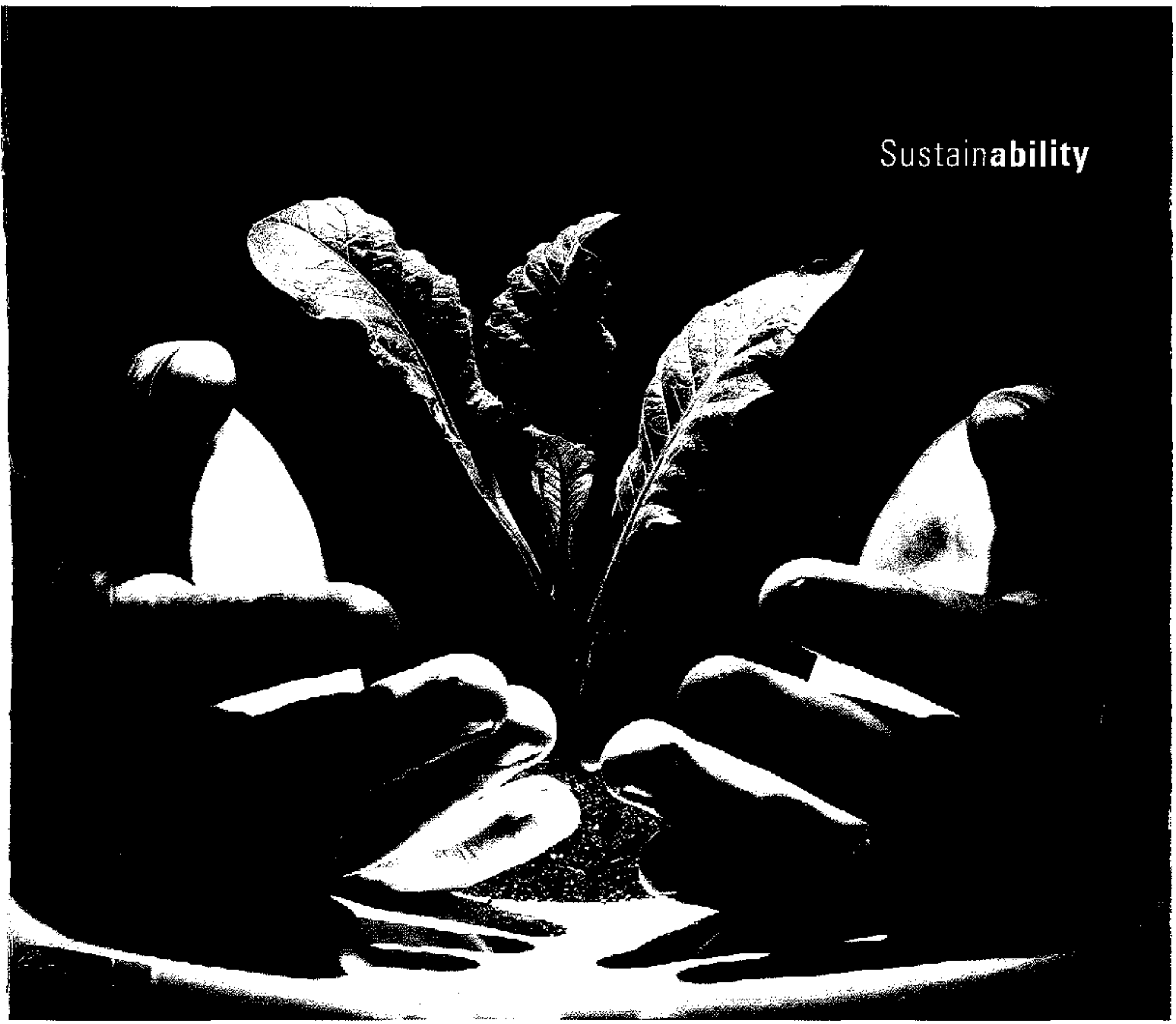
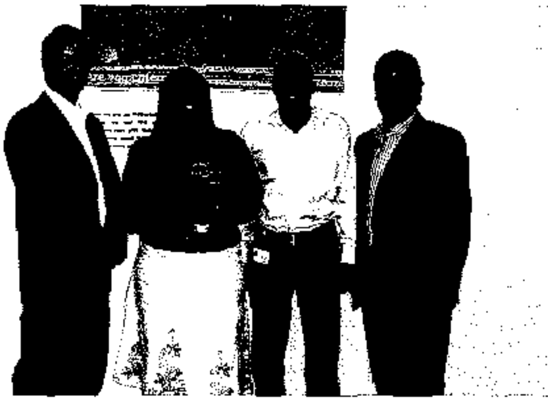
Annual Review & Financial Statements

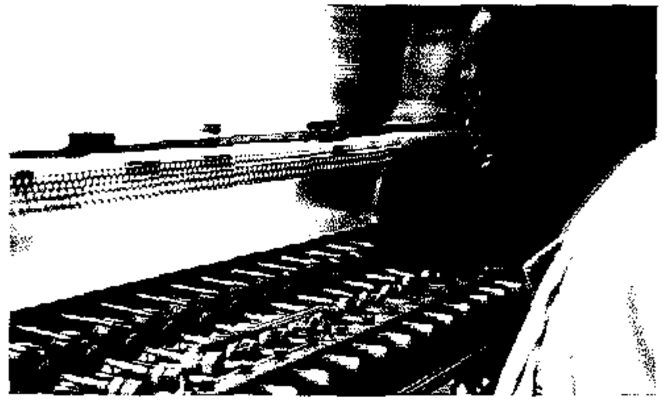
Sustain**ability**



BRITISH AMERICAN TOBACCO
KENYA

1. British American tobacco - periodicals





Growth

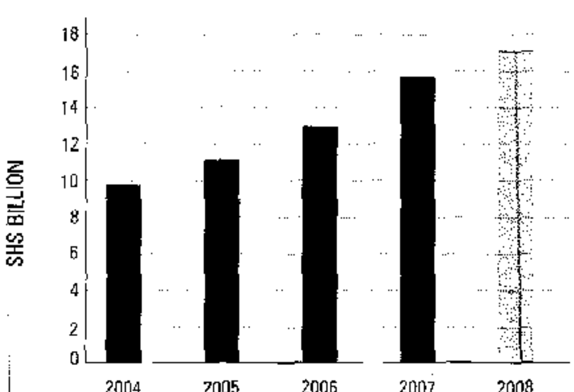
To grow with our trade partners, we focus on building the relationship, constant follow-up by the field-force to minimise out of stock situations and optimising visibility of our brands. In 2008, Shell awarded BAT Kenya "Supplier of the Year Award" at its annual Shell Supplier Conference held every October in South Africa. This award singles out the best performing FMCG partner of Shell in Africa.

Productivity

We have invested over Kshs 2.2 Bn in the Nairobi factory since 2005 as part of a total transformation in the role of the site. Today, Kenya supplies 16 markets in the region and total volume has tripled since 2002. In 2008, our focus was on realising the financial and operational synergies that come from such a large and integrated organisation.

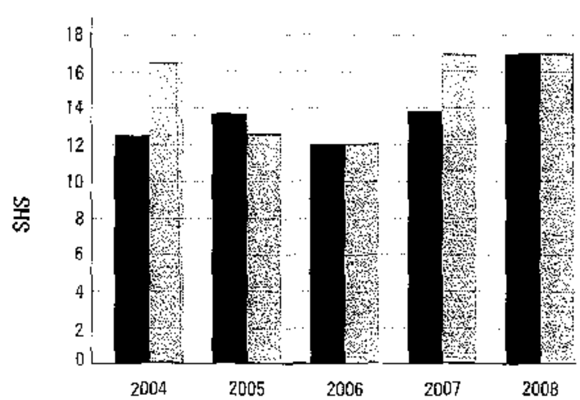
2009/1658

GROSS TURNOVER

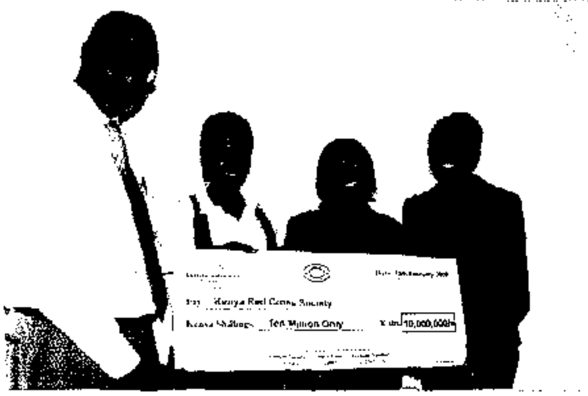


Gross turnover increased in 2008 by 10.6% to Shs 17.4 Bn.

EARNINGS / DIVIDEND PER SHARE



Dividend payout ratio was 100%.



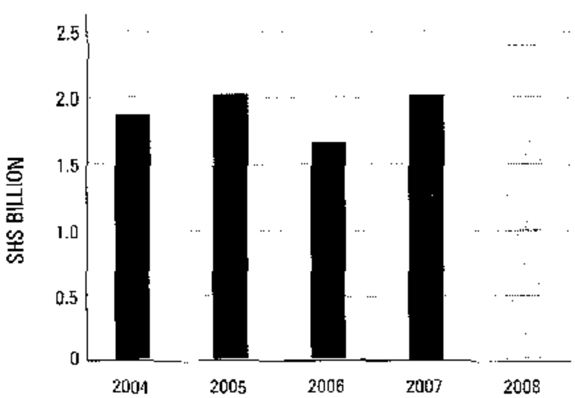
Responsibility

We continue to assist our communities whenever there is a crisis. Following the post election violence, we contributed Kshs 10 Mn to assist the internally displaced persons. Our Corporate Social Responsibility (CSR) initiatives in future will be restricted by the Tobacco Control Act and we hope the Regulators can review this to enable us to continue to support our communities.

Winning organisation

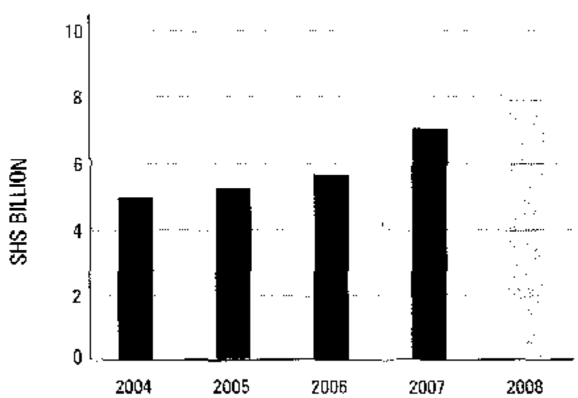
For the next two years Kenya will host the Sub-Saharan Africa management trainees, who have joined the challenge initiative. Through this initiative, the Management Trainees are challenged to shape our world. Kenya remains a talent hub for the British American Tobacco Group within the region and we continue to offer opportunities for our people within Sub-Saharan Africa to develop and grow.

PROFIT BEFORE INCOME TAX



Profit before income tax increased by 17.9% to Shs 2.4 Bn.

CONTRIBUTION TO GOVERNMENT REVENUE



Contribution to Government revenue increased by 12.2% to Shs 7.9 Bn.

1

Mr. G. Fagan (age 46)
Managing Director

Appointed to the Board in September 2008. He previously worked as the Managing Director, BAT Southern African Markets. He has held various positions in British American Tobacco Group where he has worked for the last 12 years, having joined the Group in 1997.

2

Prof. J.H. Kimura (age 64)
Non-Executive Director

Appointed to the Board in July 2001. He is an accountant by profession and is currently the Chairman for Higher Education Loans Board. He is a member of the Board of Directors of UAP Provincial Insurance Company Limited, Development Bank of Kenya Limited, and Ndakaini Dam Environmental Conservation Association.

NO SMOKING

3

Mr. J. Dowd (age 41)
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.

4

Mr. J.D. Pike (age 54)
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 Area Limited based in Nairobi.

5

Mr. M.M. Wanyoike (age 58)
Non-Executive Director

Appointed to the Board in January 2001. He worked in different roles within British American Tobacco 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.

6

Mr. H. Eloff (51)
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.

7

Mr. M. Oduor-Otieno (age 52)
Non-Executive Director

Appointed to the Board in June 2007. He is currently the Group 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.

8

Mr. G.R. May (age 66)
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.

9

Ms R. Ngobi (age 48)
Company Secretary

Appointed Company Secretary in August 2002. She previously worked with Unilever Kenya as Company Secretary, giving legal support services to Kenya, Uganda, Tanzania and Ethiopia. She is also currently the Area Legal Counsel for Sub-Saharan Africa Area based in Nairobi.

10

Mr. E. Mwaniki (age 70)
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 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.

11

Mr. L. Kimathi (age 38)
Finance Director

Appointed to the Board in July 2008. He has a wealth of experience in finance, and has held various senior positions in the finance sector both in Cadburys East Africa and British American Tobacco Kenya. Mr Kimathi is a Certified Public Accountant (Kenya).

12

Mr. A.N. Ngugi (age 71)
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.

Notice of the 2009 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Seventh Annual General Meeting of British American Tobacco Kenya Limited will be held in the Mara Room, Intercontinental, Hotel Nairobi, on 30th April 2009, at 11:00 a.m. for the following purposes:-

Ordinary Business

1. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31st December 2008, together with the reports of the Chairman, Directors and Auditor thereon.

2. To declare a dividend.

3. To elect Directors:

   (i) Mr. G Fagan who was appointed by the Board on 1 September 2008, retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

   (ii) Mr. L Kimathi who was appointed by the Board on 18 July 2008 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

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

   (iv) Mr. A Ngugi having attained the age of 71 on 23rd July 2008 retires in terms of section 186(2) of the Companies Act and being eligible by virtue of a Special Notice given under section 186(5) offers himself for re-election.

   (v) Mr. E. Mwaniki having attained the age of 70 on 18th November 2008 retires in terms of section 186(2) of the Companies Act and being eligible by virtue of a 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
26 February 2009

NOTES:

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

2. A proxy form is provided with this report. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the form to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 29th April 2009.

"British American Tobacco Kenya has continued to grow over the years despite the economic challenges Kenya continues to face in the macro economic environment. 2008 was no exception. With the results reflected in this report, I have no doubt that the business remains sustainable despite the challenging operating environment. Key to sustainability is a conducive business environment, teamwork and the dedication of our people that makes us the winning organisation we are today"

Evanson Mwaniki Chairman

Operating Environment

The political crisis following the December 2007 elections eroded the economic gains realised over the previous five years. The economy slumped in the first quarter of 2008, but marginally recovered after the formation of the grand coalition government.

Key sectors of the economy – agriculture, tourism, manufacturing, trade – shrank leading to the GDP growth declining from the 7% achieved in 2007 to an estimated 2% in 2008. The overall annual average inflation rose sharply to 26.8%, the highest level since 1994, due to rising food prices, high crude oil prices and a steep increase in electricity tariff. During the year, the Kenya shilling weakened by 23% against the US dollar and by 21.9% against the Euro.

Tobacco Industry

Our industry has evolved considerably bringing with it changes in our operating environment. The Tobacco Control Act of 2007 came into force in July of 2008. Confusion marred the implementation of this Act as there was no clarity on the interpretation of the provisions that relate to Public Place Smoking. Print and electronic media reported incidences of chaos and harassment of smokers. Smoking in the streets and open areas was irregularly criminalised and banned by various local authorities. Smoking was declared illegal even in one's own car. There was urgent need for clarity on the correct interpretation and application of the provisions. We successfully engaged with relevant government authorities who later gave clarity on the provisions and application of the law . The main challenge now is to ensure compliance by all players through effective enforcement of the Act.

The major threat facing the industry today is illicit trade (smuggled, duty not paid and counterfeit products) which is also eroding government revenues and severely impacting our business and that of our trade partners.

These factors make it imperative that we optimise our distribution strategies with the objective of strengthening our trade coverage, enhancing our relationship with retailers and helping the authorities fight illicit trade.

British American Tobacco Kenya was ranked the fourth largest tax payer in Kenya in 2007 and again in 2008, having remitted to the exchequer Kshs 7.0 Bn and 7.9 Bn respectively. The company also brought into the country foreign exchange to the tune of US $ 62.5 Mn in 2008.

Performance

Volumes grew by 2.7% primarily driven by contract manufacturing which now accounts for 65% of total volume.

In manufacturing, impressive productivity improvements were achieved as a result of various initiatives implemented in the Thika Green Leaf Threshing Plant and the factory in Nairobi.

Gross turnover at Kshs 17.4 Bn was 10.6% higher than in 2007. Pre-tax profit increased by 17.9% mainly reflecting effects of sales mix and productivity improvements. We continue to enhance shareholder value by building a sustainable business.

The exemplary business performance could not have been achieved without teamwork among our staff working closely with the Leadership Team and the Board of Directors.

Dividend

The Board of Directors recommends a final dividend of Kshs 12.50 per ordinary share of Kshs 10. Added to the interim dividend already paid out, this brings the total dividend to Kshs 17.00 per share. The dividend payment is subject to withholding tax and is due to be paid on 30th April 2009.

Outlook

The prospects for growth of the domestic economy going forward are difficult to predict given the uncertainties concerning the impact of the global recession and the volatility of international crude oil prices.

It is however estimated that the economy could grow by between 2% and 3.5% in 2009. The prospects for achieving this or higher level of economic growth would be significantly improved if the coalition government addresses various governance issues, re-focuses on sound management of the economy, expedites investments in infrastructure and delivers on the key reforms promised namely constitutional, legal and institutional. This would go a long way in enhancing investor confidence in Kenya.

A lack of proper and effective enforcement of the Tobacco Control Act has created an uneven playing field in the domestic market. Any further increase in excise tax would exacerbate illicit trade thereby undermining legitimate business and government revenue. We shall maintain dialogue with the Government on these key issues in order to restore a conducive business environment for the benefit of all stakeholders.

On behalf of the Board I would like to thank all our farmers, suppliers, staff, the Government of Kenya and all our stakeholders for their continued support.

Sincerely

Evanson Mwaniki
Chairman

Taarifa ya Mwenyekiti

Kujenga ufanisi wetu

"Kampuni ya British American Tobacco Kenya imeendelea kukua katika miaka iliyopita licha ya changamoto za kiuchumi zinazoendelea kukumba mazingira ya kiuchumi ya kampuni kubwa za kibiashara. Mwaka 2008 haukuachwa nyuma. Kufuatia matokeo yaliyoko kwenye taarifa hii, sina shaka kwamba biashara yetu inaendelea kudumishwa na itaendelea kukua licha ya changamoto za mazingira ya utendaji kazi. Jambo muhimu katika biashara hii ni mazingira bora ya biashara yetu na mtandao unaotuwezesha kuwa kampuni inayoongoza kwenye biashara hii hivi leo"

Evansun Mwaniki Chairman

Mazingira ya utendaji kazi

Mzozo wa kisiasa kufuatia uchaguzi mkuu wa Desemba mwaka 2007, uliharibu mapato ya kiuchumi yaliyopatikana katika kipindi cha miaka mitano iliyopita. Uchumi ulididimia katika robo ya kwanza ya mwaka 2008, lakini ukaanza kuimarika tena baada ya kubuniwa kwa serikali ya muungano. Sekta muhimu za kiuchumi ambazo ni kilimo, utalii, utengenezaji bidhaa na biashara zilididimia na hivyo kusababisha ukuaji wa pato la taifa kupungua kutoka asilimia 7 mwaka 2007 hadi asilimia 2 mwaka 2008. Kiwango cha mfumko wa bei cha kila mwaka kilipanda sana hadi asilimia 26.8, kikiwa ndicho cha juu sana tangu mwaka 1994, kutokana na kupanda kwa bei za vyakula, mafuta ambayo hayajasafishwa na ongezeko la ushuru wa umeme. Mnamo mwaka huu, shilingi ya Kenya ilipungua thamani kwa asilimia 23 dhidi ya dola ya Marekani na kupungua kwa asilimia 21.9 dhidi ya Euro.

Sekta ya Tumbaku

Sekta yetu imeendelea kukua na hivyo kuleta mabadiliko katika mazingira yetu ya utendaji kazi. Sheria ya kuthibiti tumbaku ya mwaka 2007 ilianza kutekelezwa mwezi Julai mwaka 2008. Kulitokea mtafaruku katika utekelezaji sheria hii kwani hakukuwa na ufafanuzi wazi wa kuelezea kinaga ubaga vipengee vinavyohusu uvutaji sigara katika sehemu za umma. Vyombo vya habari vya redio na televisheni na magazeti viliripoti visa vya kufurushwa na kuhangaishwa kwa wavutaji sigara. Uvutaji sigara barabarani na sehemu zilizo wazi ulitangazwa isivyo halali kuwa ni haramu na ni hatia ya kihalifu na ukapigwa marufuku na Mabaraza mbali mbali ya miji. Uvutaji sigara ulitangazwa kuwa haramu hata kwenye gari la mtu binafsi. Kulikuwa na haja ya dharura ya ufafanuzi kuhusu vipengee vya sheria hii na jinsi itakavyotekelezwa. Tulifaulu kuhusisha idara zinazohusika za serikali ambazo baadaye zilitoa ufafanuzi kuhusu sheria hii na jinsi ya kuitekeleza. Changamoto kubwa sasa ni kuhakikisha kuwa wahusika wote wanazingatia utekelezaji wa sheria hii kwa njia ifaayo. Katika miaka ya hivi punde tumeshuhudia mabadiliko ya sheria, ongezeko la mashindano na ukuaji wa vituo vya miji na vya kibiashara. Tisho kubwa linalokabili sekta hii hivi leo ni biashara haramu (bidhaa za magendo, kutolipwa kwa ushuru na bidhaa bandia) ambazo zinainyima mapato serikali na kuathiri biashara yetu na ile ya washirika wetu wa kibiashara. Maswala haya yanaonyesha umuhimu wa sisi kutumia mbinu bora zaidi za ugawaji kwa lengo la kuimarisha eneo tunalohudumia katika biashara, kuimarisha uhusiano wetu na wauzaji wa reja reja na kuisaidia serikali kukabiliana na biashara haramu. Kampuni ya British American Tobacco Kenya ilikuwa katika nafasi ya nne miongoni mwa kampuni zinazolipa ushuru mkubwa hapa nchini mwaka 2007 na pia mwaka 2008, baada ya kulipa ushuru wa kiasi cha shilingi bilioni 7.0 na shilingi bilioni 7.9 mtawalia. Kampuni hii pia ilileta pesa za kigeni za kiasi cha Dola milioni 62.5 za Marekani katika mwaka wa 2008.

Matokeo

Kiwango cha uuzaji bidhaa zetu humu nchini mwaka 2008 kilipungua kwa asilimia 7.2 ikilinganishwa na mwaka 2007 ilhali kiwango cha utengenezaji bidhaa za kandarasi kiliongezeka kwa asilimia 2.7. Utengenezaji bidhaa za kandarasi huwakilisha asilimia 65 ya biashara yote. Katika utengenezaji bidhaa uboreshaji bidhaa kuwa katika hali nzuri zaidi ulifikiwa kutokana na juhudi mbali mbali zilizotekelezwa kwenye kiwanda cha kutayarisha tumbaku cha Thika na kiwanda cha Nairobi. Pato letu lilikuwa shilingi bilioni 17.4 sawa na asilimia 10.6 juu kuliko mwaka 2007. Faida kabla kutozwa ushuru iliongezeka kwa asilimia 17.9 ambalo ni dhihirisho la kuimarika kwa biashara na utendaji kazi. Tunaendelea kuwathamini wenye hisa wetu kwa kujenga biashara ya kudumu. Matokeo haya bora ya kibiashara hayangelifikiwa bila ya ushirikiano miongoni mwa wafanyikazi wetu pamoja na kundi la wasimamizi na Halmashauri ya Wakurugenzi.

Mgao wa faida

Halmashauri ya wakurugenzi inapendekeza mgao wa mwisho wa faida wa shilingi 12.50 kwa kila hisa ya kawaida ya shilingi 10 iliyoongezwa kwenye mgao wa muda wa faida uliolipwa tayari, na hii inaleta jumla ya mgao wa faida kuwa shilingi 17.00. Mgao wa faida uliolipwa utatozwa kodi ya kampuni na utalipwa tarehe 30 Aprili mwaka 2009.

Mtazamo

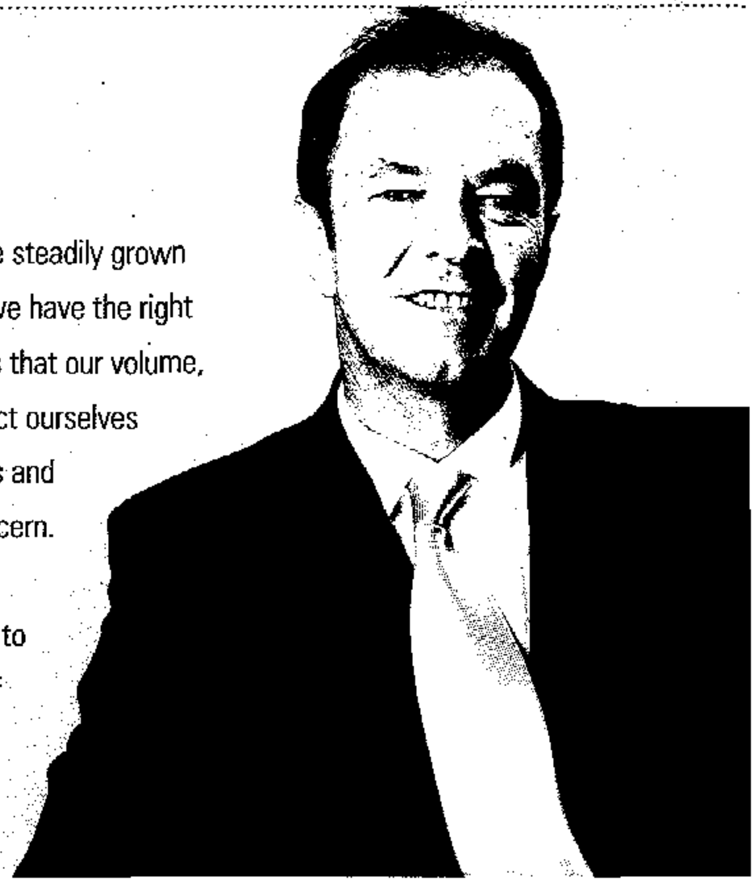
Matarajio ya ukuaji wa uchumi wa humu nchini kuendelea mbele ni vigumu kubashiri kutokana na hali isiyoeleweka kufuatia athari za kudidimia kwa uchumi duniani na kupanda kwa bei za kimataifa za mafuta ambayo hayajasafishwa. Hata hivyo inakisiwa kwamba uchumi huenda ukakua kwa kati ya asilimia 2 na asilimia 3.5 mwaka wa 2009. Matarajio ya kufikia haya au kiwango cha juu cha ukuaji wa kiuchumi yataimarika ikiwa serikali ya muungano itashughulikia maswala mbali mbali ya kiutawala, kuzingatia upya usimamizi bora wa uchumi, kuharakisha uwekezaji katika miundo msingi na kutekeleza marekebisho muhimu hasa katiba, sheria na taratibu za serikali. Hii itasaidia kuimarisha imani ya wawekezaji humu nchini. Mtazamo wa sekta ya Tumbaku mwaka 2009 ni moja ya mazingira ya utendaji kazi yanayoendelea kukabiliwa na changamoto. Kudidimia kwa ukuaji wa kiuchumi, mfumko wa bei na ongezeko la kodi ya utendaji kazi mwaka 2008 kumepunguza uwezo wa mteja kutumia mapato yake kwa njia ifaayo na hivyo kusababisha kupungua kwa soko la humu nchini. Ni jambo la kufurahisha kwamba kupungua huko hakukuizuia kampuni kupanua shughuli zake. Ukosefu wa utekelezaji kwa njia ifaayo sheria ya kuthibiti tumbako umesababisha mashindano yasiyo halali katika sekta hii kwenye soko la humu nchini. Ongezeko lolote la ushuru litasababisha kuweko kwa biashara haramu na hivyo basi kuhujumu biashara halali na kuinyima serikali mapato. Tutaendelea kufanya mashauri na serikali kuhusu maswala haya muhimu ili kudumisha mazingira yafaayo ya kibiashara kwa manufaa ya washika dau wote. Kwa niaba ya Halmashauri ningependa kuwashukuru wakulima wetu wote, wagawaji, wafanyikazi, serikali ya Kenya na wadau wetu wote kwa kuendelea kutuunga mkono.

Wenu

Evanson Mwaniki
Mwenyekiti

Managing Director's Review

Building a Sustainable Business



"We have been in Kenya for over 100 years now, and have steadily grown our business. Our teams have focussed on ensuring that we have the right portfolio and value proposition for this market that ensures that our volume, sales and revenue streams remain sustainable. We conduct ourselves responsibly in the market place, engaging our stakeholders and finding ways to appropriately resolve issues of mutual concern. Underpinning our success as a winning organisation is the strength in our diversity – each one of us pooling together to drive the success of the business. I am extremely proud of the team and pool of talent we have today"

Gary Fagan Managing Director

A challenging year

2008 was, no doubt, one of the most challenging years for most businesses in Kenya. The year began with an unprecedented turn of events following the post-election violence that followed the disputed December 2007 election results. With a 26.8% inflation rate, increased food and energy costs, businesses across the board were affected and the tobacco industry was not spared. Production costs increased as a result of escalating inflation and the weakening of the Kenya Shilling.

I am proud to note that despite the challenges we faced at the beginning of the year, our business remained resilient.

We continued to support our communities through the CSR projects we undertook in 2008. We contributed Kshs 10 Mn which constituted both cash and in kind donations to support the Internally Displaced Persons that lived in camps following the post election skirmishes. Our contribution was given to the Kenya Red Cross as the lead agency that was assisting those affected. Our CSR activities in future will be constrained by the Tobacco Control Act that restricts social support to communities. We hope that the regulator can review this and allow us to continue playing our part in supporting communities as a responsible corporate citizen.

Regulation

Implementation of the Tobacco Control Act 2007 (TCA), was not without challenges to the industry. Appropriate guidelines were not given to members of the public and law enforcement agencies and this brought about some measure of confusion on how the law was to be applied.

Although the TCA had not banned smoking in open spaces, some local authorities, citing their by-laws, announced smoking bans in all public places. The media reported incidences of harassment and arrest of consumers and tobacco traders. This gave the false impression that smoking had been banned. There was need for clarity on the issues surrounding Public Place Smoking and the applicable law. We engaged relevant authorities, who later gave clarity on the issues of concern.

British American Tobacco Kenya Limited has always maintained the position that it will support balanced and enforceable regulation that takes into account the concerns of all stakeholders. Although the TCA may still require review to fully operationalise regulation of the industry, we continue to engage the regulators in the hope that we will find workable solutions to issues of mutual concern.

Although the constitutionality of the Act has been challenged in court and the case is still pending, we have endeavoured to comply with it. This process has cost us an estimated Kshs 100 Mn.

One of the key challenges that remains for the regulator is enforcement and compliance with the Act by all industry players. As long as the Act is not observed by the industry as a whole, the playing ground remains uneven. We continue to engage the regulator and hope that the law will be enforced equally for all.

Excise

The average excise increase of 31% across our brand portfolio impacted on the company's profitability and also drove up the price of the cigarettes. The Finance Bill 2008 read in June, introduced ambiguous hybrid tier classifications, which complicated the pricing structure against all the brands and brought with it conflicting interpretations. This was nevertheless clarified with the passing of the Finance Act in December of 2008.

We have always urged the authorities to introduce a simple excise structure that is readily understood, and levels the playing field for the industry. The present structure is not ideal and we would prefer a simple structure, based on popular price. This would see the reduction of tiers from the present four to two – providing excise categories for soft cups and hinge-lid products.

Experience from other countries in Europe and North America has shown that an excise structure which consistently increases the rates will be counter-productive; it will encourage smuggling and tax evasion resulting in increased levels of illicit trade and loss of revenue to government. This also negatively impacts legitimate businesses as it robs them of market share and reduces revenue. Kenya is no different. 2008 saw an increase in illicit trade which can be partly attributed to the sharp increase in excise. We have experienced 61% excise increase in the last 12 months which is rather high for an industry.

There were, nevertheless, considerable gains in legislation. The Anti-Counterfeit Act was passed and we, alongside other Fast Moving Consumer Goods manufacturers, look forward to its implementation.

Business volumes

British American Tobacco Kenya's market share was at its highest level in the last five years. According to research conducted by AC Nielsen, British American Tobacco Kenya has grown its market share by 3%. Our traditional brands remain strong while our Global Drive Brands Dunhill and Pall Mall continue to do well both in the domestic market and regional markets. Although illicit trade continues to be a threat to businesses, we will continue to work with government and other stakeholders to find ways of effectively curbing the vice.

Distribution

We have retained our market leadership position in Kenya because we have constantly sought ways to improve and organically grow our business. In 2008 we decided to review our Route to Market which, simply put, is how we get our product into the local market right from distribution (bulk) to retail.

We have analysed all aspects of distribution with the aim of:

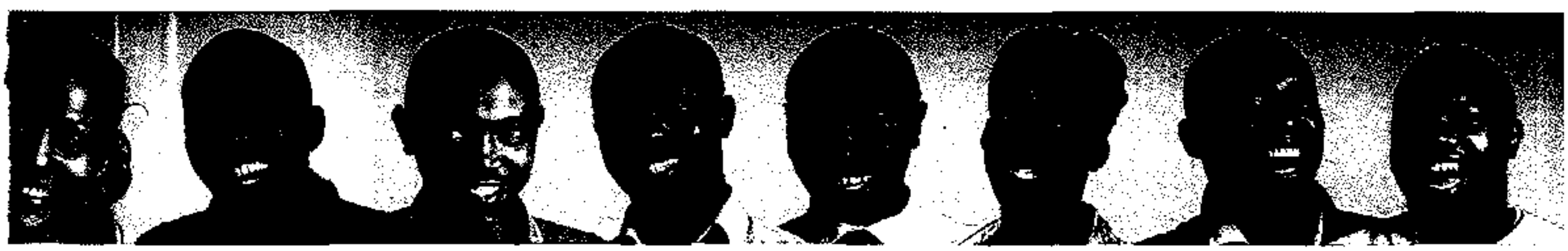
- Ensuring that our coverage of the market is comprehensive
- Reducing complexity in our distribution
- Increasing levels of control over our secondary supply chain

- Maximising our service levels to the retail trade and consumers, and ensuring that there are tangible benefits from having a more efficient and effective distribution system

- Enhancing market intelligence

- Increasing our speed to market, (how quickly we get our goods into the market whether in towns or in the rural areas)

- Driving our portfolio strategy



Demand chain

Nairobi hosts one of the British American Tobacco Group's manufacturing hubs in Africa and Middle East. The Nairobi factory is undertaking various strategies that will see Nairobi become a 20 billion stick factory by 2012. The Nairobi factory undertakes contract manufacturing of cigarettes for 16 markets in the Sub-Saharan Africa Area. Our exports now account for 65% of the factory output compared to 63% in 2007.

Identified as a centre of manufacturing excellence within the Group, we have now invested Kshs 2.2 Bn in our expansion programme in the last five years, creating an additional estimated 100 new jobs within the factory.

Environmental management initiatives

As part of the British American Tobacco Group environmental initiatives, British American Tobacco Kenya is running a "Go Green" campaign which aims to reduce carbon emissions that contribute to Global Warming. The initiative also promotes environmental sustainability at all levels of our production processes from leaf growing to cigarette manufacturing.

In Kenya we work extensively with our farmers in our leaf growing areas and educate them on good conservation practices. In the last five years we have run an afforestation programme which has seen us distribute over 5 Mn seedlings to farmers and other organisations. We also encourage our farmers to adopt sustainable agricultural practices that ensure improved quality yields and food security. These, together with internal measures on waste reduction, ensure that the business grows in harmony with the environment.

Strength through diversity

We cannot separate our business results from our people. Everything we have achieved is attributed to the drive and success of the team. Our people are at the centre of what we do and we celebrate together what we achieve each year.

We continue to develop our talent pool as aligned to our talent pipeline strategy to ensure that we continue to attract and retain the best. British American Tobacco Kenya continues to offer competitive pay and benefits as well as providing opportunities for self development to all employees.

To maintain our position as a centre of excellence and talent hub for developing people within the Group, we continue to provide a world class working environment, enriched with diversity that makes us who we are in the market place.

Looking Ahead

Aligned to our global vision of achieving leadership of the tobacco industry, we can proudly say that for the 100 years we have been in Kenya, we have maintained our position as the market leader. Supported by our Growth, Productivity, Responsibility and Winning Organisation strategies, we continue building our business to ensure that it remains sustainable in the coming years.

Growth

This will be largely driven by our distribution strategy, supported by our portfolio and pricing strategies. We continue to review our distribution channels to deliver sustainable incremental growth to both ourselves and our trade partners.

Productivity

Key to our success is our ability to effectively manage our costs and work more efficiently. With substantial investment in manufacturing and information technology we have been able to improve our processes and reduce costs and we will continue to do so.

Responsibility

Despite the challenges posed by changes in our regulatory environment, we will continue to engage and work with stakeholders to find solutions that are mutually beneficial. We will continue to support regulatory authorities and assist where we can so that together we can positively contribute to the socio-economic wellbeing of our communities. We hope that outstanding issues in the TCA can be amicably resolved.

Winning Organisation

To maintain a sustainable business, we continue to invest in developing our people and maintaining an environment that fosters growth and harnesses team work. We engage with our staff through our bi-annual internal climate survey ('Your Voice survey') in which issues of concern to staff are raised and thereafter addressed. We continue to provide opportunities for growth and development, as well as continuously review our practices to ensure that we are able to attract and retain the best talent.

I would like to take this opportunity to thank our people for their dedication, which has ensured that we have built a sustainable business in Kenya.

Sincerely

Gary Fagan
Managing Director

Financial Review

"British American Tobacco Kenya has delivered an average profit before tax growth of 8.3% over the last five years, and paid up dividends amounting to Kshs 7.5 Bn in the same period. Our financial results are indicators of our strength and sustainability"

Lawrence Kimathi Finance Director

Profit from operations

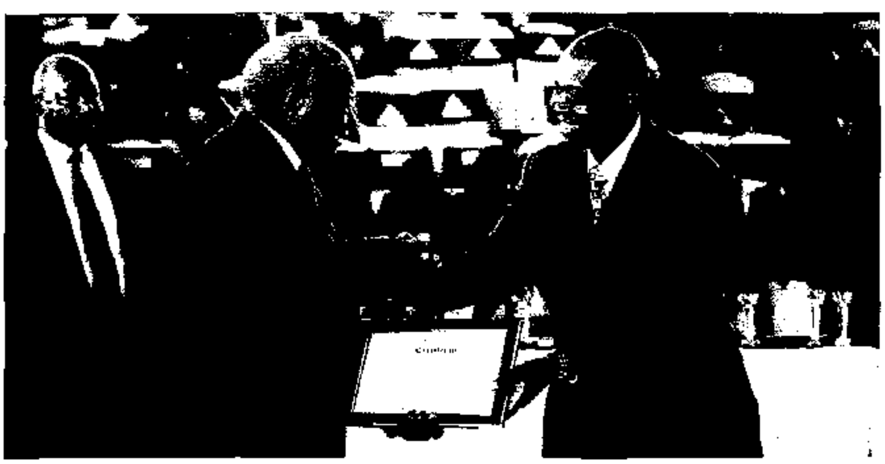
British American Tobacco Kenya's reported revenue at the end of 2008 was Kshs 10.3 Bn which was an overall growth of 9.2% in 2008. Profit before tax grew by 17.9% to Kshs 2.4 Bn.

During 2008, increases in costs were limited to well below inflation; this coupled with the revenue increase translated to an increase in profit before tax expressed as a percentage of revenue of 23.5%, up from 21.7% in 2007.

Net finance costs increased by 123% over the previous year, principally reflecting the impact of higher average net debt as well as higher cost of borrowing in the year.

In line with Group strategy British American Tobacco Kenya will focus on generating additional savings in coming years, in areas such as supply chain efficiencies and back office integration. Our financial management strategy focuses on risk and cost management, so as to build and maintain long term business sustainability.

Details of the company's operating performance can be found on pages 35 to 68 of this report.



British American Tobacco Kenya receives 4th largest tax payer award from His Excellency the President for two consecutive years.

Sidney Wafula
Finance Shared Services Manager

We need to adapt to the changes in our environment. In 2008, we implemented the Finance Shared Services Centre to:-

- Consolidate our financial operations
- Ensure that we remain competitive and viable
- Give us long term sustainability considering the tougher trading conditions faced by tobacco companies worldwide
- Simplify and improve back office process efficiencies that will enhance growth in a very competitive industry
- Support new business capabilities
- Increase productivity, enhance efficiency and seek to provide service excellence to customers

"Despite 2008 presenting many difficult challenges to the business, including economic and political instability, a further substantial rise in excise rates and widespread confusion over the implementation of the Tobacco Control Act, BAT was able to strengthen its leadership position within the industry growing its market share position to its highest in 5 years."

John Dowd Marketing Director

GROWTH

Distribution Strategy

The fundamental role of an effective distribution network is to ensure continuous supply of its products to its customers. In 2008 we faced many obstacles to fulfilling that basic principle.

As has already been widely documented, the first quarter of 2008 presented a very challenging environment to all companies who distribute products on a national basis. Many supply routes were blocked and a considerable proportion of the retail and wholesale universe was demolished. Therefore the focus in the first half of the year was on rebuilding the retail universe and working tirelessly with our third party logistics providers to ensure that we were able to avail to our customers and ultimately the consumer the right product, in the right place and at the right time. No mean feat given the environment.

A testament to the dedication and effectiveness of the distribution and supply chain teams is the fact that not only were we able to continuously supply the trade but that we also significantly outperformed the competition in this area of the business which drove down out of stock levels and was the biggest contributing factor to market share growth.

Market Share

As stated above, driven by our effective distribution performance and consistent portfolio approach we were able to strengthen our position as market leaders, recording our highest market share position since 2003 and exiting the year an impressive 2% market share points higher than 2007. *(source: Retail Audit independent survey)*

Portfolio strategy

Throughout 2008 we continued our strategy of building solid platforms for future growth of our Global Drive Brands (Dunhill and Pall Mall) whilst maintaining our focus on the brands that have been our traditional sources of strength.

Global Drive Brands

BAT Group believes the long term future of its business lies in its Global Drive Brands and hence building Dunhill and Pall Mall in Kenya remains a key objective.

Dunhill, launched into the premium segment in 2005, remains the ultimate destination brand in the portfolio. It continues

PALL MALL *Global Drive Brand*

to make solid progress aided by the launch of the 10s pack introduced in 2007. More and more discerning consumers are opting to make Dunhill their brand of choice.

In a bid to make Pall *Mall* more accessible and to support its positioning as the brand that 'offers more choice', Pall *Mall* 10s were launched in late 2008 in a hinge-lid format. This was and remains the only non premium brand in the market in a 10s format. Whilst volumes have not yet hit the expected levels the qualitative ratings which measure a brand's future health continue to grow.

Whilst our Global Drive Brands were a particular area of focus in 2008, this was combined with continued strong support behind our current sources of volume and profit, our local brands. This was demonstrated by the performance of Sportsman in 2008 which once again reported significant growth (+ 6.5%) versus 2007.

Sportsman, our regional brand, remains strong in the value for money segment.

Pricing Strategy & Regulation

In the June 2008 budget, the Minister of Finance announced an excise increase averaging 31% across the portfolio, following on from the 28% increase in 2007. As a result the company was forced to instigate a price increase across the portfolio which whilst not impacting upon our market share did result in a decline in industry volumes and government revenues.

Our Local Brands

The Tobacco Control Act (TCA) came into force on 8th July 2008 and unfortunately resulted in widespread confusion amongst the trade and consumers in terms of what was and was not permissible within the Act. BAT as a result invested further in educating both smokers and traders on top of the initial investment undertaken to ensure that we were fully compliant to all terms and conditions of the Act. This involved the removal of all BAT branded merchandising material and development of compliant Health Warning product. Despite this, enforcement of the Act has been minimal and our competition continues to flout the law which ultimately gives them an unfair advantage within the market place.

Sustainability

That said despite the turbulent environment, (that we believe will continue throughout 2009), we believe that with our superior distribution capability, our strong portfolio of brands and our long term approach to corporate responsibility that we will continue to lead and grow the tobacco business during 2009 and beyond.

"We pride ourselves in being one of the four strategic factories for the BAT Group in Africa and Middle East. Over the years we have seen considerable growth in factory output recording a 126% growth in volume in the last 5 years."

Dirk Eloff SSA Demand Chain General Manager

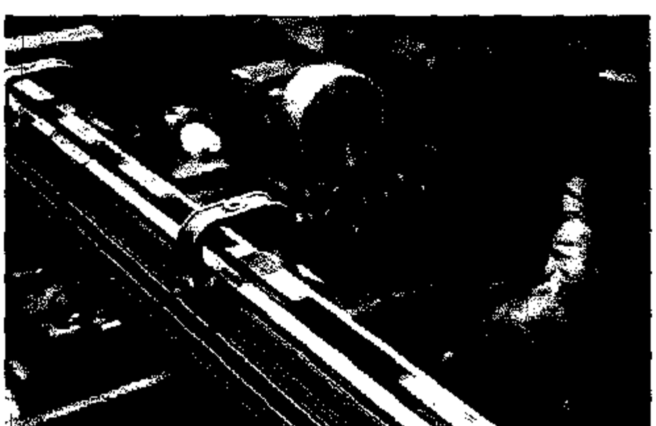
PRODUCTIVITY

"Quality and efficiency are integral in all our processes "

The Nairobi factory is one of the four strategic factories in Africa and the Middle East (AME) region. The others are South Africa, Nigeria and Turkey. The factory produces product for 16 countries in Africa. Export products account for 65% of the total production volume. New export markets in 2008 include Burundi, Sierra Leone and Sudan. Exports to Seychelles and Madagascar should commence in the first quarter of 2009.

British American Tobacco continues to invest heavily in manufacturing, supply chain and training. In 2008, the Company invested more than Kshs 800 Mn to enhance factory Capacity, Capability, Quality and Safety standards.

In an effort to ensure sustained productivity and improve customer service, the company continued to review its primary and secondary logistics model to reduce the cost base by using the core strengths of third party logistics service providers.



"In 2008, we kicked off a five-year strategy to transform SSA Operations into a benchmark Demand Chain organisation in the BAT group"

Hugo Norman Head of Supply Chain

Supply Chain Excellence

Our Strategic Leadership Agenda (SLA) whose key focus area is to grow stakeholder value was launched in our Thika premises on Friday, 1st August 2008. Our SLA is founded on the four stars of **Win Volume, World Class Services, Go Green** and **Winning Together.**

Win Volume

We drive excellence in our processes through the Supply Chain Excellence Tool, an evaluation and improvement tool used to identify strengths and improvement areas across supply chain operations. Our customers are at the heart of our business and we launched several systems to provide great account management. In 2008, we achieved Product Delivery On Time In Full of over 90%.

Our ambition is to continue to grow our production volumes and we have embarked on a project to position the factory for further growth. Through this project, site re-organisation activities initiated in 2008 included reviewing warehousing, material flow and increasing electricity self-generation capacity to cover 100% of our power requirements. We continued to develop the 'right' capacity and capability in the 'right' places.

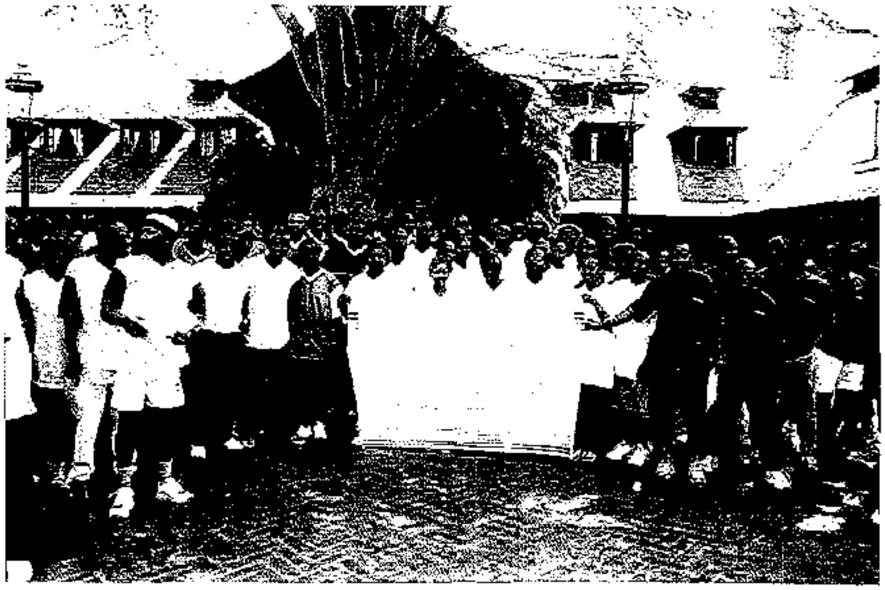
World Class Services:

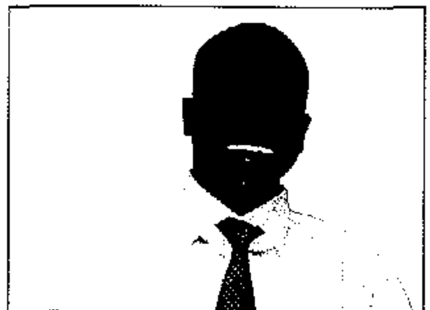
Various initiatives in 2008 have seen productivity measured in Cigarette per Man-Hour improve by 5% and our Manufacturing Quality Index go up 4.6%.

The procurement team registered outstanding results in the BAT Global Procurement Assessment and Improvement process. Productivity savings are a significant driver of profit growth and in 2008 we saved over Kshs 400 million through indirects, wrapping material and leaf savings.

The Nairobi factory introduced the "Hot changeover" system which has been a clear success story. This is a factory system where there is no machine downtime at shift changeover and which enables smooth shift handover, machine cleaning, waste reduction and enhanced teamwork and process continuity. "Hot changeovers" introduced in June 2008 are delivering factory waste savings of more than Kshs 400,000 per month.

In 2008, we upgraded the SAP Product Cost Reporting module. The new product costing models and reporting capabilities are intended to offer improved product costing information to provide better opportunity to identify potential supply chain savings.





Charles Kyalo
Secondary Manufacturing Manager

"Self Directed Work Teams (SDWT) were introduced in 2007 and have been continuously improving their processes through employee coaching, team based layouts and implementation of visual factory concepts. The success of this concept is phenomenal"

Go Green

We have established a set of five environmental performance strategies to drive our "GO GREEN" star. These are:

- **Awareness Campaigns**
- **Energy Conservation**
- **Responsible Waste Management (Reduce, Re-use, Re-cycle)**
- **Green 3rd Party stakeholders**
- **Environment Health and Safety Compliance**

Our Green achievements for the year 2008 include supporting afforestation programmes by distributing over 800,000 seedlings, reduction in landfill waste through export of tobacco dust and installation of a shredder plant to increase recycling rates and better energy monitoring through sub metering.

Winning Together:

- **Education and Training**

British American Tobacco Kenya continues to recognize its staff as its greatest asset and has focused efforts to train and develop people capability in all areas. In 2008, we completed Individual Learning Profiles (ILPs) that are being implemented.

In July 2008, the Apprenticeship Training Programme was launched and 14 apprentices were recruited from within Kenya. This will enable British American Tobacco Kenya to have a pool of skilled technical operators to fill the talent pipeline for the future.

- **Self Directed Work Teams**

Coaching focuses on embedding continuous improvement practices at SDWT level. The factory management structure has changed from shift to cell management to encourage and support team work.

The Visual Factory Concept was implemented to make working areas more user friendly and build employee participation in continuous improvement activities. Visual controls help employees avoid wasting time by giving them the information they need, where and when they need it leading to improvements in productivity, safety, quality, on-time delivery and employee morale. The growth of SDWT has resulted in sustained improvement in quality and productivity numbers.

Leaf Operations

Leaf production

2008 saw a major shortfall in the tobacco supply in the world market. The situation was no different in Kenya although the Kenya situation could be attributed to the post election disturbances that made it very difficult for the farmers to attend to their fields.

Our contracted farmers earned over Kshs 309 Mn, an average 8% increase in 2008 season compared to 2007. This marked a continued growth in farmer returns for the last 4 years by over 60% overall.

Stanley Mugwe
Head of Leaf Operations

"Our farmers practice commercial farming which gives them good returns for their investment and improves their livelihood. We focus on improved quality in leaf production and work with our farmers to ensure that they practice good agronomy and maintain food security. In 2008 we provided seed maize to our loyal farmers."

Operations

Our leaf threshing plant handled over 16,000 metric tons of which 30% is locally consumed and 60% exported. Productivity improvement and energy saving initiatives started in 2007 were fully realised in 2008 with shorter processing season and less power demand.

This resulted in improvement in the product yields and less losses.

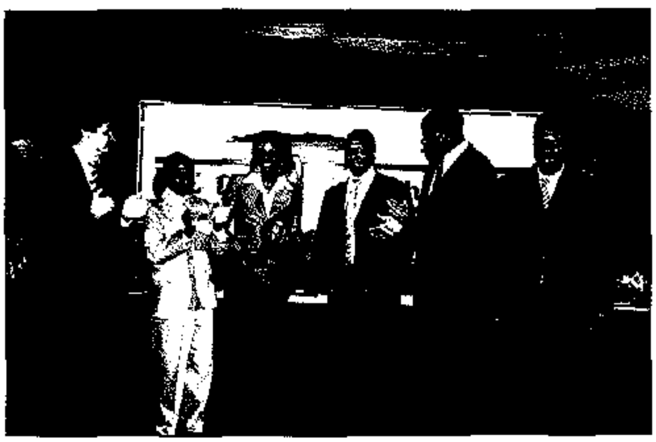
Environmental sustainability

In order to ensure sustainable agriculture, the company has adopted clonal tree production in addition to the other conventional tree species it has been establishing over the years. This will help in the establishment of quick maturing trees for tobacco curing and home use and save the indigenous trees. The first lot

of the clones have already been established and the results are very encouraging.

A bio-diversity risk assessment and carbon footprint review began during the year and the results will form a basis for appropriate action plans for improvement. We invested in reconfiguration of the Leaf Department to reduce the level of waste by packing more of the by-products. As part of the "go green" campaign, we have also reduced power consumption by use of natural lighting in more work places.

Our environmental conservation programme continues to grow. Over the years we have provided over 5 Mn tree seedlings to various interest groups and each year our efforts have been recognised by the Total Eco-Challenge programme.



British American Tobacco Kenya for the 5th year running wins Total EcoChallenge Award

Our afforestation programme aims to reduce the impact of our activities on wood consumption and global warming. We encourage the use of alternative energy and the building of fuel-efficient curing barns and aim to mitigate any loss in natural forests that may be occurring.

In 2008, no less than 96,000 tree seedlings were provided to communities to help in sustaining biodiversity. This is also in support of environmental conservation enhancement of forest cover and promotion of indigenous species. As a result of our continuous efforts, in November, British American Tobacco Kenya received a special award from TOTAL ECO CHALLENGE programme in recognition of our contribution to afforestation.

Other environmental conservation initiatives taken for business sustainability are:

- Village tree nurseries concept - enhancing capacities of the rural community through wealth creation while at the same time conserving the environment.
- Tobacco Growers' Wood lots - providing sustainable source of curing materials closer to growers.
- Tree farming by Non-tobacco Growers, growing trees as an alternate cash crop, thus practicing sustainable Agriculture with Environmental conservation.
- Institutional and Public Tree Planting for creation of public awareness in environmental conservation at all levels.
- Company-run Demonstration Plots/Wood lots for showcasing sustainable land use systems and environmental conservation as well as serving as reservoirs of wood resources for commercial & other domestic uses.
- Incorporation of clonal technology in tree seedlings production as a deliberate attempt to provide fast growing tree species for wood needs and hence preserving native ecosystems.
- Employing the use of bio-degradable tree seedlings holding materials to replace polythene pots.
- Tobacco & Pesticide Use- embedding Integrated Pest Management (IPM) as means of minimizing chemical active ingredients in the environment.
- Wood Use- developing alternative sources of fuel for tobacco curing to reduce reliance on wood.
- Tree Species Mix- enriching the mix to promote biodiversity and hence preserve indigenous flora and fauna.
- Soil & Water conservation- employing best practices in tobacco growing that protect the ecosystem.

"We will not build a sustainable business if we do not manage our business responsibly and build our reputation as a good corporate citizen. This requires us to listen to and appreciate stakeholder expectations, then respond to them appropriately. For us, this means addressing key business-related social, environmental and economic concerns in a way that earns us recognition as a responsible company and constantly adds value to all our undertakings."

Julia Adell-Owino *Head of Corporate & Regulatory Affairs*

RESPONSIBILITY

Support to local communities

Post election crisis

The post election unrest erupted at a time when people were on their Christmas holiday. With the transport problems that ensued, a number of our staff were stranded upcountry. Arrangements for evacuation or safe transportation were made for our people who had found themselves stranded in conflict areas. Many of our employees were evacuated and counselling sessions were provided to them and their families to help overcome this traumatising experience.

Support to our local communities was equally important to us. In 2008

Maureen Sande
Area Communications Manager

Social Reporting

Today there has been increasing demands for accountability and responsibility. BAT social reporting is based on listening and responding to the views of our stakeholders in dialogue on a wide range of topics that are important to them. Our Reports are all independently verified and follow the AA1000 reporting standard, established by the Institute of Social and Ethical Accountability. The process provides a structured approach for us to:

- Understand more about the expectations of our stakeholders;
- Ensure that these expectations are given due consideration in the Company's decision making;
- Demonstrate by our actions that we are responsive to reasonable stakeholder expectations and concerns.

we gave a Kshs 10 Mn donation to support internally displaced persons that were living in various camps. British American Tobacco helped 2000 families by donating food and materials worth to the Kenya Red Cross Society for distribution. Family kits donated comprised tents, blankets, mosquito nets, soaps, cooking utensils, cereals, pulses, cooking oil and nutritional food for children.

In 2008, the company also supported construction of a borehole, schools and community projects at a cost of Kshs 10 Mn.

Julie Adell-Owino (Head of Corporate and Regulatory Affairs) handing over computers to Hon. Sam Ongeri, Minister for Education.

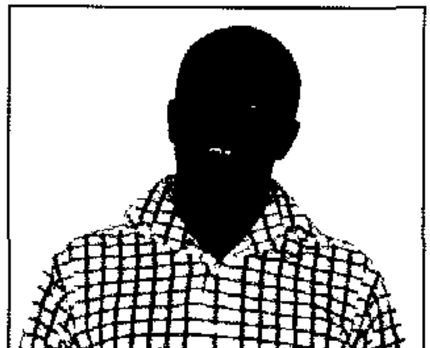
In 2008, we donated 316 laptops and 186 TFT monitors for distribution to learning institutions in Kenya by the ICT Trust Fund. This initiative was aimed at assisting in the introduction of Information and Communication Technology (ICT) to Kenyan schools. The importance of ICT and the related benefits of efficiency in communication, decision making and execution of various functions and processes cannot be overemphasised as Kenya seeks to achieve Vision 2030. We believe that this is a step in the right direction whose benefits will be felt in a big way as Kenya seeks to achieve economic growth and self sustainability.

Staff donate blood

Regulation

We work with stakeholders in our regulatory environment to achieve a framework that is fair to all industry players and creates a level playing field. We therefore support sensible regulation that balances the interests of all stakeholders. In July of 2008, the Tobacco Control Act, 2007 (TCA) came into force at a time when there were issues for engagement and clarification. We chose to engage with our stakeholders on areas of concern to the business to seek practical solutions.

To ensure compliance with all aspects of the TCA, British American Tobacco Kenya engaged with trade partners to help them understand what they needed to do in order to be compliant. In this regard we conducted sensitisation workshops for members of the Kenya Association of Hotel Keepers and Caterers (KAHC) and the Pubs Entertainment and Restaurant Association of Kenya (Perak). We continue to partner with them on issues of mutual concern.



Eric Kiniti
Regulatory Affairs Manager

The key areas of focus of the TCA are:-

- Packaging – requirement of larger, rotational health warnings which we now see in the new packaging.
- Public Place smoking restrictions in closed public areas.
- Ban of any form of advertising and promotions.
- Restrictions on brand sponsorships.
- Restrictions of stick sales and sales to minors.

"During 2008, our Human Resources focus was to ensure that we build a sustainable organisation by embedding the above market way of working and strengthening the talent pipeline through mid career recruits and management trainees."

Dev Sewgobind Head of Human Resource Services

OUR PEOPLE

Building our talent pipeline

Today, the strength of a business is measured in the context of its people. Building a strong talented team becomes critical to business sustainability. Within the BAT group, Kenya remains a talent hub to which we not only import talent from other countries to build capabilities, but from which we also export talent to other operating companies within the group. Today Kenya boasts some 22 expatriates working elsewhere in Africa and overseas. Locally we continue to

"Governance is at the heart of everything that we do. Our systems and processes have effective controls built around them. This has significantly strengthened our business."

Peter Ndegwa Head of Audit

AUDIT HIGHLIGHTS

- The level of awareness within the company of British American Tobacco Kenya's risks and the need to maintain a strong control environment has increased considerably, with knowledge about the key controls being cascaded and reinforced across the business.

- The risk assessment process worked very well, taking into account the rapid changes in the business and external factors and identifying specific responses to mitigate the risks.

- As a team, both management and staff have worked hard to ensure that controls are working effectively, as evidenced by the main control dashboard indicators showing a positive trend. The challenge, going forward, will be to maintain this strong control environment.

The Audit committee

The Audit Committee is chaired by Prof. J.H. Kimura a Non-executive Director. It meets three times a year with internal and external auditors, and with management. The Committee monitors and reviews the integrity of the Company's financial statements and if appropriate, makes recommendations to the Board on business risks, internal controls and compliance.

The Nominations Committee

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

The Remuneration Committee

The Remunerations Committee is chaired by Mr. M M Wanyoike, a Non Executive Director. It determines the Company's remuneration policy for employees, management and Non-Executive Directors.

Provident Funds

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

Corporate Citizenship

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

Employees

British American Tobacco Kenya actively encourages dialogue and participation in the company's business through regular team briefs, internal publications, employee surveys and regular meetings between employees and their representatives. The Company is an equal opportunity employer and recruits on the basis of their ability without discrimination.

Communication with Shareholders

British American Tobacco Kenya is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is achieved through the release of its half-year, and annual results in the local press, distribution of annual reports and holding of investor briefings as appropriate. Information is also available on the Company's website;

www.batkenya.com

Major Shareholders as at 26 February 2009

	No. of Shares	% Shareholding
Molensteegh Invest BV	60,000,000	60.00%
Board of Trustees NSSF	12,700,136	12.70%
Barclays (K) Nominees Ltd Non Resident A/c 9296	2,345,131	2.35%
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%
Kenya Commercial Bank of Nominees Ltd A/c 744A	612,741	0.61%
Barclays (K) Nominees Ltd Non Resident A/c 9011	462,000	0.46%
Barclays (K) Nominees Ltd A/c 1853	453,618	0.45%
SHARES SELECTED	80,422,775	80.42%
Others	19,577,225	19.58%
Total	**100,000,000**	**100.00%**

Summary of shareholders as at 26 February 2009

Shareholder	No. of shareholders	No. of shares	% Shareholding
Foreign Companies	18	64,480,401	64.48%
Foreign Individuals	75	168,234	0.17%
Local Companies	539	27,205,989	27.21%
Local Individuals	4,878	8,145,376	8.14%
Total	**5,510**	**100,000,000**	**100.00%**

Distribution of Shareholders as at 26 February 2009

Shareholding	No. of shareholders	No. of shares	% Shareholding
Less than 500	2,621	666,519	0.66%
501 - 5,000	2,404	3,969,699	3.97%
5,001- 10,000	220	1,607,211	1.61%
10,001 - 100,000	224	7,066,269	7.07%
100,001 - 1,000,000	36	9,570,620	9.57%
Above 1,000,000	5	77,119,682	77.12%
Total	**5,510**	**100,000,000**	**100.00%**

Corporate Information

Board of Directors

Mr. E. Mwaniki*	(Chairman)
Mr. G. Fagan	(Managing Director)
Mr. L. Kimathi	(Finance Director)
Mr. J.D. Pike*	
Mr. H. Eloff	
Mr. J. Dowd	
Mr. M.M. Wanyoike*	
Mr. A.N. Ngugi*	
Prof. J.H. Kimura*	
Mr. G.R. May*	
Mr. M. Oduor-Otieno*	
Ms. R. Ngobi	(Company Secretary)

Audit Committee

Prof. J.H. Kimura*	(Chairman)
Mr. G.R. May*	
Mr. M. Oduor-Otieno*	
Mr. J.D. Pike*	
Mr. G. Fagan	(Permanent Invitee)
Mr. L. Kimathi	(Permanent Invitee)
Mr. H. Eloff	(Permanent Invitee)
Mr. E. Mwaniki*	(Permanent Invitee)
Mrs. J. Adell-Owino	(Permanent Invitee)
Mr. D. Wasike	(Secretary)
Ms. R. Ngobi	(Permanent Invitee)

Nominations Committee

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

Remuneration Committee

Mr. M.M. Wanyoike*	(Chairman)
Mr. E. Mwaniki*	
Mr. J.D Pike*	
Mr. G. Fagan	
Mr. L. Kimathi	
Mr. D. Sewgobind	(Secretary)

Auditor

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

Transfer Agents

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

Advocates

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

Bankers

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

Secretary and Registered Office

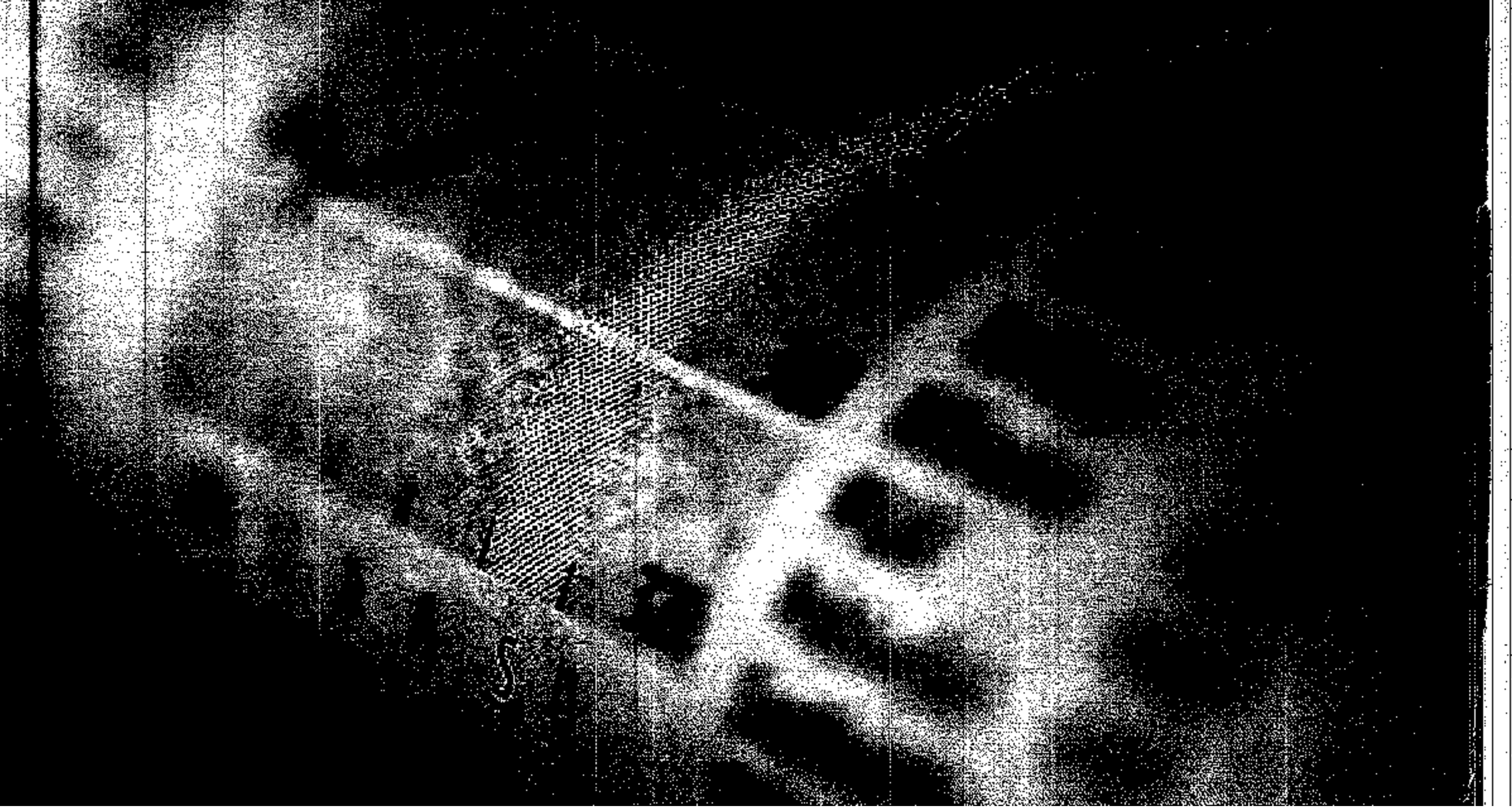
R.T. Ngobi (Ms.),
Likoni Road,
P.O. Box 30000-00100,
NAIROBI
Telephone: 6942000

**Non-Executive Directors*

BAT KENYA KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008



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Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2008, 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 1,700,395,000 has been added to retained earnings. During the year an interim dividend of Shs 450,000,000 (2007: Shs 650,000,000) was paid. The directors recommend the approval of a final dividend of Shs 1,250,000,000 (2007: Shs 1,050,000,000).

Directors

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

Mr. N. Maistre, Ms. J. Michuki and Mr. L. Senra resigned from the Board on 31 August, 8 July and 20 March 2008 respectively.

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

- Mr. G. Fagan on 1 September 2008.
- Mr. L. Kimathi on 18 July 2008.

In accordance with Article 95 Messrs G. Fagan and L. Kimathi retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 89 of the Articles of Association, Prof. Kimura and Mr. M.M. Wanyoike retire from the Board by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. A. Ngugi having attained the age of 71 on 23rd July 2008 retires in terms of section 186(2) of the Companies Act and being eligible by virtue of a Special Notice given under section 186 (5) offers himself for re-election.

Mr. E. Mwaniki having attained the age of 70 on 18th November 2008 retires in terms of section 186(2) of the Companies Act 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 interest to continue in office in accordance with section 159(2) of the Companies Act.

By order of the Board

R T. Ngobi(Ms.)
Company Secretary
26 February 2009

Ripoti 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 1,700,395,000 iliongezwa kwenye mapato. Mnamo mwaka huo mgao wa muda wa faida wa shilingi 450,000,000 (2007: Shilingi 650,000,000) ulilipwa. Wakurugenzi wanapendekeza kuidhinishwa kwa mgao wa mwisho wa faida wa shilingi 1,250,000,000 (2007: Shs 1,050,000,000).

Wakurugenzi

Mabadiliko yafuatayo yalifanywa kwenye Halmashauri ya Wakurugenzi tangu mkutano mkuu wa kila mwaka:

Bwana N. Maistre, Bi J. Michuki na Bwana L. Senra walijiuzulu kutoka kwa Halmashauri tarehe 31 Agosti, 8 Julai na tarehe 20 Machi mtawalia mwaka wa 2008.

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

- Bwana G. Fagan on 1 September 2008.
- Bwana L. Kimathi on 18 July 2008.

Kuambatana na kifungu nambari 95 cha sheria za kampuni Mabwana G. Fagan na L. Kimathi 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, Prof. Kimura na Mr. M.M. Wanyoike wanastaafu kwenye Halmashauri kwa mzunguko wakati wa mkutano mkuu wa kila mwaka na kwa vile muda unawaruhusu, wanajiwasilisha ili kuchaguliwa tena.

Mabwana A. Ngugi na E. Mwaniki ambao walitimu umri wa miaka 71 tarehe 23 Julai 2008 na 70 tarehe 18 Novemba 2008 mtawalia wanastaafu kuambatana na kifungu nambari 186 sehemu ya 2 cha sheria za kampuni na kwa vile muda unawaruhusu kuambatana na ilani maalum iliyotolewa chini ya kifungu nambari 186 sehemu ya 5 wanajiwasilisha 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 (Bi.)
Katibu wa Kampuni
26 February 2009

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.

G. Fagan
Managing Director

L. Kimathi
Finance Director

26 February 2009

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 39 to 68. These financial statements comprise the consolidated balance sheet at 31 December 2008 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 2008 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 2008 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

26 February 2009

Consolidated profit and loss account

	Notes	For the year ended 31 December 2008 Shs '000	2007 Shs '000
Gross turnover		17,435,970	15,770,234
Excise duty and value added tax		(7,152,601)	(6,351,328)
Revenue	5	10,283,369	9,418,906
Other income		136,776	365,912
Cost of operations	6	(7,858,216)	(7,670,148)
Finance costs	7	(145,016)	(65,074)
Profit before income tax	8	2,416,913	2,049,596
Income tax expense	10	(716,518)	(663,949)
Profit for the year (of which Shs 1,700,395,000 has been dealt with in the accounts of the Company)		1,700,395	1,385,697
Earnings per share			
Basic and diluted (Shs per share)	11	17.00	13.86
Dividends:			
Interim dividends paid in the year	12	450,000	650,000
Proposed final dividend for the year	12	**1,250,000**	1,050,000
		1,700,000	1,700,000

Consolidated balance sheet

	Notes	As at 31 December 2008 Shs'000	2007 Shs'000
Capital and reserves attributable to the company's equity holders			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation reserve	14	1,187,808	1,223,110
Retained earnings		1,455,814	1,420,117
Proposed dividend	12	1,250,000	1,050,000
Total equity		4,893,645	4,693,250
Non-current liabilities			
Deferred income tax liabilities	15	1,005,979	1,003,639
Retirement benefit obligations	16	7,545	28,551
Total non-current liabilities		1,013,524	1,032,190
Total equity and non-current liabilities		5,907,169	5,725,440
Non-current assets			
Property, plant and equipment	17	5,568,001	5,099,280
Intangible assets	18	116,131	177,148
Prepaid operating lease rentals	20	202	205
		5,684,334	5,276,633
Current assets			
Inventories	21	2,085,678	1,996,969
Receivables and prepayments	22	1,734,732	1,544,316
Current income tax		-	22,394
Cash and cash equivalents	23	802,858	429,574
		4,623,268	3,993,253
Current liabilities			
Payables and accrued expenses	24	2,663,073	2,191,416
Current income tax		104,196	-
Borrowings	25	1,239,334	815,594
Provision for liabilities and charges	26	393,830	537,436
		4,400,433	3,544,446
Net current assets		222,835	448,807
Total assets		5,907,169	5,725,440

The financial statements on pages 39 to 68 were approved for issue by the Board of Directors on 26 February 2009 and signed on its behalf by:

G. Fagan
Managing Director

L. Kimathi
Finance Director

Company balance sheet

	Notes	As at 31 December 2008 Shs'000	2007 Shs'000
Capital and reserves attributable to the company's equity holders			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,187,808	1,223,110
Retained earnings		1,455,814	1,420,117
Proposed dividend	12	1,250,000	1,050,000
Total equity		4,893,645	4,693,250
Non-current liabilities			
Deferred income tax liability	15	1,009,319	1,005,692
Retirement benefit obligations	16	7,545	28,551
Total non-current liabilities		1,016,864	1,034,243
Total equity and non-current liabilities		5,910,509	5,727,493
Non-current assets			
Property, plant and equipment	17	5,568,001	5,099,280
Intangible assets	18	116,131	177,148
Investment in subsidiaries	19	12,000	12,000
Prepaid operating lease rentals	20	202	205
		5,696,334	5,288,633
Current assets			
Inventories	21	1,989,883	1,980,943
Receivables and prepayments	22	1,655,288	1,583,767
Current income tax		-	33,792
Cash and cash equivalents	23	800,759	404,283
		4,445,930	4,002,785
Current liabilities			
Payables and accrued expenses	24	2,592,566	1,995,097
Current income tax		6,025	-
Borrowings	25	1,239,334	1,031,392
Provision for liabilities and charges	26	393,830	537,436
		4,231,755	3,563,925
Net current assets		214,175	438,860
Total assets		5,910,509	5,727,493

The financial statements on pages 39 to 68 were approved for issue by the Board of Directors on 26 February 2009 and signed on its behalf by:

G. Fagan
Managing Director

L. Kimathi
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 Equity Shs '000
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 income 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		-	-	-	(450,000)	-	(450,000)
- Second interim for 2007		-	-	-	(200,000)	-	(200,000)
- Proposed final for 2007		-	-	-	(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
Year ended 31 December 2008							
At start of year		1,000,000	23	1,223,110	1,420,117	1,050,000	4,693,250
Transfer of excess depreciation		-	-	(50,432)	50,432	-	-
Deferred income tax on transfer		-	-	15,130	(15,130)	-	-
Net gains recognised directly in equity		-	-	(35,302)	35,302	-	-
Profit for the year		-	-	-	1,700,395	-	1,700,395
Total recognised income for 2008		-	-	(35,302)	1,735,697	-	1,700,395
Dividends:							
- Final for 2007		-	-	-		(1,050,000)	(1,050,000)
- Interim for 2008		-	-	-	(450,000)	-	(450,000)
- Proposed final for 2008	12	-	-	-	(1,250,000)	1,250,000	-
At end of year		1,000,000	23	1,187,808	1,455,814	1,250,000	4,893,645

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 Equity Shs '000
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 income 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		-	-	-	(450,000)		(450,000)
- Second interim for 2007		-	-	-	(200,000)	-	(200,000)
- Proposed final for 2007		-	-	-	(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
Year ended 31 December 2008							
At start of year		1,000,000	23	1,223,110	1,420,117	1,050,000	4,693,250
Transfer of excess depreciation		-	-	(50,432)	50,432	-	-
Deferred income tax on transfer		-	-	15,130	(15,130)	-	-
Net gains recognised directly in equity		-	-	(35,302)	35,302	-	-
Profit for the year		-	-	-	1,700,395	-	1,700,395
Total recognised income for 2008		-	-	(35,302)	1,735,697	-	1,700,395
Dividends:							
- Final for 2007		-	-	-	-	(1,050,000)	(1,050,000)
- Interim for 2008		-	-	-	(450,000)	-	(450,000)
- Proposed final for 2008	12	-	-	-	(1,250,000)	1,250,000	-
At end of year		1,000,000	23	1,187,808	1,455,814	1,250,000	4,893,645

Consolidated cash flow statement

	Notes	2008 Shs'000	2007 Shs'000
		For the year ended 31 December	
Operating activities			
Cash generated from operations	27	3,079,917	2,169,118
Interest received		175	6,666
Interest paid		(105,617)	(24,416)
Income tax paid		(587,588)	(488,001)
Net cash generated from operating activities		2,386,887	1,663,367
Investing activities			
Purchase of property, plant and equipment	17	(943,618)	(764,249)
Proceeds from disposal of property, plant and equipment		6,275	29,626
Net cash used in investing activities		(937,343)	(734,623)
Financing activities			
Dividends paid to the Company's shareholders		(1,500,000)	(1,400,000)
Net cash used in financing activities		(1,500,000)	(1,400,000)
Net decrease in cash and cash equivalents		(50,456)	(471,256)
Movement in cash and cash equivalents			
At start of year		(386,020)	85,236
Decrease		(50,456)	(471,256)
At end of year	23	(436,476)	(386,020)

Notes

1 General information

BAT 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

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 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 3.

Interpretations effective in 2008

In 2008, the following new interpretations became effective for the first time but have not had an impact on the company's financial statements:

- IFRIC 11 – IFRS 2 - Group and treasury share transactions

- IFRIC 12 – Service Concession Arrangements

- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

- IAS 39 and IFRS 7 – Reclassification of financial assets.

Standards, interpretations and amendments to published standards that are not yet effective

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the company's accounting periods beginning on or after 1 January 2009, but the company has not early adopted any of them

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 IFRS 8, which will result in changes to the reportable segments and the information disclosed in respect of those segments and the amendments to IAS 1 - Presentation of Financial Statements, which will require non-owner changes in equity to be presented in a 'Comprehensive Statement of Income'.

Notes

(b) Consolidation

Subsidiaries

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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(c) 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.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

Notes

(d) 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.

(e) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts and after eliminating sales within the group.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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 collectibility 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 percentage 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.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, based on periodic, but at least once every five years, valuations by external independent valuers, less subsequent depreciation for buildings. 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 the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Notes

(f) Property, plant and equipment (continued)

Increases in the carrying amount arising on 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 the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts less their 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% to 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.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are included in the profit and loss account. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset 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 (three to five 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 of property, plant and equipment where the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

Financial Statements for the year ended 31 December 2008

Notes

(h) Accounting for leases (continued)

The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. Property, plant and equipment acquired under finance leases is depreciated over the estimated useful life of the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

(j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(k) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(m) Cash and cash equivalents

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

(n) Employee benefits

i) Retirement benefit obligations

The Group operates two defined contribution retirement benefit schemes for all its employees. The Group and all its employees also contribute to the appropriate National Social Security Fund, which are defined contribution schemes.

Notes

4 Financial risk management

The group's activities expose it to a variety of financial risks, including credit risk and the effects 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.

Risk management is carried out by the treasury and tax committee under policies approved by the Board of Directors. The committee identifies and evaluates financial risks where applicable. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

Market risk

(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 revising prices and robust working capital management and has not designated any derivative instruments as hedging instruments.

At 31 December 2008, if the Shilling had weakened by 10% against the US dollar with all other variables held constant, consolidated and company post tax profit for the year would have been Shs 99,330,000 (2007: Shs 76,174,000) higher, mainly as a result of US dollar receivables and bank balances.

At 31 December 2008, if the Shilling had weakened by 10% against the Euro with all other variables held constant, consolidated post tax profit for the year would have been Shs 34,598,000 (2007: Shs 38,621,000) lower, mainly as a result of Euro, USD and British Pound denominated trade payables.

(ii) Price risk

The group and the company are 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 has borrowings at variable rates, which expose the group to cash flow interest rate risk. The group regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2008 and 2007, an increase/decrease of 100 basis points would have resulted in an insignificant change in consolidated and company post tax profit.

(iv) Credit risk

Credit risk is managed on a group basis. Credit risk arises from deposits with banks, as well as trade and other receivables. Neither the group nor the company has any significant concentrations of credit risk. The group management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

Notes

4 Financial risk management (continued)

The amount that best represents the Group's and Company's maximum exposure to credit risk at 31 December 2008 is made up as follows:

	Group		Company	
	2008 Shs'000	2007 Shs'000	2008 Shs'000	2007 Shs'000
Cash equivalents	801,218	429,574	799,119	404,283
Trade receivables	1,204,856	1,202,183	1,171,152	1,142,892
Other receivables	529,876	342,133	484,136	440,875
	2,535,950	1,973,890	2,454,407	1,988,050

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

	Group		Company	
	2008 Shs'000	2007 Shs'000	2008 Shs'000	2007 Shs'000
Past due but not impaired:				
- by up to 3 months	202,004	197,092	192,168	148,946
- by 4 to 6 months	311,352	305,267	290,080	299,658
- by 7 to 12 months	71,273	336,245	76,572	332,895
- by after I year	325,679	47,050	326,989	44,865
Total past due but not impaired	910,318	885,654	885,809	826,364
Receivables individually determined to be impaired:				
Carrying amount before provision for impairment loss	22,582	6,842	11,449	-
Provision for impairment loss	(22,582)	(6,842)	(11,449)	-
Net carrying amount	-	-	-	-

Notes

4 **Financial risk management (continued)**

v) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, The Treasury'department maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling cash forecasts on the basis of expected cash flow.

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. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

		Less than 1 year Shs'000	Beyond 1 year Shs'000
(a)	**Group**		
	At 31 December 2008:		
	- current income tax	104,196	-
	- borrowings	1,239,334	-
	- trade and other payables	2,663,073	-
	At 31 December 2007:		
	- borrowings	815,594	-
	- trade and other payables	2,191,416	-
(b)	**Company**		
	At 31 December 2008:		
	- current income tax	6,025	-
	- borrowings	1,239,334	-
	- trade and other payables	2,592,566	-
	At 31 December 2007:		
	- borrowings	1,031,392	-
	- trade and other payables	1,995,097	-

Notes

4 **Financial risk management (continued)**

vi) Capital management

The group's objectives when managing capital are to safeguard the group'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. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

5 **Segment information**

The group operates in one business segment - manufacture and sale of cigarettes and tobacco and one geographic segment based on the location of the manufacturing site in Kenya hence no segmental information is presented.

The group's revenues by destination are as follows:

	2008 Shs '000	2007 Shs '000
Local sales	6,050,517	5,412,984
Export and contract manufacture sales	4,232,852	4,005,922
	10,283,369	9,418,906
Analysis of revenue by category		
Sale of goods	9,977,485	9,039,857
Sale of services	305,884	379,049
	10,283,369	9,418,906

6 **Cost of operations**

	2008 Shs '000	2007 Shs '000
Raw materials and consumables	5,142,870	4,793,877
Marketing and distribution costs	688,703	588,748
Administrative and other operating expenses	1,559,970	1,860,015
Depreciation of property, plant and equipment	405,653	366,769
Amortisation of intangible assets	61,017	60,736
Amortisation of prepaid operating lease rentals	3	3
	7,858,216	7,670,148

Notes

7 Finance costs

	2008 Shs '000	2007 Shs '000
Interest expense - bank borrowings	105,617	24,416
Net foreign exchange losses	39,399	40,658
Net finance costs	145,016	65,074

8 Profit before income tax

The following items have been charged in arriving at the profit before income tax:

	2008 Shs '000	2007 Shs '000
Employee benefits expense (Note 9)	1,723,145	1,440,870
Redundancy cost	142,129	184,039
Auditor's remuneration	7,350	6,500

9 Employee benefits expense

The following items are included within employee benefits expense:

	2008 Shs '000	2007 Shs '000
Retirement benefits costs:		
- Defined contribution scheme	62,768	50,263
- Defined benefit scheme (Note 16)	-	(6,629)
- National Social Security Funds	4,760	1,567

10 Income tax expense

	2008 Shs '000	2007 Shs '000
Current income tax	714,178	548,266
Deferred income tax (Note 15)	2,340	115,683
	716,518	663,949

Notes

10 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:

	2008 Shs '000	2007 Shs '000
Profit before income tax	2,416,913	2,049,596
Tax calculated at domestic rates applicable to profits in the respective countries - 30% (2007 – 30%)	725,074	614,879
Tax effect of:		
Income not subject to tax	-	(18,612)
Expenses not deductible for tax purposes	13,322	47,110
(Over)/Underprovision of deferred tax in prior years	(21,878)	20,572
Income tax expense	716,518	663,949

11 Earnings per share

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

	2008 Shs '000	2007 Shs '000
Profit attributable to equity holders of the company (Shs '000)	1,700,395	1,385,647
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	17.00	13.86

There were no potentially dilutive shares outstanding at 31 December 2008 or 2007. Diluted earnings per share are therefore the same as basic earnings per share.

12 Dividends per share

At the annual general meeting to be held on 30 April 2009, a final dividend in respect of the year ended 31 December 2008 of Shs 12.50 per share amounting to a total of Shs 1,250,000,000 is to be proposed. These financial statements do not reflect this dividend payable. During the year an interim dividend of Shs 4.50 per share, amounting to a total of Shs 450,000,000 was paid. The total dividend for the year is therefore Shs 17.00 per share (2007: Shs 17.00), amounting to a total of Shs 1,700,000,000 (2007: Shs 1,700,000,000).

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

Notes

13 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 January 2007, 31 December 2007 and 31 December 2008	100,000	1,000,000	23

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

14 Revaluation reserve

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

15 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2007: 30%).

The movement on the group deferred income tax account is as follows:

	2008 Shs '000	2007 Shs '000
At start of year	1,003,639	668,048
Charge to profit and loss account (Note 10)	2,340	115,683
Tax effect of revaluations	-	219,903
At end of year	1,005,979	1,003,639

Notes

15 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:

Year ended 31 December 2008	1.1.2008 Shs'000	Charged to P&L Shs'000	31.12.2008 Shs'000
Deferred income tax liabilities			
Property, plant and equipment:			
- on historical cost basis	602,114	46,371	648,485
- on revaluation surpluses	524,189	(15,130)	509,059
Unrealised exchange gains	33,985	72,281	106,266
	1,160,288	103,522	1,263,810
Deferred income tax assets			
Provisions	(104,693)	(35,829)	(140,522)
Unrealised exchange losses	(51,956)	(65,353)	(117,309)
	(156,649)	(101,182)	(257,831)
Net deferred income tax liability	1,003,639	2,340	1,005,979

Year ended 31 December 2007	1.1.2007 Shs'000	Charged to P&L Shs'000	Charged to equity Shs'000	31.12.2007 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	535,811	66,303	-	602,114
- on revaluation surpluses	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)
Tax losses carried forward	(49,860)	49,860	-	-
Unrealised exchange losses	(6,368)	(45,588)	-	(51,956)
	(183,400)	26,751	-	(156,649)
Net deferred income tax liability	668,048	115,683	-	1,003,639

Notes

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

Buildings and freehold land were last revalued during 2007, by independent valuers. Valuations were made on the basis of the open market value for land and residential properties in major urban areas and net current replacement cost on existing use basis for all other properties. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred income tax was credited to the revaluation surplus in shareholders' equity.

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

	2008 Shs '000	2007 Shs '000
Cost	769,176	765,568
Accumulated depreciation	(177,637)	(57,939)
Net book amount	591,539	607,629

18 Intangible assets - Group and Company

	Computer software license	
	2008 Shs '000	2007 Shs '000
At 31 December		
Cost	242,945	242,945
Accumulated amortisation	(126,814)	(65,797)
Net book amount	116,131	177,148
Year ended 31 December		
Opening net book amount	177,148	237,884
Amortisation	(61,017)	(60,736)
Closing net book amount	116,131	177,148

19 Investment in subsidiaries (at cost)

The group's interest in its subsidiaries, all of which are wholly owned, incorporated in Kenya, unlisted and have the same year end as the company, were as follows:

	Principal Activity
BAT Kenya Tobacco Company Limited	Selling of cigarettes
African Cigarette Company	Dormant
East Africa Tobacco Company Kenya Limited	Dormant

Notes

20 Prepaid operating lease rentals - Group and Company

	2008 Shs '000	2007 Shs '000
At start of year	205	208
Amortisation for the year	(3)	(3)
At end of year	202	205

21 Inventories

	Group		Company	
	2008 Shs'000	2007 Shs'000	2008 Shs'000	2007 Shs'000
Raw materials	1,841,824	1,826,404	1,841,824	1,826,404
Work in progress	7,104	20,430	7,104	20,430
Finished goods	236,750	150,135	140,955	134,109
	2,085,678	1,996,969	1,989,883	1,980,943

22 Receivables and prepayments

	Group		Company	
	2008 Shs'000	2007 Shs'000	2008 Shs'000	2007 Shs'000
Trade receivables	102,074	54,752	57,237	(11,380)
Less: Provision for impairment losses	(22,582)	(6,842)	(11,449)	-
	79,492	47,910	45,788	(11,380)
Prepayments and other receivables	529,876	343,133	484,136	440,874
Due from related parties (Note 28)	1,125,364	1,154,273	1,125,364	1,154,273
	1,734,732	1,544,316	1,655,288	1,583,767

Movements on the provision for impairment of trade receivables are as follows.

	2008 Shs'000	2007 Shs'000	2008 Shs'000	2007 Shs'000
At start of year	(6,842)	(4,534)	-	-
Provision in the year	(15,740)	(6,842)	(11,449)	-
Unused amounts reversed	-	4,534	-	
At end of year	(22,582)	(6,842)	(11,449)	-

Notes

22 Receivables and prepayments

The fair values of the current receivables are as follows:

	Group		Company	
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Trade receivables	79,492	47,910	45,787	(11,380)
Due from related parties	1,125,364	1,067,241	1,125,364	1,067,241
Prepayments and other receivables	529,876	343,133	484,136	440,874
	1,734,732		1,655,287	1,496,735

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 8.75% (2007: 7.5%).

23 Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Cash at bank and in hand	802,858	346,634	800,759	321,343
Short term bank deposits	-	82,940	-	82,940
	802,858	429,574	800,759	404,283

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2008	2007
	Shs'000	Shs'000
Cash at bank and in hand	802,858	429,574
Bank overdrafts (Note 25)	(1,239,334)	(815,594)
	(436,476)	(386,020)

24 Payables and accrued expenses

	Group		Company	
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	686,906	622,094	667,691	598,198
Due to related companies (Note 28)	827,460	651,803	1,061,146	634,567
Accrued expenses and other payables	1,148,707	917,519	863,729	762,332
	2,663,073	2,191,416	2,592,566	1,995,097

The carrying amounts of the above payables and accrued expenses approximate to their fair values.

Notes

25 Borrowings

	Group		Company	
	2008 Shs'000	2007 Shs'000	2008 Shs'000	2007 Shs'000
The borrowings are made up as follows:				
Bank overdraft	1,239,334	815,594	1,239,334	1,031,392

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.

None of the borrowings was in default at any time during the year.

The group has the following undrawn borrowing facilities:

	2008 Shs '000	2007 Shs '000
Overdraft facilities	1,323,500	2,155,000
Bond guarantees	862,500	3,680,000
	2,186,000	5,835,000

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.

26 Provisions for liabilities and charges

Year ended 31 December 2007	Group Shs'000	Company Shs'000
At start of year	492,348	492,348
Additional provisions	67,166	67,166
Unused amounts reversed	(20,064)	(19,800)
Charged to income statement	47,102	47,366
Utilised during year	(2,014)	(2,278)
At end of year	537,436	537,436

Notes

26 Provisions for liabilities and charges (continued)

Year ended 31 December 2008	**Group** ***Shs'000***	**Company** ***Shs'000***
At start of year	537,436	537,436
Additional provisions	302,312	302,312
Unused amounts reversed	(319,954)	(319,954)
Charged to income statement	(17,642)	(17,642)
Utilised during year	(125,964)	(125,964)
At end of year	393,830	393,830

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

27 Cash generated from operations

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

	2008 ***Shs'000***	**2007** ***Shs'000***
Profit before income tax	2,416,913	2,049,596
Adjustments for:		
Interest income	(175)	(6,666)
Interest expense (Note 7)	105,617	24,416
Depreciation (Note 17)	405,653	366,769
Amortisation of intangible assets (Note 18)	61,017	60,736
Amortisation of prepaid operating lease rentals (Note 20)	3	3
Profit on sale of property, plant and equipment	(6,275)	(26,215)
Write-down of property, plant and equipment (Note 17)	69,244	-
Changes in working capital		
– receivables and prepayments	(190,416)	(348,650)
– inventories	(88,709)	(203,492)
– payables and accrued expenses	471,657	271,893
– provisions for liabilities and charges	(143,606)	45,088
Change in retirement benefit obligation	(21,006)	(64,360)
Cash generated from operations	3,079,917	2,169,118

Notes

28 Related party transactions

The Group is controlled by British American Tobacco Plc incorporated in the United Kingdom, which is also the ultimate parent of the Group. There are other companies that are related to BAT Kenya Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

	Group	
i) Sale of goods and services	**2008 Shs'000**	**2007 Shs'000**
Other related parties	3,357,302	2,841,302

ii) Purchase of goods and services	**2008 Shs'000**	**2007 Shs'000**
Parent company	283,231	516,411
Other related parties	93,460	72,765
	376,691	589,176

iii) Key management compensation	**2008 Shs'000**	**2007 Shs'000**
Salaries and other short-term employment benefits	215,416	160,320
Other long-term benefits	44,855	49,722
	260,271	210,042

iv) Directors' remuneration	**2008 Shs'000**	**2007 Shs'000**
Fees for services as a director	11,176	8,237
Other emoluments (included in key management compensation above)	168,042	118,257
Total remuneration of directors of the Company	179,218	126,494

v) Outstanding balances arising from sale and purchase of goods/services	**2008 Shs'000**	**2007 Shs'000**
Receivables from other related parties	1,125,364	1,154,273
Payables to parent company	312,944	231,852
Payables to other group companies	514,516	419,951
	827,460	651,803

Notes

29 Contingent liabilities

The group is a defendant in various legal actions. Based on professional advice received, the directors are confident that the resolution of these cases will not likely have a material effect on the group's operations.

At 31 December 2008 and 2007, the Group had no guarantees given on behalf of third parties.

30 Commitments

Capital Commitments

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

	Group	
	2008 Shs'000	2007 Shs'000
Property, plant and equipment	223,549	131,459

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 30 April 2009 in the Ballroom, Hotel InterContinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this ....,day of...2009

....(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 29 April 2009.

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.