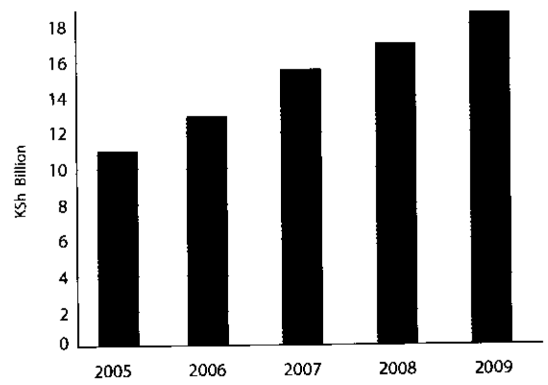
Winning Organisation

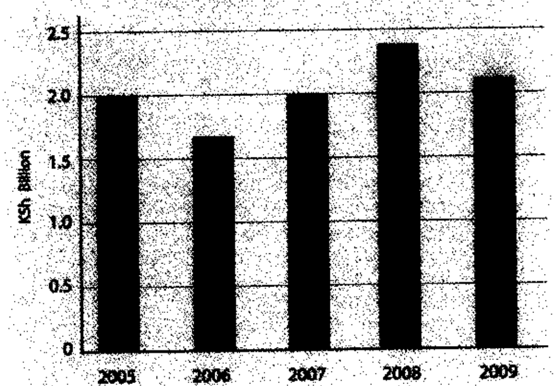
We are committed to recruiting, retaining, and rewarding great talent and we offer career development opportunities to our people both within Kenya and in Group companies around the world. At the end of 2009 we had 12 Kenyans working in international roles in other countries, as we support our local teams to develop robust expertise. In 2009, we maintained good relations with the Union, for the benefit of our people and our business and created an environment that provided incentives for people to perform their best at a great place to work.

Growth Turnover



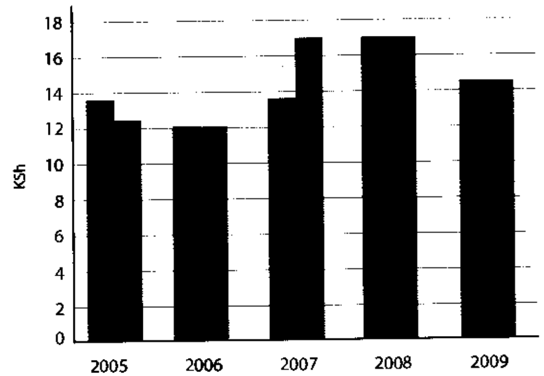
Gross turnover increased in 2009 by 7%

Profit before income tax



Profit before income tax decreased by 12% to KSh 2.1 Billion

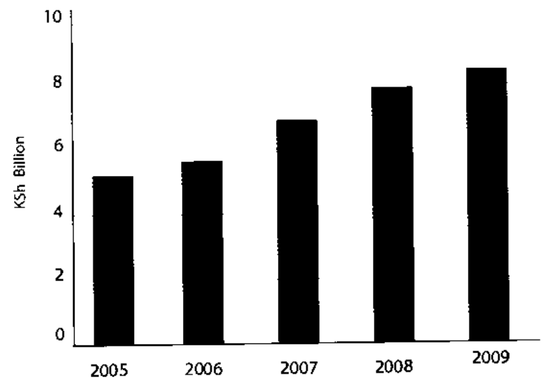
Earnings/ Dividend per share



Dividend payout ratio was 100%

Key: Earnings per share; Dividend per share

Contribution to government revenue



Contribution to Government revenue increased by 4% to KSh 8.3 Billion

1. Mr. E. Mwaniki (age 71), 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, Zimele Asset Management Company Limited, and Kenya Airways Limited.

2. Mr. G. Fagan (age 47), Managing Director
Appointed to the Board in September 2008. Prior to his appointment, he was the General Manager of BAT Southern African Markets. He began his career with BAT 20 years ago in Marketing and has filled various senior management roles within BAT Africa and Middle East region over the years. He is currently also the Area Director for Sub-Saharan Africa Area based in Nairobi.

3. Mr. M.M. Wanyoike (age 59), Non-Executive Director
Appointed to the Board in January 2001. He worked in different roles within the Company in Kenya and the East African Region, culminating in his appointment as Human Resources Director. Upon retiring from full time employment with the Company in December 2000, he took up Human Relations consultancy. He currently sits on the Board of Professional Clean Care Limited, Micos Drycleaners and Laundry Limited and Uwezo DTM Limited.

4. Mr. A.N. Ngugi (age 72), 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 and Managing Director of BOC Kenya Limited. He has served as Chairman of the Kenya Anti-Corruption Commission Advisory Board for the last 5 years, and sits on the Board of the Kenindia Insurance Company and Githaka Limited.

5. Mr. G.R. May (age 67), 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 history of 37 years with PricewaterhouseCoopers. He is currently the Regional Representative of the Eastern Africa Association. He holds directorships in Groove Limited, Airside Limited (Swissport Kenya), Heritage Insurance Company Limited, CfC Stanbic Bank Limited, CFC Stanbic Holdings Limited, CFC Financial Services Limited, and CFC Life Assurance Company Limited.

3 2 1 4 5

8 7 6 9 10 11

6. Prof. J.H. Kimura (age 65), 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 the Chairman of Phoenix Publishers Limited.

7. Mr. H. Eloff (52), 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 BAT Sub-Saharan Africa Area based in Nairobi.

8. Mr. J. Dowd (age 42), 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. He is also the Area Head of Marketing for Sub-Saharan Africa Area based in Nairobi.

9. Mr. Lawrence Kimathi (age 39), Finance Director
Appointed to the Board in July 2008. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and has a wealth of experience in finance. He previously worked as the Finance and IT Director at Cadbury East Africa, and has held various senior positions with British American Tobacco Kenya. He is currently also the Area Finance Director for Sub-Saharan Africa Area based in Nairobi.

10. Ms. Ruth T. Ngobi (age 49), Company Secretary
Appointed Company Secretary in August 2002, Ruth was educated in both Kenya and the UK, and qualified as a lawyer in 1985. She previously worked with Unilever Kenya Limited as Company Secretary with responsibilities for legal support and services to Unilever's operations in Kenya, Uganda, Tanzania and Ethiopia. She is currently also the Area Legal Counsel for Sub-Saharan Africa Area based in Nairobi.

11. Mr. Martin Oduor-Otieno (age 53), Non-Executive Director
Appointed to the Board in June 2007. He is currently the CEO and Director of Kenya Commercial Bank and its subsidiary companies. He has a wealth of experience in the corporate sector having previously worked at Barclays Bank and British American Tobacco Kenya. He is the Chair of the Kenya Bankers Association and is a Board member of the Kenya Commercial Bank Group, SOS Children's Villages - Kenya, the Federation of Kenya Employers, Kenya Private Sector Alliance and Catholic University Council. In 2009, Mr. Oduor-Otieno was awarded an honorary Doctor of Business Leadership Degree by the KCA University. On Jamhuri Day, Mr. Oduor-Otieno was awarded the First Class Chief Order of the Burning Spear (CBS) by His Excellency the President, Mwai Kibaki.

Notice of the 2010 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Eighth Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ballroom, Hotel Intercontinental, Nairobi, on 28th April 2010, 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 2009, together with the reports of the Chairman, Directors and Auditor thereon.

2. To declare a dividend.

3. To elect Directors:

(i) Mr. H. Eloff and Mr. J. Dowd retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

(ii) Mr. A Ngugi having attained the age of 70 on 23rd July 2007 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.

(iii) Mr. F 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.

Special Business

5. To consider and if approved, pass the following Special Resolution;
"That the Articles of the Association of the Company be amended as follows;

Article 125
By deleting it in its entirety and substituting the following new Article therein:

"(1) Any dividend or other moneys payable in cash or in respect of shares may be paid by:

(a) Direct debit, bank transfer or other automated system of bank transfer, electronic or mobile money transfer system transmitted to such bank or electronic or mobile telephone address as shown in the Register of the Company; or

(b) By Cheque or warrant sent by post to the registered address of the Member or person entitled thereto and in the case of joint holders to the registered address of that one of the joint holders who is first named on the register or to such person and to such address as the holder or joint holders may in writing direct.

(2) Payment of the cheque or warrant or confirmation of payment made by a transmitting entity to the addressee of a direct debit, bank transfer or through a mobile money transfer system, shall in each case be a good discharge to the company. Every such payment shall be sent at the risk of the person entitled to the money represented thereby."

Article 136
By deleting it in its entirety and substituting the following new Article therein:

"Any notice or other document may be served by the Company on any Member either personally or by sending it by post in a prepaid letter, or by facsimile or through electronic media addressed to such Member at his registered address as appearing in the Register. Where a notice or other document is posted by prepaid letter it shall be deemed to have been effected at the expiration of three (3) days after the day on which it was posted. Where a notice is posted by facsimile or electronic media, it shall be deemed to have been served at the expiration of twenty-four (24) hours after the time at which it was sent. Where notice is published in a daily newspaper, it shall be deemed to be served on the day on which it is first published."

By Order of the Board

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

2 March 2010

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.

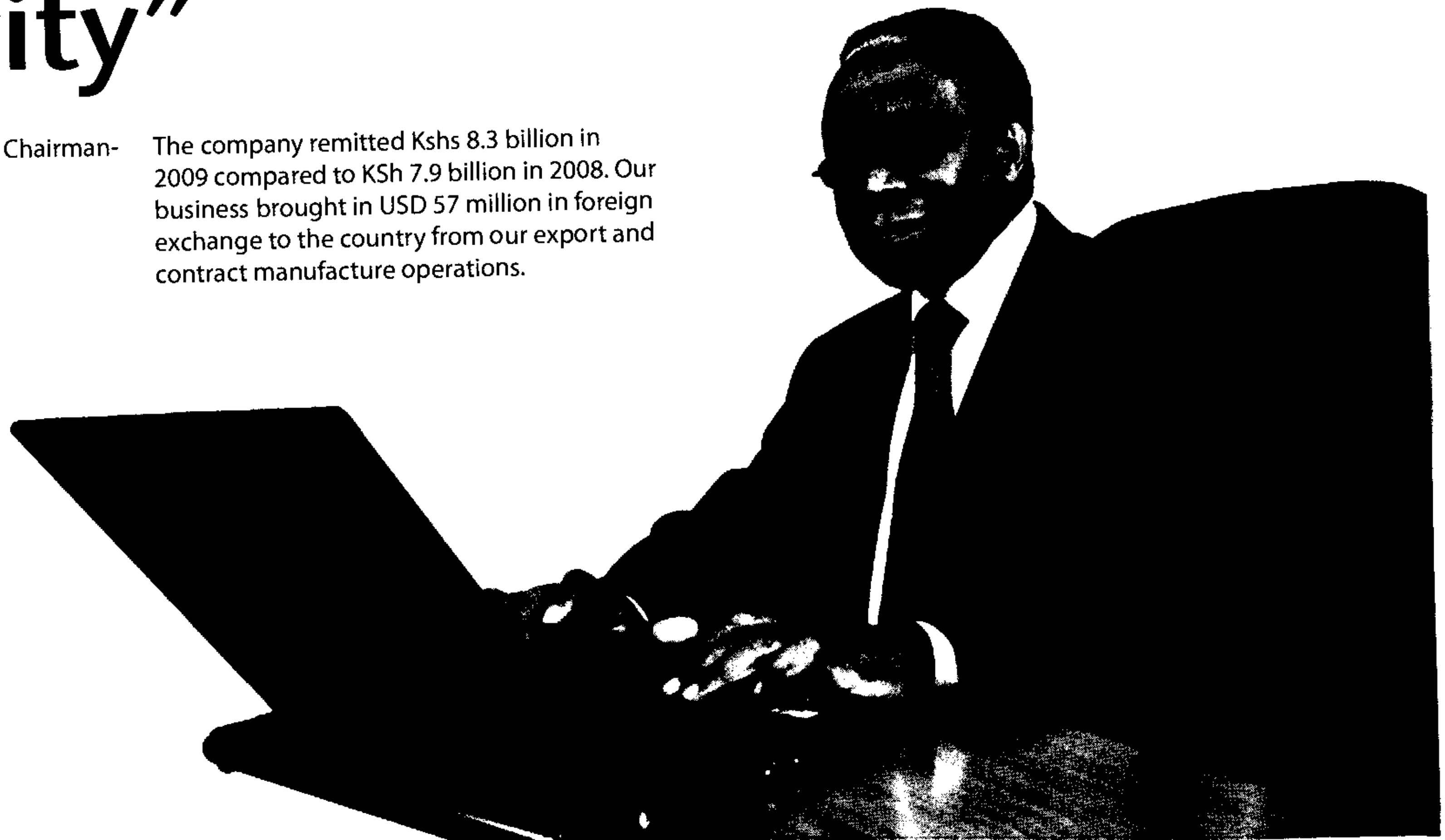
2. A proxy form is provided with this report. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the form to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 27th April 2010.

AGM Notice

“ranked the 4th largest tax payer by Kenya Revenue Authority”

- Evanson Mwaniki, Chairman-

The company remitted Kshs 8.3 billion in 2009 compared to KSh 7.9 billion in 2008. Our business brought in USD 57 million in foreign exchange to the country from our export and contract manufacture operations.



Chairman's Review

"Gross turnover was KSh 18.7 billion an increase of 7% compared to 2008 mainly attributed to a favourable sales mix in the domestic market and the impact of positive foreign exchange rates on turnover. Unadjusted pre-tax profit dipped by 12% primarily driven by costs incurred in the restructuring the business during the year, while the adjusted pre-tax profit fell by 4% attributed to the increase in costs".

Evanson Mwaniki, Chairman

Economic Environment

2009 saw a slight upturn in Kenya's economy, despite the country experiencing the aftershocks of the global financial crisis that shook the global economy. GDP growth is estimated to be 2.5% in 2009 compared to 1.7% in 2008 making Kenya among the few countries that recorded improved economic growth in a depressed global economy. This was, however, in sharp contrast to the phenomenal growth of 7.1% achieved in 2007. Economic experts assert that the economic performance in 2009 was well below Kenya's potential and did not even match the population growth. However, bearing in mind that the economy was crawling out of quadruple shocks, namely the impact of the 2008 post-election violence, the food crisis, the global financial turmoil and the recent prolonged drought, a 2.5% growth rate shows some resilience in the economy. The country's financial position remained strong, the financial sector was robust and the external sector remained balanced. These factors were attributed to fiscal reforms that had been carried out before the economic turmoil was experienced.

Economic recovery was driven mainly by the manufacturing and tourism sectors, while the agricultural sector, which was the worst-hit by the multiple shocks, contracted. In 2008, agriculture declined by 5% and is estimated to have shrunk by a further 2.5% in 2009.

Inflation declined substantially from 19.5% at the end of 2008 to below 5% at the end of 2009. This can be partially attributed to a shift in the methodology used to calculate inflation that previously created an upward bias particularly during volatility of food prices. In October 2009, the Central Bank revised its inflation calculation methodology, which corrected this upward bias and is now in line with international good practice. Overall annual average inflation was 9.5% in 2009 compared to 26.8% in 2008.

Food prices remained high in the year as a result of the drought experienced through 2008 and most of 2009. Food insecurity was experienced in many parts of the country and the government intervention was reactive, delayed and in most cases insufficient to address the acute food shortages. This exerted considerable pressure on disposable income for consumers.

Heightened insecurity in the domestic market and piracy in the Indian Ocean were of key concern to the business community. This caused disruption to business activities and increased the cost of doing business.

Energy costs remained high in 2009, mainly due to a drop in supply of electricity. This is a factor of continuous over-reliance on hydro powered generation sources which were affected by the drought resulting in power rationing and the shift to temporary diesel generation sources that created an upsurge in energy costs for both industrial and household consumers.

Regulatory Environment

The regulatory environment remained challenging as the industry came to terms with the implementation of the Tobacco Control Act. In January 2009, British American Tobacco Kenya became the first and only tobacco company in the country to comply with the legislation. We were fully compliant with the requirement for our products to bear more prominent health warnings, removal of tobacco branding in the market place and went a step further to sensitise our trade partners on what was required to comply with the Act. Unfortunately enforcement has not been up to the expected level as other industry players have been slow in implementing, if at all, and this has created an uneven playing field since they have continued promoting their products through product-related promotions, advertisement and branding, with no action taken by the regulators.

We continued facing challenges with the implementation of the law and there were numerous cases reported to us and highlighted in the media on unwarranted harassment of traders for displaying tobacco products in their outlets, confiscation of trade materials and consumers being harassed for smoking in outdoor areas, none of which are prohibited by the Tobacco Control Act. Local authorities continued to impose smoking bans in outdoor areas and streets despite the fact that the Tobacco Control Act takes precedence over any local authority by-laws on issues related to tobacco, a matter that was later clarified by the Ministry of Local Government.

“our market share grew by 1%, despite the fact that overall the cigarette market declined by more than 5%”.

- Gary Fagan, Managing Director -

we continue to focus our business on growing our value and improving our distribution effectiveness.

Taarifa ya Mwenyekiti

Mazingira ya Kiuchumi

Mwaka wa 2009 ulishuhudia kuimarika kiasi kwa uchumi wa Kenya, licha ya nchi hii kuathiriwa na msukosuko wa kifedha duniani ulioathiri uchumi wa dunia. Pato la taifa GDP linakisiwa kuwa asilimia 2.5 mwaka wa 2009 ikilinganishwa na asilimia 1.7 mwaka wa 2008 na kuiwezesha Kenya kuwa miongoni mwa matatifa machache ambayo uchumi wao ulikua kiasi wakati uchumi wa dunia ulipokuwa umedidimia. Hii hata hivyo, ni tofauti kabisa na ukuaji wa asilimia 7.1 uliofikiwa mwaka wa 2007. Wataalam wa kiuchumi wanasema kuwa matokeo hayo ya kiuchumi ya mwaka 2009 yalikuwa chini ya uwezo wa Kenya na hayakuwa sambamba na ongezeko la idadi ya watu. Hata hivyo ikikumbukwa kwamba uchumi ulikuwa unaendelea kujikwamua kutokana na misukosuko mbali mbali, hasa athari za ghasia za baada ya uchaguzi mwaka wa 2008, uhaba wa chakula, msukosuko wa kifedha duniani na kipindi kirefu cha ukame hivi majuzi, ukuaji wa kiwango cha asilimia 2.5 unadhihirisha ustahimilivu wa uchumi wetu. Hali ya kifedha ya nchi hii iliendelea kuwa thabiti, sekta ya kifedha iliendelea kuimarika na sekta ya nje pia iliendelea kuwa katika hali ya uwiano. Maswala haya yalitokana na marekebisho yaliyotekelezwa kabla ya msukosuko wa kiuchumi ulioshuhudiwa.

Ufufuzi wa uchumi ulisukumwa hasa na sekta za utengenezaji bidhaa na utalii, ilhali sekta ya kilimo iliyoathiriwa sana na misukosuko mbali mbali, ilizorota. Mwaka wa 2008 kilimo kilipungua kwa asilimia 5 na inakisiwa kuwa kilipungua kwa asilimia 2.5 zaidi mwaka wa 2009.

Kiwango cha gharama ya maisha kilipungua kiasi kutoka asilimia 19.5 kufikia mwisho wa mwaka 2008 hadi chini ya asilimia 5 kufikia mwisho wa mwaka 2009. Hali hii kwa kiasi fulani ilitokana na mabadiliko ya mbinu zilizotumika kushughulikia gharama ya maisha ambayo hapo awali iliendelea kupanda hasa wakati wa kuongezeka kwa bei za vyakula. Mnamo mwezi Oktoba mwaka 2009, Benki Kuu ilirekebisha mbinu zake za kukabiliana na kupanda kwa gharama ya maisha, hivyo kupunguza kiwango cha kupanda kwa gharama hiyo na sasa inaambatana na viwango bora vya kimataifa. Kiwango cha ujumla cha wastani cha kila mwaka cha gharama ya maisha kilikuwa asilimia 9.5 hapo mwaka 2009 ikilinganishwa na asilimia 26.8 mwaka wa 2008.

Bei za vyakula ziliendelea kuwa juu mwaka huo kutokana na kipindi kirefu cha ukame kilichoshuhudiwa mwaka wa 2008 na kipindi kikubwa cha mwaka 2009. Uhaba wa chakula ulikumba sehemu nyingi za nchi hii na msaada wa serikali ulitekelezwa baada ya miito kutolewa, msaada kutolewa ukiwa umechelewa na mara nyingi haukutosha kushughulikia uhaba wa chakula. Hali hii ilisababisha shinikizo kwa wateja wenye mapato ya chini.

Ongezeko la hali ya kutokuwa na usalama katika soko la humu nchini na uharamia katika bahari Hindi yalikuwa maswala makuu kwa wafanyibiashara. Hii ilisababisha kutatizwa kwa shughuli za biashara na kuongezeka kwa gharama ya kufanya biashara.

Gharama ya kawi iliendelea kuwa juu mwaka wa 2009, hasa kutokana na kupungua kwa usambazaji umeme. Hili ni swala la kutegemea kupita kiasi kwa umeme unaotokana na maji ulioathiriwa na hali ya ukame hivyo kusababisha kusambazwa kwa nguvu za umeme kwa vipimo na kuanza kutumia mitambo ya jenereta inayotumia mafuta ya dizel kutoa nguvu za umeme hali iliyosababisha ongezeko la gharama ya kawi kwa wateja wa viwandani na nyumbani.

Mazingira ya Kisheria

Mazingira ya kisheria yaliendelea kuwa changamoto kwani sekta hiyo ilizingatia utekelezaji wa sheria ya uthibiti wa tumbaku. Mnamo mwezi Januari mwaka 2009, kampuni ya British American Tobacco Kenya ilikuwa ya kwanza na kampuni ya pekee ya tumbaku humu nchini kuzingatia sheria hiyo. Tulizingatia kikamilifu mahitaji ya bidhaa zetu kwa kutilia mkazo onyo la afya, kuwacha kutangaza bidhaa za tumbaku kwenye maeneo ya masoko na kuwahamasisha washirika wetu wa kibiashara yaliyohitajiwa kuzingatia sheria hiyo. Hata hivyo hatua hii haijatekelezwa kufikia kiwango kinachotarajiwa kwavile washiriki wengine katika sekta hii walitekeleza pole pole yaliyotarajiwa na hali hii imebuni mashindano yasiyofaa kwavile wameendelea kutangaza bidhaa zao kupitia matangazo ya kibiashara na kutoa bidhaa mpya bila ya hatua yoyote kuchukuliwa na serikali.

Tuliendelea kukabiliwa na changamoto katika utekelezaji wa sheria hii na kulikuwa na visa kadhaa vilivyoripotiwa kwetu na kuangaziwa na vyombo vya habari kuhusu kuhangaishwa kwa wafanyibiashara kwa kuonyesha bidhaa za tumbaku katika maduka yao, kuchukuliwa kwa bidhaa za kibiashara na wateja kuhangaishwa kwa kuvuta sigara kwenye sehemu zilizo wazi, ambapo sheria ya uthibiti wa tumbaku haizuii hayo yote. Mabaraza ya miji na wilaya yaliendelea kupiga marufuku uvutaji wa sigara kwenye maeneo yaliyo wazi na barabarani licha ya ukweli kwamba sheria ya kuthibiti tumbaku ni umuhimu kuliko sheria za mabaraza hayo kuhusu maswala ya tumbaku, swala ambalo lilifafanuliwa baadaye na wizara ya Serikali za wilaya.

Tunaiomba serikali iwahamasishe ipasavyo wadau wote kuhusu sheria hii na kuhakikisha kwamba utekelezaji wake unafanywa kikamilifu na unafanywa kuambatana na kanuni zilizoko katika sheria hiyo. Pia tunaiomba serikali ishauriane na wadau wa sekta hii wakati wa utekelezaji wa sheria ili kuhakikisha utekelezaji ufaao.

Biashara haramu iliendelea kuwa tisho kubwa kwa sekta hii mwaka wa 2009, hasa pamoja na mazingira magumu ya kiuchumi. Utekelezaji wa sheria ya kukabiliana na bidhaa bandia ulifungua ukurasa mpya katika kukabiliana na biashara haramu. Halmashauri ya ukusanyaji ushuru nchini KRA imefanikiwa kukabiliana na urundikaji wa bidhaa zinazosafirishwa nje katika soko la humu nchini kwa kubuni mfumo wa ki-elektroniki wa kufuatilia bidhaa kama hizo unaopaswa kusaidia kupunguza biashara haramu ya bidhaa za tumbaku. Tunatumai kwamba marekebisho haya ya kisheria na huduma yatasaidia kumaliza uovu huo.

Kwa mwaka wa tatu mfululizo, kampuni ya British American Tobacco Kenya Ltd iliorodheshwa ya nne kubwa kulipa ushuru kwa Halmashauri ya ukusanyaji Ushuru nchini KRA. Kampuni iliwasilisha shilingi bilioni 8.3 mwaka wa 2009 ikilinganishwa na shilingi bilioni 7.9 mwaka wa 2008 likiwa ni ongezeko la asilimia 4 ikilinganishwa na mwaka uliopita. Biashara yetu ilileta dola milioni 57 za kimarekani ambazo ni pesa za kigeni kwa nchi hii kutokana na uuzaji na huduma za kandarasi za utengenezaji bidhaa.

Sekta ya Tumbaku

Sekta ya tumbaku ilifanya vyema katika nusu ya kwanza ya mwaka ikilinganishwa na bidhaa nyingine zinazopendwa na wateja. Nusu ya pili ya mwaka haikuwa nzuri sana. Kuchelewa kwa msimu wa mvua kulididimiza sekta muhimu ya kiuchumi ambayo ni kilimo, na hivyo kusababisha baa la njaa na kupungua kwa matumizi ya mapato. Vile vile, mahitaji ya bidhaa za sigara katika soko la humu nchini yalipungua kwa asilimia 5 huku wateja wakitafuta bidhaa za bei nafuu zaidi. Hali hii ilisababisha kupungua kwa mapato ya wateja waliotafuta bidhaa za bei nafuu zaidi. Hali hii ingelikuwa mbaya zaidi iwapo serikali ingeliamua kuongeza ushuru wa tumbaku, kama ilivyokuwa ikifanyika kwenye bajeti za miaka ya awali. Tunaipongeza wizara ya Fedha kwa kuitikia mwito wa sekta hii wa kutoongeza ushuru kwani kufanya hivyo pia kungeathiri viwango vikubwa vya biashara, na kupunguza kiwango cha ushuru unaokusanywa katika sekta hii.

Ingawa soko la sigara lilipungua mwaka wa 2009 ikilinganishwa na mwaka 2008 hasa kutokana na hali ngumu ya kiuchumi, mchanganyiko wa mauzo ya kampuni ya British American Tobacco Kenya ulihakikisha tumejipatia mapato ya kufaa.

Pato la jumla la kampuni lilikuwa shilingi bilioni 18.7 likiwa ongezeko la asilimia 7 ikilinganishwa na mwaka 2008 hasa kutokana na mauzo bora katika soko la humu nchini na athari ya viwango bora vya ubadilishanaji pesa za kigeni kwenye mapato hayo. Faida isiyorekebishwa kabla ya kutozwa ushuru ilipungua kwa asilimia 12 kutokana na gharama za kuratibu shughuli za biashara katika mwaka huo, ilhali faida iliyorekebishwa kabla ya kutozwa ushuru ilipungua kwa asilimia 4 kutokana na ongezeko la gharama.

Matokeo haya yanaonyesha kwamba biashara yetu ingawa haikuepuka misukosuko mbali mbali ya kiuchumi, iliendelea kustahimili katika mazingira ya hali ngumu. Haya hayangewezekana bila ya kufanya kazi kwa bidii na kujitahidi bila kuchoka kwa wafanyikazi ambao chini ya mwongozo wa halmashauri ya wakurugenzi na Kundi la usimamizi walitekeleza kazi nzuri iliyoleta matokeo bora.

Mgao wa Faida

Wakurugenzi wameamua kupendekeza mgao wa mwisho wa faida wa shilingi 10.25 kwa kila hisa ya kawaida ya shilingi 10. Utakapoongezwa kwenye mgao wa muda wa faida uliolipwa tayari, mgao wa mwisho wa faida utaleta jumla ya mgao wa faida kwa mwaka kuwa shilingi 14.75 kwa hisa. Mgao huu wa faida unaotozwa ushuru wa kampuni utalipwa tarehe 28 Aprili, 2010 kwa wenye hisa walio kwenye sajili ya hisa wakati wa kufungwa kwa shughuli hizo tarehe 2 Aprili, 2010.

Mtazamo

Wachanganuzi wa mambo wanatumai kwamba uchumi utaimarika mwaka wa 2010, na kukua kwa kati ya asilimia 2.5 na asilimia 4. Uchumi hata hivyo unatarajiwa kufufuka pole pole kwavile sekta ya kilimo inayotegemea sana misimu ya mvua inatarajiwa kukwamuka katika nusu ya pili ya mwaka. Shilingi bilioni 140 za kukwamua shughuli za kiuchumi za Bajeti iliyosomwa mwaka 2009 zinatarajiwa kupanua uwekezaji wa umma ili kuimarisha mahitaji na kuokoa uchumi usizorote katika matumizi ya kibinafsi.

Mazingira ya kisiasa pia yatatoa mwelekeo wa kiuchumi kwa kufahamu kuwa kura ya maamuzi inatarajiwa kufanywa huku tukitumai kwamba haitatatiza taifa na kuhujumu imani ya wawekezaji humu nchini.

Tunatumai kwamba serikali itaendelea kudumisha kasi iliyobuniwa katika kuimarisha miundo msingi kwa kupata ufanisi fulani katika kutumia rasilimali zaidi kukarabati barabara, mawasiliano, uboreshaji wa bandari, utoaji kawi na matumizi ya mbinu za unyunyiziaji mashamba maji ili kuwacha kutegemea sana kilimo kinachotegemea mvua na kuanza mradi wa ujenzi wa reli ya kisasa iliyopendekezwa.

Tutaendelea kuishirikisha serikali kwenye maswala yanayohusu sheria ya tumbaku, ushuru wa bidhaa na biashara haramu ili kuhakikisha kwamba biashara yetu inaendelea kudumishwa na vile vile kudumisha hadhi yetu kama mshirika muhimu wa kiuchumi.

Nikimaliza, ninawashukuru wakulima wetu wote wa tumbaku, wagawaji wa bidhaa zetu, washirika wa kibiashara, wafanyikazi, Serikali ya Kenya na wadau wetu wote kwa kuendelea kuiunga mkono biashara yetu.

Mimi Wenu

Evanson Mwaniki
Mwenyekiti

Managing Director's Review

We continued to maintain market leadership in a challenging year during which the cigarette market shrank. This is the essence of our sustainability agenda. We attribute our success to our people who remain focussed on delivering our objectives. I am extremely proud of our Functional teams, each of whose performance remained exceptional.

Building on our success

During a year in which Kenya's economy absorbed the combined impact of the global economic recession, drought and high energy costs, we rose above significant challenges to realise commendable performance by the business.

Business Growth

In 2009, our market share grew by 1%, despite the fact that overall the cigarette market declined by more than 5%. This is attributable to the strength of the business and deliberate focus and investment in our distribution network to enhance efficiency in market access. A lot of work went into this in 2009.

In our quest to maintain leadership of the market, and as a centre for manufacturing excellence, we remain committed to investing in our factory to maintain our status as a regional manufacturing hub for the Group in the Africa & Middle East Region. We earned this status in 2000 for outstanding production efficiency at competitive cost to the customer, and we currently contract manufacture cigarettes for 16 markets in Africa.

Continued investment in our Demand Chain

In 2009, we invested over KSh. 1.1 billion in state-of-the-art machinery to increase our production capacity and efficiency. Focus on cost optimisation throughout our Supply Chain enabled us to realise cumulative savings over 2008-2009 of more than KSh. 1 billion.

A rising tide lifts all boats; growth in our business translates to growth for our valued partners too. The essence of our partnership is captured in our Business Principle of Mutual Benefit, which is the basis on which we build our relationships with our stakeholders. We are in business primarily to build long term shareholder value and we believe the best way to do this is to seek to understand and to take account of the needs of all our stakeholders.

In line with the spirit of Mutual Benefit, we are proud to witness benefits that our partners derive from doing business with us. In 2009, we paid out KSh. 536 million to our contracted tobacco farmers, compared to KSh. 309 million the previous year. With 5,000 contracted tobacco farmers in Kenya, we believe our Leaf operations make a significant economic contribution to the farming communities in Eastern, Western and Nyanza provinces where we grow tobacco.

Excise

As an endorsement of our contribution to Kenya's economy, we were recognised by the Kenya Revenue Authority as the country's 4th largest tax payer, for the third consecutive year. Our contribution to the exchequer in form of excise, VAT and corporate taxes was KSh. 8.3 billion, compared to KSh 7.9 billion in the previous year.

We have always emphasised that a sustainable excise structure translates into long-term sustainable revenue to government. At our 2009 Annual General Meeting, we emphasised the value of an excise structure that lends itself to sustainability both for business and for government; in the 2009 budget reading, we witnessed no increase in cigarette excise. Despite there being no increase in excise, government revenues increased by 5% in comparison to 2008, which was commendable bearing in mind the challenging economic conditions. This demonstrates that government revenues can be increased by ensuring that the operating environment is stable and employing an excise regime that is simple and predictable.

Our people

High-performing organisations are only as good as their people and at British American Tobacco Kenya, we pride ourselves on recruiting, developing, retaining and rewarding great talent. Our focus, with regard to our people, is to develop leaders in a multi-cultural environment. Success for us is an internal culture of Leadership at all levels, which provides an environment that draws the best out of every member of our team.

As a multinational company with 40% Kenyan shareholding, we are committed to developing Kenyan talent and offering career development opportunities in Kenya and abroad. 2009 saw a significant reduction in the number of expatriates employed by British American Tobacco Kenya as we develop Kenyan talent into the career pipeline. We currently have 17 Kenyans working in British American Tobacco markets around the world.

External environment

Illicit Trade

Illicit trade remained a significant threat to our business in 2009. We estimate that illicit trade in cigarettes accounts for 12% of the cigarette market in Kenya. This leads to loss of revenue to government as well as loss of profitability to legitimate business. We acknowledge the increased effort of the Kenya Revenue Authority and law enforcement authorities to curb illicit trade through seizures of the product. However, there is need for a much more strategic approach that will see the sources of illicit trade sealed. We work in partnership with the enforcement authorities, increasing awareness on the problem and on how to differentiate between legal and illegal products in the market. We look forward to seeing illicit trade contained in the future.

Sustainable Regulation

We remain optimistic in the hope that the government will review the regulation that bans tobacco companies from supporting the community through Corporate Social Responsibility and Corporate Social Investment.

At British American Tobacco Kenya, we believe in supporting the communities in which we operate, through economic empowerment, sustainable agriculture and disaster relief. As a responsible corporate citizen we comply with the law that bans us from supporting the community, but also hope that reason will prevail for the benefit of communities that we previously supported through empowerment and disaster relief initiatives.

Enforcement of the Tobacco Control Act in Kenya remains inequitable, distorting the playing field and defeating the purpose for which tobacco regulation exists. British American Tobacco Kenya went to great lengths to become fully compliant with the Act, at a cost of KSh. 100 million to the business. However, we see continued non-compliant promotional, marketing and advertising activity by our competitors going unchecked, in blatant view of the authorities. There is need for a consistent approach to enforcement, which holds all tobacco companies in the country accountable for compliance with tobacco regulation, in the interest of fair business practice and of the regulation achieving the objective for which it was created. The government should also step up efforts to sensitise the public on the legislation through competent agencies; lack of correct information leads to misinterpretation of the law, which results in undue harassment by errant law enforcement officers.

On the macro-economic level, the impact of the economic recession on Kenya did not spare our business. Despite growth in market share, sales volumes were impacted by high inflation and an increase in unemployment leading to reduced consumer disposable income.

Our manufacturing operation was also impacted. Sales volumes in our export markets dipped due to the economic recession that affected our markets abroad. Manufacturing costs increased significantly. This necessitated a restructuring process which affected 44 employees, 16 in early retirement and 28 in redundancies.

This was done in accordance with the Collective Bargaining Agreement (CBA) with the Union and the Employment Act of 2007. As a responsible employer, we treated all our staff fairly, giving them a competitive package (at least 3 times more than the law prescribes as a minimum).

Outlook

We are optimistic that the Kenyan economy will show signs of recovery in 2010, with analysts forecasting 2.5% - 4% economic growth. We believe that with a stable economy and sound economic policies, our company will continue to record sustainable performance as we continue to focus our business on growing our value and improving our distribution effectiveness.

We shall continue to explore more export opportunities in order to utilise our production capacity optimally. We are optimistic that the economic conditions in our major export markets will improve in 2010.

We welcome the East African Community harmonisation from the perspective of economic benefit and we hope to see the stakeholders in East Africa's business community invited to actively participate in the implementation of the harmonisation process. It is our hope, too, that the EAC governments will expedite the harmonisation of excise structures in the region and eliminate non-tariff barriers that hamper free trade.

I thank the Board of Directors, the management team, employees and business partners of British American Tobacco Kenya for the collective effort that made 2009 a year of demonstrated leadership for our business.

Gary Fagan
Managing Director

A farmer at his farm in Ena, Embu harvesting tobacco by removing the mature ripe leaves from the plant. When the leaves begin to turn yellow, it is time to harvest them. Leaves ripen and are harvested from the bottom of the stalk upward.

"in 2009 total shareholder return was 49%. The business fundamentals are sound."

British American Tobacco Kenya remains in a very strong position.

- Lawrence Kimathi, Finance Director -

Financial Review

Profit from operations:

Gross turnover grew by 7% to Shs 18.7 billion in 2009. Reported profit before income tax at Shs 2.1 billion was 12% below prior year. However, adjusted underlying operating profit (excluding one-off restructuring costs) was 4% below 2008.

During 2009, revenue growth was primarily driven by a good sales volume mix, favourable exchange rate and tactical trade margin optimisation.

Costs of operations increased by 12% in 2009 as a result of increased cost of tobacco, electricity and a higher foreign currency exchange rate, partly offset by savings from our cost savings initiatives.

Net finance costs declined by 8% as a result of debt restructuring in 2009 and the impact of exchange revaluation.

British American Tobacco Kenya will continue to focus on generating savings through prudent cost management initiatives. This will enable sustainable growth of the company's operating margin.

More details of the company's operating performance can be found on pages 38 to 67 of this report.

In order to ensure we remain competitive and viable, our focus in 2009 was on improving effectiveness and efficiency levels. To this end, we implemented the following initiatives:

- Migration of the Finance Shared Services to the Regional Service Centre in South Africa resulting in increased transactional efficiency.
- Data cleansing and standardisation of common processes and systems.
- Automation of various processes thus leveraging on our significant investment in information systems.
- Developed a standard dashboard for measuring how effectively we are utilising SAP.
- Tighter grip on our internal controls and improvement in the way costs are managed to allow for continuous improvement.

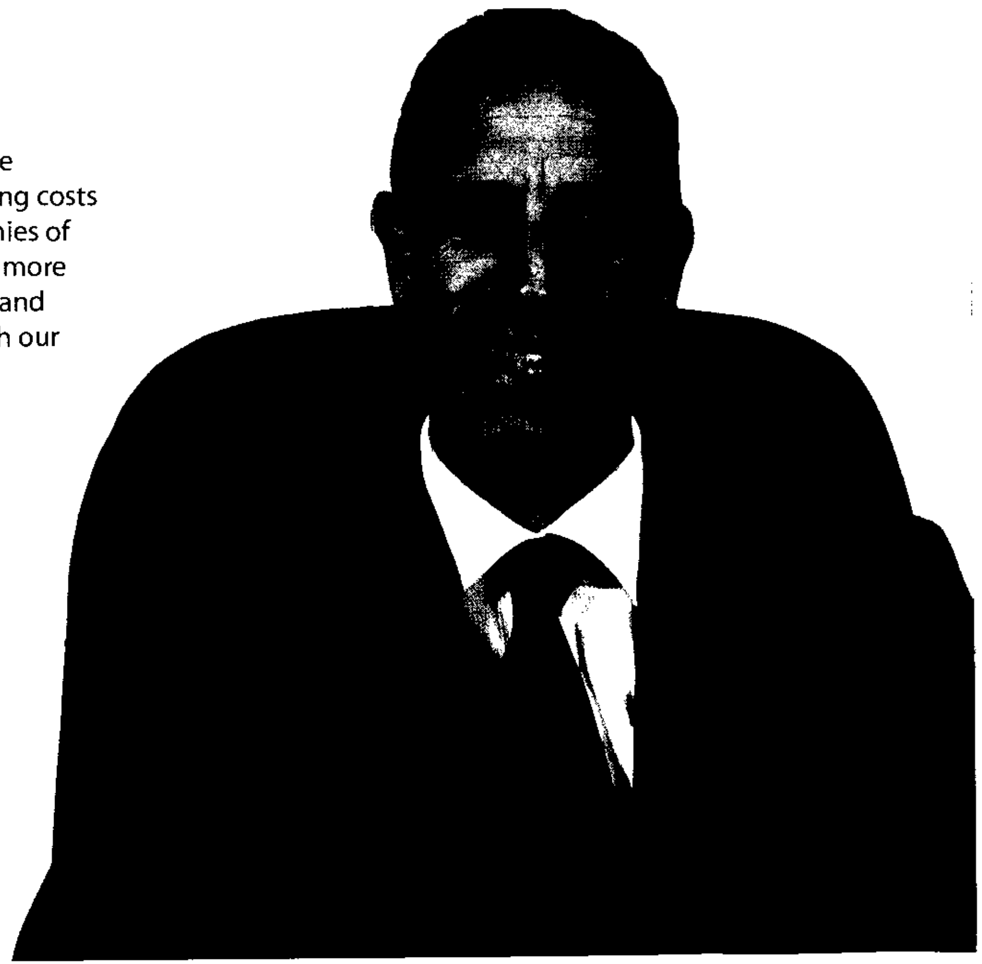
Sophia Mukoba, Management Accounting Manager


Image:

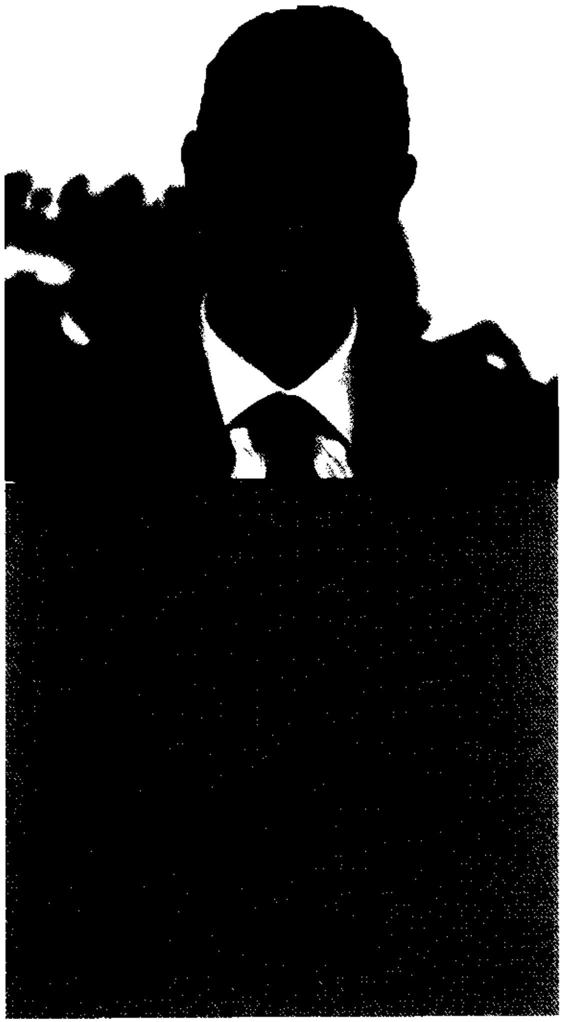
"seek to strengthen our distribution through increasing focus on the retail trade"

- John Dowd, Marketing Director -

The tangible benefits of this include optimised distribution and operating costs emanating from improved economies of scale, trade margin optimisation, a more professional approach to business and sharing industry best practices with our business partners.



Growth



Distribution Reinforcement

Ensuring product availability to our consumers in the right outlets, at the right price and at the right moment is an integral part of the role of our distribution network. In a bid to improve the effectiveness of this network, in 2009 we undertook a full strategic review of our distribution approach, which will result in enhanced market access.

Key focus for British American Tobacco Kenya is to strengthen its distribution through increasing focus on the retail trade. The tangible benefits of this include optimised distribution and operating costs emanating from improved economies of scale, trade margin optimisation, a more professional approach to business and sharing industry best practices with our business partners.

In the last quarter of 2009 we commenced, with the Coastal Region, a re-engineering of our approach to distributing our products with this enhanced focus on the retail trade. The roll-out of the new distribution approach will continue to other parts of the country in 2010 and we envisage it will result in building a competitive advantage for our brands.

Market Share & Volume Performance

Despite the difficult external environment during the course of the year British American Tobacco Kenya reinforced its position as industry leader and also attained its highest market share over the last 6 years. Our market share during the year, as measured by independent Retail Audit, averaged in excess of 82 per cent. This share position is attributed to reinforcement of distribution, improved working relations with the retail trade and consumer price stability in the course of the year.

The total cigarette market during the year is estimated to have shrunk in excess of 5 per cent as high inflation negatively impacted upon consumer disposable income. British American Tobacco volume sold in 2009 was 200 million sticks down versus 2008 driven by the adverse economic trading environment and prolonged drought experienced in the Rift Valley and Eastern regions of the country.

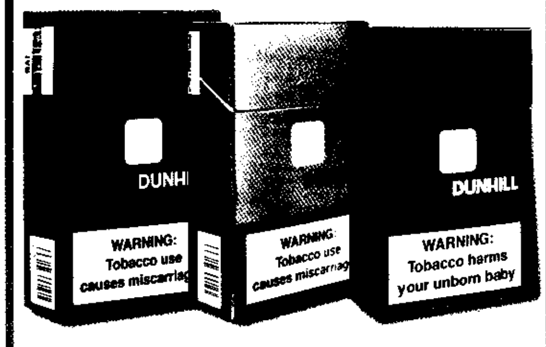
Portfolio Strategy

In 2009 we maintained our brand portfolio with no major changes. However we withdrew Pall Mall from the market to enable us to review its role within the portfolio. The company made major investment in merchandising specifically in-store furniture to support our brands at point of sale.

Global Drive Brands

Dunhill continues to be a key focus in building a long term sustainable future. The global brand augmented its position as the ultimate destination brand in the portfolio and registered a volume growth of 17 per cent over the previous year. The distribution footprint of the brand is being expanded as its consumer base grows, and innovation through limited edition packs has improved appeal amongst premium consumers.

Global drive brands



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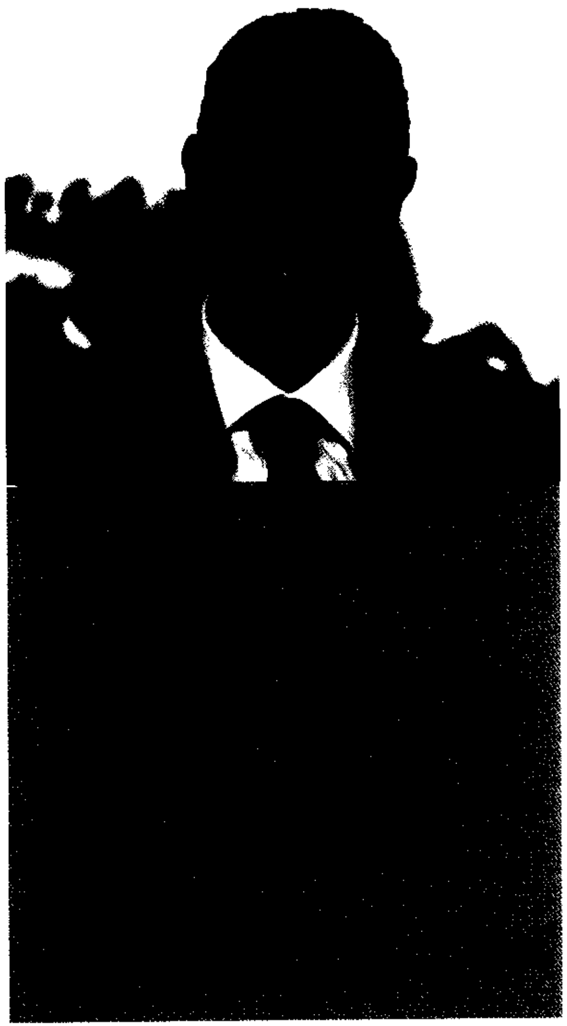
Growth



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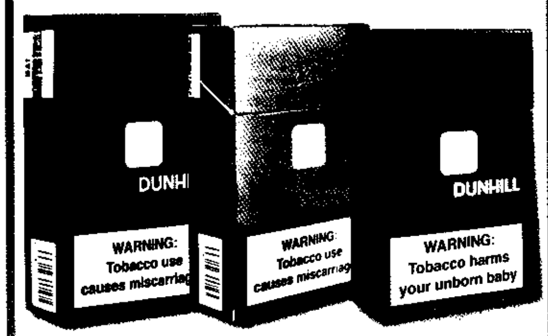

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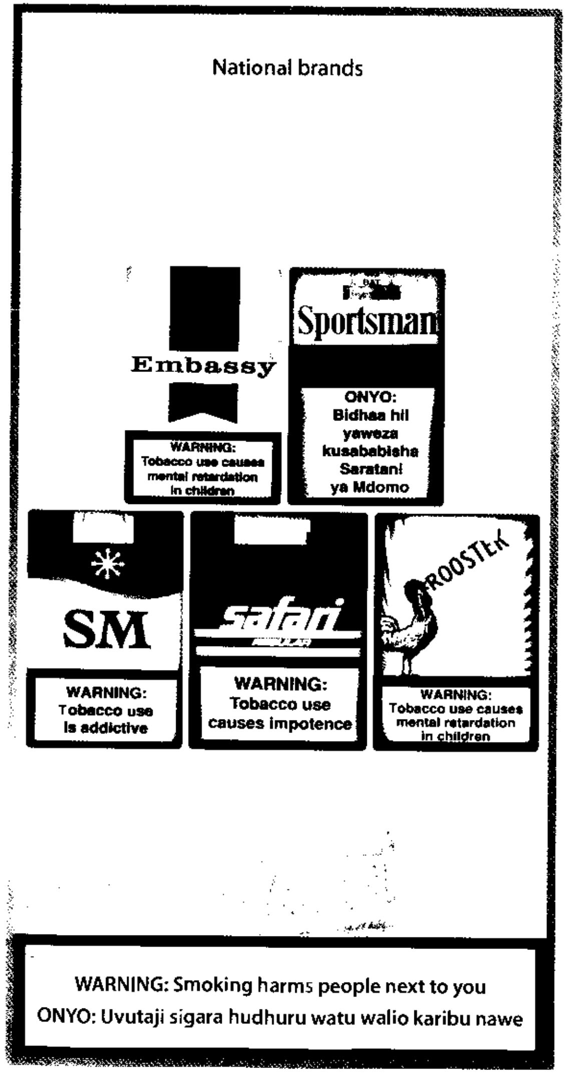

While Pall Mall showed positive health indicators, volume growth was not in line with expectations. This prompted its withdrawal from the market to allow a complete review of the brand to enable us to determine its future role. Although the total volume of the Global Drive brands has grown, the core of the business continues to be from our local brands. Sportsman delivered an impressive 10 per cent volume growth in 2009 driving the overall profitability of the business.

Pricing Strategy & Regulation

The June 2009 National Budget effected no change in excise levied on tobacco products. This enabled us to hold our consumer prices for the course of the year on the majority of our products, ensuring affordability by consumers who were already adversely affected by the generally difficult economic environment.

In 2009 we continued to sensitise smokers and traders to the various provisions of the Tobacco Control Act (TCA). Although enforcement has not been rigorously carried out we are seeing improved levels of compliance amongst traders and consumers. We continue to urge the authorities to drive compliance by all players in the market.

The continued presence of illicit cigarettes in Kenya remains a threat. We have invested in sensitising enforcement agencies on the scale of the problem, on how to identify illicit products and what enforcement activities can be undertaken within the remits of the existing laws. Some gains are being achieved from these investments resulting in some seizures of illicit products.

Outlook

With the reinforcement of our distribution system, continued investment in our brands and anticipated improvements in the economic environment, we are well-poised to ensure that we maintain our market leadership position while also growing our overall business in 2010.

"In 2009 we continued to sensitise smokers and traders to the various provisions of the Tobacco Control Act (TCA). Although enforcement has not been rigorously carried out we are seeing improved levels of compliance amongst traders and consumers. We continue to urge the authorities to drive compliance by all players in the market".

Edward Kimathi, Head of Trade Marketing & Distribution

“seek to strengthen our distribution through increasing focus on the retail trade”

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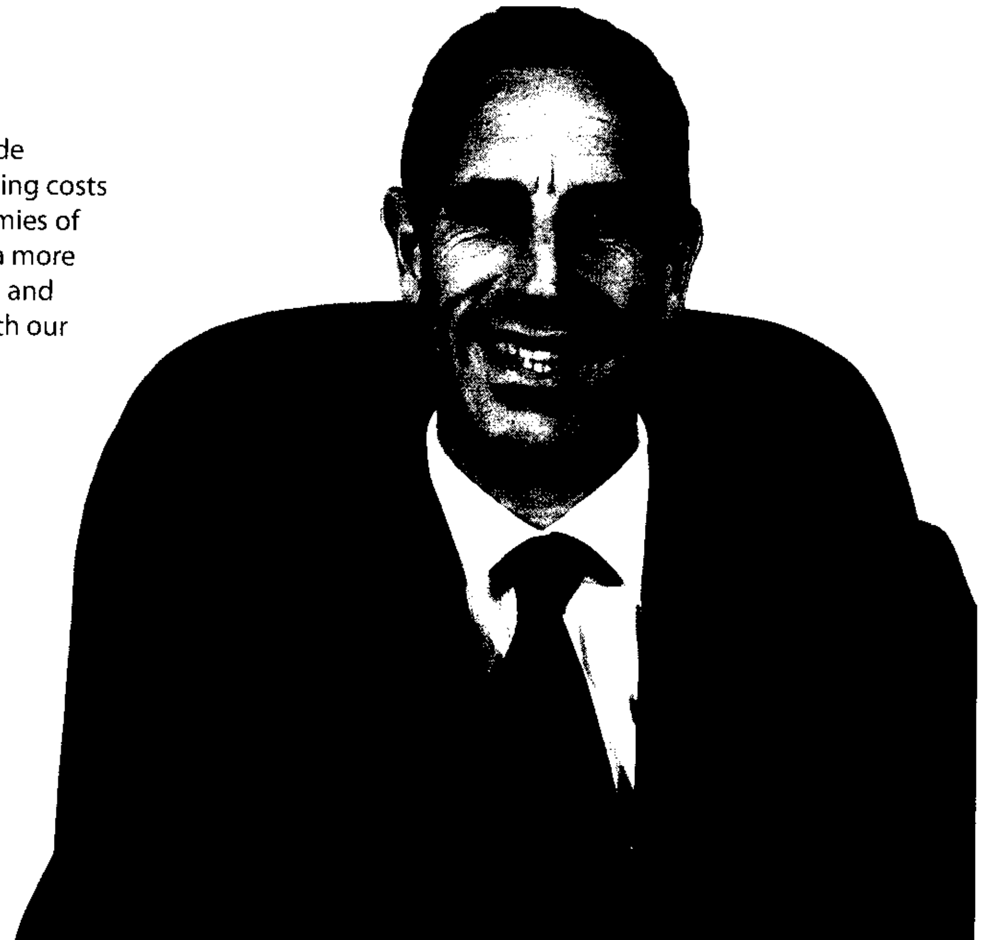


Productivity

"We continue to invest in state-of-the-art equipment and world-class processes. In 2009, we invested over KSh 1.1 billion in new equipment and process improvement."

Dirk Eloff, SSA Demand Chain General Manager

Operations: Oasis of Excellence

In 2009 the Operations team delivered outstanding results despite a challenging environment precipitated by the economic downturn and high energy costs. Identifying opportunities to improve cost competitiveness enabled the company to achieve smart cost management with high quality product and service maintained. In a continued drive for improvement, we achieved notable milestones. Productivity savings of KSh. 555.2 million in 2009 took our cumulative savings for 2008-2009 to more than KSh. 1 billion (a source of operating profit and revenue for reinvestment). Our Nairobi factory recorded its highest ever productivity at 32,000 cigarettes per man hour (cpmh). Further driving productivity, we reduced our overtime costs by 70 per cent compared to 2008. We improved our Manufacturing Quality Index (MQI) to 80, versus 76 in 2008.

Investment

Our Nairobi Factory is one of 4 strategic factories that supply the Group's Africa & Middle East region. We currently contract-manufacture cigarettes for 16 markets in Sub-Saharan Africa. In keeping with this status, we continue to invest in state-of-the-art equipment and world-class processes. In 2009, we invested over KSh 1.1 billion in new equipment and process improvement.

We continue to invest in improving product quality, cost reduction, productivity and Environmental Health & Safety (EH&S).

The company has made great strides towards it's 2012 vision of becoming "The Benchmark Demand Chain Organisation within the British American Tobacco Group". A robust roadmap has been developed detailing the key milestones to be hit over the next 3 years and based around the 4 strategic pillars of:

- Win Volume
- Relentless Productivity Drive
- Go Green
- Winning together

Going forward, we will maintain our cost-saving momentum into 2010 and relentlessly seek better ways to improve and enhance our position as an Oasis of Excellence. Our priorities for 2010/11 include-

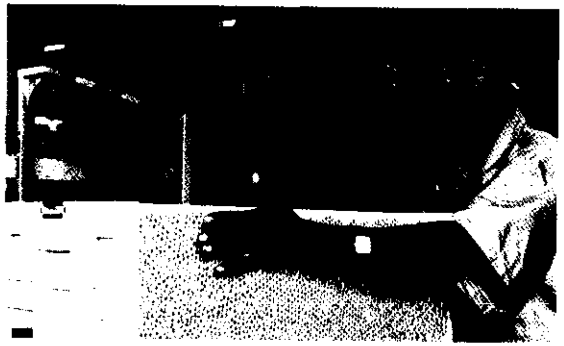
- SMART cost management
- Embedding Above Market supply chain processes
- Manufacturing Excellence Programme
- [illegible]
- Performance aligned reward culture.

Manufacturing highlights

The factory produced 11 billion cigarettes for both Domestic and Exports markets, with export production accounting for 62%. Productivity, measured in cigarettes per man-hour (cpmh), improved from 24,600 cpmh in 2008 to 25,600 cpmh, on average, in 2009. The improvement in productivity was driven by better run rates, smarter crewing patterns, improved teamwork through Self Directed Work Teams (SDWT) all supported by a performance based non-management bonus scheme (Nawiri).

Winning Volume

We have reorganised the Nairobi factory to accommodate volume growth and provide optimal material and process flow.



Key investments in 2009 included: Key investments in 2009 included:

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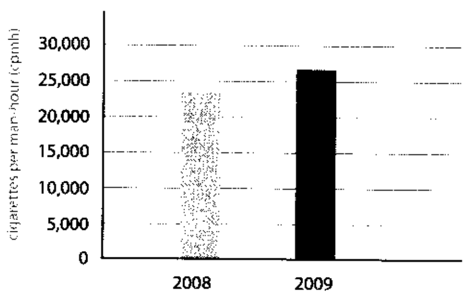


Production of cigarettes for export markets accounted for 62% of total production

The company is also developing capability and capacity for manufacture of American-style blends. The layout in the Primary Manufacturing Department has undergone major reorganisation to accommodate the new process.

The Manufacturing Excellence (ManEx) programme delivered KSh. 86 million through headcount optimisation, energy conservation, waste recycling and efficiency improvements initiatives.

We are committed to ensuring that our products are always perceived by consumers as the quality leader in their competitive set. Numerous initiatives were concluded in 2009 to deliver this quality mandate and include; Cut Tobacco Store air-conditioning, blend tracking solution and investment in state-of-the-art machinery and controls. This enabled the company to drive quality results above the Group's benchmark of 80. The company's laboratory was awarded ISO 17025 certification by the South African National Accreditation System (SANAS). The SANAS certificate provides a formal recognition that the laboratory is competent to perform required tests.

Supply Chain Excellence

The above market model adopted by our Supply Chain planning and sourcing has enabled us to meet market demands on time and in full, deliver new innovations to market quickly and leverage the benefits of British American Tobacco's global scale. Globally and locally we continue to achieve considerable savings by consolidating purchases of materials, services, reducing non-consumer relevant complexity and standardising processes.

Following the productivity savings of more than KSh. 500 million in 2008, we continued our cost-saving momentum into 2009. Productivity savings totalled KSh. 555.2 Million in 2009 driven by price negotiations, source migration, complexity reduction and logistics optimisation. This realised a total productivity saving of more than KSh. 1.1 billion over 2 years.

"Manufacturing Excellence (ManEx) programme delivered KES 86 million from headcount optimisation, energy conservation, waste recycling and efficiency improvements initiatives".

Charles Kyalo, Secondary Manufacturing Manager

Total export markets increased from 15 to 16 with the addition of Madagascar. The other export markets are Burundi, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Malawi, Mauritius, Rwanda, Somali, Somaliland, Sudan, Tanzania, Uganda and Zambia. The company continued to provide excellent customer service and achieved On-Time-In-Full (OTIF) above 95%. Further improvements in logistics reliability, product quality, service quality and the delivery of New Product Introduction (NPI) timelines were also achieved in 2009.

The Supply Chain team has taken the lead in regional and global initiatives and in 2009, Kenya marked a significant milestone by becoming the first Supply Chain in the Group to implement APO-SNP (Advanced Planning Optimisation /Supply Network Planning) in SAP. This will significantly enhance business information reporting thus enabling the reporting of actual sales globally for the first time. The new tool will significantly enhance our above-market supply chain planning capability, enabling Operations to provide improved service to end market customers.

Go Green

Our governance in relation to responsibility and sustainability issues was strengthened in 2009. Globally, British American Tobacco maintained its presence in the DowJones Sustainability World Index (DJSI) for the eighth year running.

We take our impact on the environment very seriously and in 2009 we have made significant reductions in energy and water use. We launched an aggressive campaign on Waste Segregation at Source and commissioned an industrial shredder to increase paper recycling rates and reduce the amount of waste sent to landfill. We have increased our recycling to over 80% and drastically cut down on waste disposal costs.

In the factory, we installed the ITM Delphi cigarette waste reclaiming system which offers the best recovery rate and compacts waste paper and filters into briquettes.

Waste reclaiming system

Samples of the briquettes were analysed by SGS and the recommendation is that they can be used as fuel for boilers in our manufacturing plants.

To enhance environment management, the company completed a Biodiversity risk and carbon impact assessment and established action plans for further improvement. The company supported afforestation drives by raising and issuing to farmers over 1 million tree seedlings in 2009, with 30% of these being indigenous species.

Energy conservation has been boosted through sub-metering schemes, sensors/timers and sectional energy bills. We have increased the use of tele and video conferencing significantly reducing our travel and resultant carbon emission. We have drastically reduced printing and photocopying paper consumption by installing a Xerox Equitrac Secure Printing solution and promoting duplex printing.

Winning Together

Build a winning culture

The Company continues to recognise its staff as not only its greatest asset but also as the major repository of its competitive edge. We aim to develop leaders at all levels who have a clear vision for the business and will energise those around them.

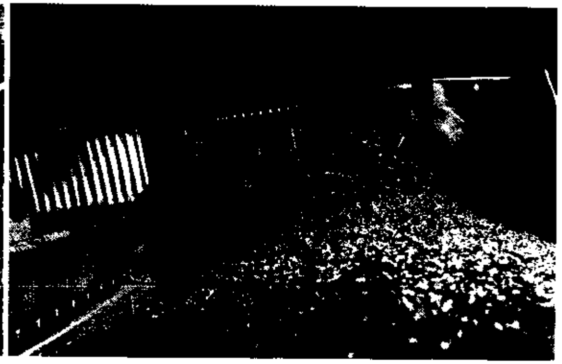
The Demand Chain Strategic Leadership Agenda (SLA) is communicated in regular business briefs. Self Directed Work Teams (SDWT) continue to drive improvements in the Nairobi factory. The company launched a performance based non-management bonus scheme (NAWIRI) to reward teams and individuals that deliver excellent results. The SDWT continued to carry out Gap analysis to address challenges and improve performance. The Group is developing a global model and roadmap for SDWT and Kenya is participating in the Design Reference Group (DRG) to share the Kenyan experience with the rest of the British American Tobacco Group. Once the other factories start implementing the SDWT concept, we will be a key reference point.

All operations managers participated in the Team Leadership Development Workshop (TLDW) and completed People Capability Framework (PCF). PCF details capabilities required within a globally integrated supply chain and helps employees plan their own development to match the requirements of the business.

British American Tobacco Kenya has made significant steps in building good relations with the Union. In April 2009, the Collective Bargaining Agreement for the period 2009-2010 was signed by Management and Kenya Union of Commercial Food and Allied Workers (KUCFAW). The Company continued to build Union-Management partnership through monthly open fora.

Tobacco curing barn

Tobacco tied into bundles



Cut tobacco

Leaf Operations

2009 was a challenging year for the farming community, as with every other sector of the economy. Prices of farm inputs, especially fertilizer, more than doubled. To mitigate the impact on our Leaf operations, we increased the farm gate prices for our farmers by more than 32% to cover both the increased prices and inflation. Our contracted tobacco farmers collectively earned over KSh. 536 million in 2009, up from KSh. 309 million in 2008.

Farmer productivity per unit area grew by over 14% in 2009 over 2008, driven mainly by improved application of good agronomical practices. In 2008, we began an initiative in which we provided our contracted tobacco farmers with free certified maize seed. This initiative was fully implemented in all our leaf-growing areas in 2009, and resulted in improved harvests.

In 2009, British American Tobacco Kenya facilitated crop insurance cover to our contracted tobacco farmers, insuring their crop against adverse climatic impact. This was done through UAP Insurance Company and more than 25% of our tobacco farmers took up the cover.

In order to develop the capacity of our teams to support us in driving increased farmer productivity returns we reopened our Malakisi Leaf Centre as the Regional Training Centre for our Field Extension staff. To date, all our extension staff in Kenya, Uganda and Democratic Republic of the Congo (DRC) have attended the basic skills enhancement training at the facility.

Our Green Leaf Threshing (GLT) plant in Thika handled over 17,000 metric tons of which 60% was for the British American Tobacco Group and the balance being contract processing for third-party customers.

Increased energy cost was the biggest challenge in 2009 season but we mitigated this through energy reduction initiatives that we had started implementing in 2007.

In the coming years we expect the volume throughput at the GLT plant to increase but the rate of this increase is far below cost escalation. Therefore, the future of the operation is heavily dependent on improved productivity and energy saving initiatives. These will be the priority focus areas in 2010 and beyond.

"Farmer productivity per unit area grew by over 14% in 2009 over 2008, driven mainly by improved application of good agronomical practices begun in recent years".

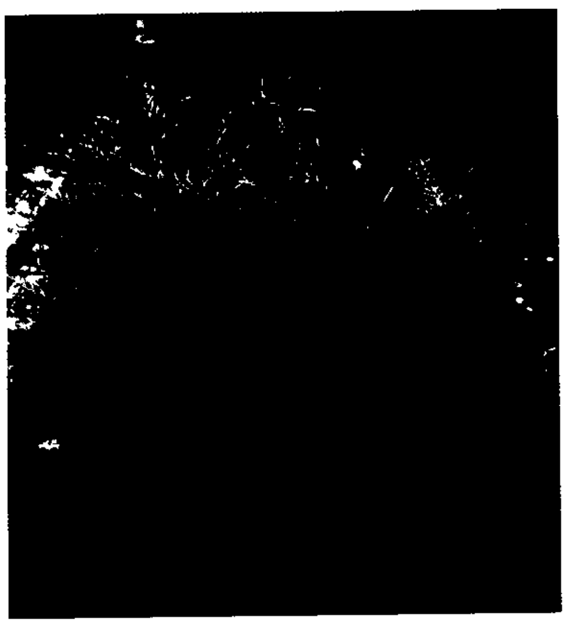
Stanley Mugwe, Head of Leaf

Environmental sustainability

Our environmental conservation programme has continued to grow steadily, and in 2009 the company produced more than 1 million tree seedlings of which 30% were indigenous. These tree seedlings were issued to farmers and other interest groups for community tree planting initiatives. This is part of our continued commitment to afforestation.

The company was recognised for the 5th consecutive year for these efforts by the Total Ecochallenge award programme. Our afforestation programme aims to reduce the impact of our activities on wood consumption and global warming. In addition to tree planting to replenish natural resources that our operations consume, we encourage the use of alternative energy sources.

In future we will partner with other environmental organisations to foster this programme.



Information Technology (IT)

Enabling an evolving enterprise

Information Technology is a key enabler of our evolving enterprise and is responsible for delivering Business System platforms and technology infrastructure that facilitate timely decision making and insights into our operating environment.

British American Tobacco Kenya's position as a strategic hub places increased demand on technology infrastructure and service provision by the IT team. A lot of work went into automating systems to support back-office processes for management of data and transactional processes.

Sweating our Technology investments

British American Tobacco Kenya invested the equivalent of £3 million in SAP, taking on the challenge to ensure that all our core business processes and information are streamlined in order to gain the full benefit of the investment. A key benefit is the ability to support new business capabilities such as Factory Productivity Optimisation and Demand & Planning, which will strengthen the company's vision of supply chain excellence and competitive advantage in the local market.

Building a sustainable fit-to-purpose service infrastructure

IT is committed to ensuring that we have optimal infrastructure and services to support evolving business models. In the last quarter of 2009, the Seacom undersea fibre optic cable went live commercially. British American Tobacco Kenya capitalised on this infrastructure, resulting in significant performance improvement at lower costs. We have quadrupled our bandwidth with a 70% cost saving. We are also realising savings on telephony costs through use of VOIP technology to call local and international destinations. Reduction in business travel, attributed to increased uptake of Video Conferencing has contributed directly to savings made by the business. In support of business continuity, we invested in Disaster Recovery Solutions which ensure that, in the event of a crisis, the business can resume operation with minimum downtime experienced.

2010 promises to be an exciting year as we continue to deliver value alongside business priorities.

"The company's position as a strategic hub places increased demand on the technology infrastructure and service that we provide. In 2009, we made significant progress in automating systems to support back-office processes for management of data and transactional processes".

David Kamuzze, SSA Area Head of IT

Image: **BAT employees celebrate success. In 2010, our focus will be to enhance our position in Kenya as Employer of Choice and manage careers within the realities of the business structure.**

"pride ourselves in being one of the four strategic factories"

- Dirk Eloff, SSA Demand Chain General Manager-

Our Nairobi Factory is one of 4 strategic factories that supply the Group's Africa & Middle East region. We currently contract-manufacture cigarettes for 16 markets in Sub-Saharan Africa. In keeping with this status, we continue to invest in state-of-the-art equipment and world-class processes. In 2009, we invested over KSh 1.1 billion in new equipment and process improvement.

“the first and only tobacco company to be fully compliant with the law”

The tobacco industry continued to face various challenges on the regulatory front in 2009. The Tobacco Control Act 2007 came into full effect on 8th January 2009 following the 6-month extension provided to the industry from July 2008.

-Julie Adell-Owino, Corporate & Regulatory Affairs Manager-

Responsibility

The Tobacco Control Act 2007 came into full effect on 8th January 2009 following the 6-month extension provided to the industry from July 2008. British American Tobacco Kenya set the pace by being the first and only tobacco company to be fully compliant with the requirements of the new law.

Julie Adell-Owino,
Corporate & Regulatory Affairs Manager

Regulatory Environment

The tobacco industry continued to face various challenges on the regulatory front in 2009. The Tobacco Control Act 2007 came into full effect on 8th January 2009 following the 6-month extension provided to the industry from July 2008. British American Tobacco Kenya set the pace by being the first and only tobacco company to be fully compliant with the requirements of the new law.

The company made deliberate efforts to achieve this by providing resources to ensure that we cleaned up the market of all branded materials, ensuring that we advise our trade partners on what they must do to achieve compliance as well developing new packaging materials with the mandatory, more prominent health warnings. Towards this end, the company spent over KSh. 100 million to ensure that it adhered to the law.

Despite the law being very clear on what constituted a "public place" and a "designated smoking area", we continued to receive numerous complaints from consumers and traders – some of which were reported in the media – of people being arrested for smoking in outdoor areas and personal vehicles. Local authorities in various parts of the country continued to illegally harass consumers on the pretext that their by-laws had designated smoking areas in the streets and parks whereas all other outdoor areas were non-smoking areas. This matter was later clarified through a circular issued by the Ministry of Local Government. The circular stated that the Tobacco Control Act 2007 took precedence in all matters relating to tobacco control and that the by-laws should no longer be used to enforce any smoking restrictions. We shall continue engaging the authorities to ensure that the law is interpreted correctly by law enforcement agencies.

With regard to addressing illicit trade, great strides have been made towards dealing with the menace. 2009 marked an important milestone after the Minister for Industrialisation constituted the Anti-Counterfeit Board that will help implement the Anti-Counterfeit Act 2008.

On our part, British American Tobacco Kenya conducted sensitisation workshops in Nairobi, Mombasa and Kisumu. The workshops were attended by delegates from Kenya Revenue Authority, Kenya Police, Administration Police, the Judiciary, the State Law Office and Kenya Bureau of Standards. The objective of the workshops was to sensitise the law enforcement agencies on available legal provisions to prosecute cases, how to detect the crime as well as ways of preserving evidence to sustain a viable prosecution.

Our collaboration with the Kenya Revenue Authority and other law enforcement agencies helped in netting over 25 million cigarettes that were either counterfeit or on which duty had been evaded. An equivalent of KSh. 29 million worth of assets related to this illegal trade were seized, while 142 cases were initiated in the law courts with over KSh. 5 million collected as fines from convicted criminals.

We shall continue to play an active role in providing information to the law enforcement agencies to ensure we reduce the impact this illegal trade has on our business operations.

Responsible Waste Management

Our Go Green campaign aims to create a sustainable working process within our operations, which mitigates our environmental impact, especially through waste management.

We invested KSh. 28 million in a new ripper machine that has the main functionality of recovering tobacco from cigarettes whose primary packaging material is damaged. The primary packaging material cigarette paper and filter – is transformed into ***briquette.*** Briquette is being tested as an alternative source of fuel in our operations, envisaging a saving on fuel through this recycling process.

Another key recycling activity we embarked on is the use of tobacco dust as a main ingredient in the preparation of compost in flower farms. For 2 years, we have worked in partnership with a flower farm in Kitengela that cultivates flowers for export, and they use tobacco dust in preparation of organic compost used as manure for the flower farms.

Other types of waste from the factory and office operations namely paper, metal, wood and plastic are all segregated at source. At our on-site waste centre, contracted recyclers collect the waste for use in their recycling processes. In 2009, our rate of recycling waste in an environmentally friendly way reached 85%, and we target reaching 100% by the end of 2010.

Steve Muli, Environmental Health & Safety Manager

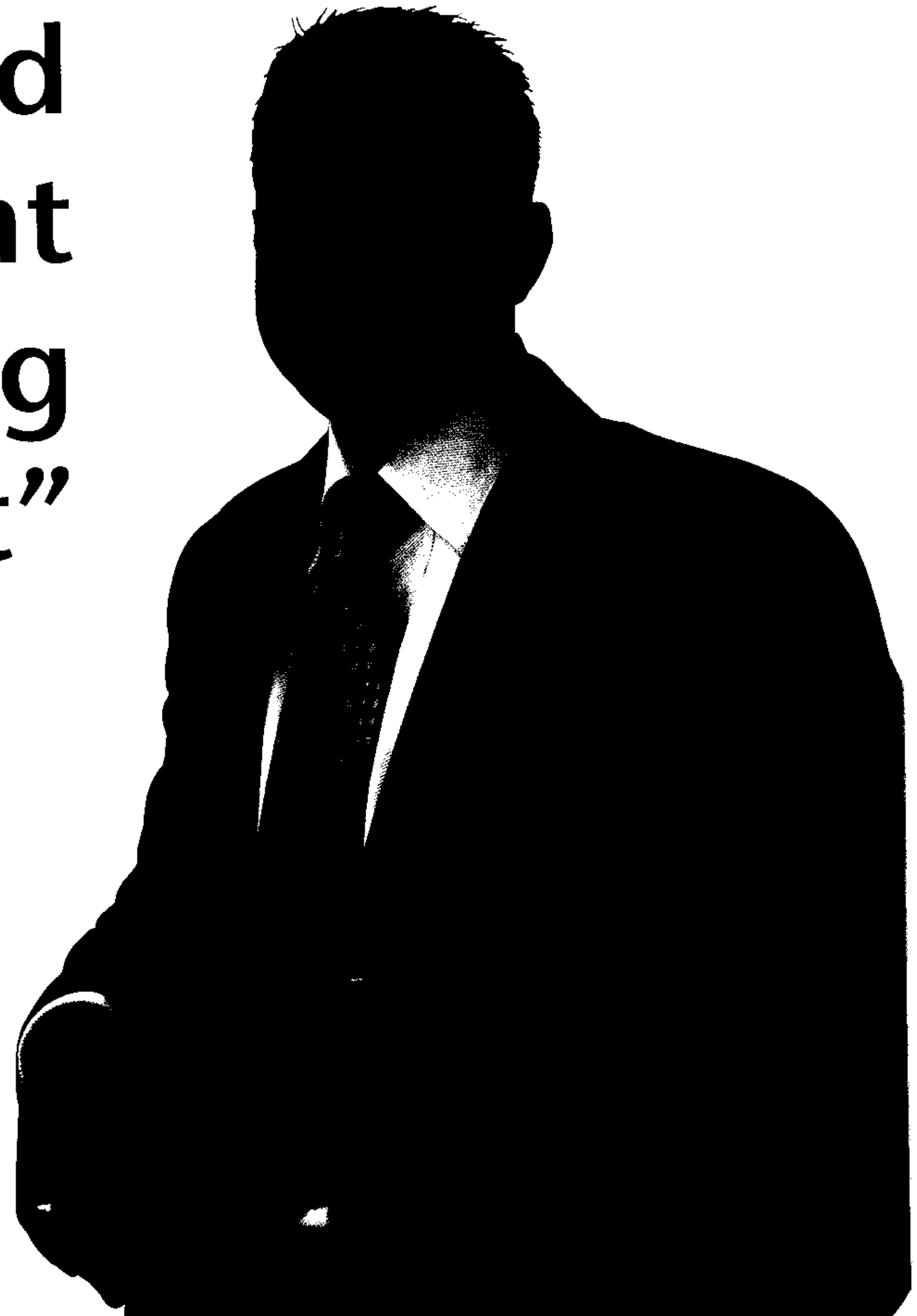
We shall continue to play an active role in providing information to the law enforcement agencies to ensure we reduce the impact this illegal trade has on our business operations.

Maureen Sande,
SSA Area Communications Manager

“demonstrated our commitment to developing local talent”

Through localisation of several senior roles in the organisation reducing reliance on International Assignees, simultaneously, we offer international careers to Kenyans.

-Dev Sewgobind, Head of Human Resources -



Winning Organisation

The collective bargaining agreement (CBA) was successfully concluded with the Union as well as a restructuring exercise within the factory driven by the need to maintain our cost competitiveness in the context of reduced cigarette export volumes.

Dev Sewgobind, Head of Human Resource East Africa

Becoming Fit for the Future

Within the context of the global economic recession characterised, in Kenya, by high inflation and loss of employment, 2009 was an opportunity for British American Tobacco Kenya to reassess its way of working with a view to ensuring future sustainability of its business. As part of a global company, there was also a need to align to global initiatives with regard to process and cost optimisation, to support the Group vision of achieving leadership of the tobacco industry.

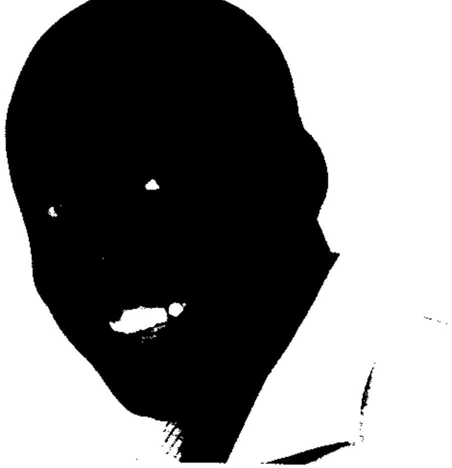
The challenge for British American Tobacco Kenya remained in the need to keep employees energised in a period of uncertainty and retaining key talent. Despite the adverse business environment, we maintained a competitive reward proposition with an average salary increase of 11% in 2009 and a bonus payout of more than 2 months' salary. We continued to invest in our people through on-the-job training, and executive coaching (for senior managers). 2009 also saw the successful implementation of the People Capability Framework (PCF) in the Operations function. The PCF will ensure that our people understand the required capabilities for the future. We also extended the concept of the Self Directed Work Teams. We demonstrated our commitment to developing Kenyan talent through localisation of several senior roles in the organisation reducing reliance on International Assignees. Simultaneously, we offer international careers to Kenyans and at the end of 2009 had 12 Kenyans working in international roles around the Group.

The collective bargaining agreement (CBA) was successfully concluded with the Union as well as a restructuring exercise within the factory, driven by the need to maintain our cost competitiveness in the context of reduced export volumes. The success of this exercise was demonstrated by the ensuing improvement in productivity on the factory floor from 24,600 cigarettes per man hour (cpmh) in 2008 to 25,600 cpmh at close of 2009. This was also supported by the introduction in September 2009, of an incentive scheme (Nawiri), for Unionised staff, which encouraged higher productivity.

Focus for the HR function remained on change management initiatives to help employees adapt to the new way of working during the successful implementation of several business projects such as reviewing our distribution footprint, outsourcing finance transactional services and Project ISIS (Supply Chain Improvement) among others. In 2009, we successfully outsourced our payroll and derived increased benefit from enterprise resource planning software (SAP) for HR systems.

In 2010, we look forward to enhancing our position in Kenya as Employer of Choice and supporting career development within the realities of the evolving business structure. We will also facilitate greater participation of our employees in the development of our business strategy for the next 5 years and in supporting business initiatives in line with our objective of being a lean, flexible and efficient organisation. People development remains a priority as it will be a key ingredient in creating an organisation which is fit for the future.

Home-grown talent



"This has been the best move in my career so far. During the three years and three manths I have served, my role was expanded to include the Indian Ocean Islands to become the Audit Manager for the East Africa Zone. In March 2008, I made a lateral move into mainstream Finance to became Finance Shared Services Manager for East Africa Zone"

Sidney Wafula, Head of Operations Finance, British American Tobacco Nigeria

A perfect example of home-grown talent, Sidney went to Alliance High School, from where he joined the Catholic University of Eastern Africa for a Bachelor of Commerce in Accounting. Simultaneously, he took his CPA qualification at Strathmore College (now Strathmore University), and the Vision Institute of Professionals.

He joined British American Tobacco in 2006 as Audit Manager for the East African Community and the Horn of Africa, later extending to include the Indian Ocean Islands. It was also a time of momentous change in his personal life– he married his fiancée Laura Ouma (now Wafula). Sidney later became Finance Shared Services Manager for East Africa, and his move to Nigeria was a natural next step.

"This has been the best move in my career so far. During the three years and three months I have served, my role was expanded to include the Indian Ocean Islands to become the Audit Manager for the East Africa Zone. In March 2008, I made a lateral move into mainstream Finance to become Finance Shared Services Manager for East Africa Zone"

As Head of Operations Finance, for British American Tobacco Nigeria, a hub that covers the Group operations in West Africa, Sidney does not deal only with money matters – according to him, the role "entails giving strategic and operational finance support to the Operations arm of British American Tobacco in West Africa. The Operations arm spans the full end-to-end supply chain from planning to delivering product to 14 end markets around West Africa".

Prior to joining British American Tobacco, Sidney worked with PricewaterhouseCoopers (PwC) in Kenya and in the UK and with Deloitte & Touche LLP.

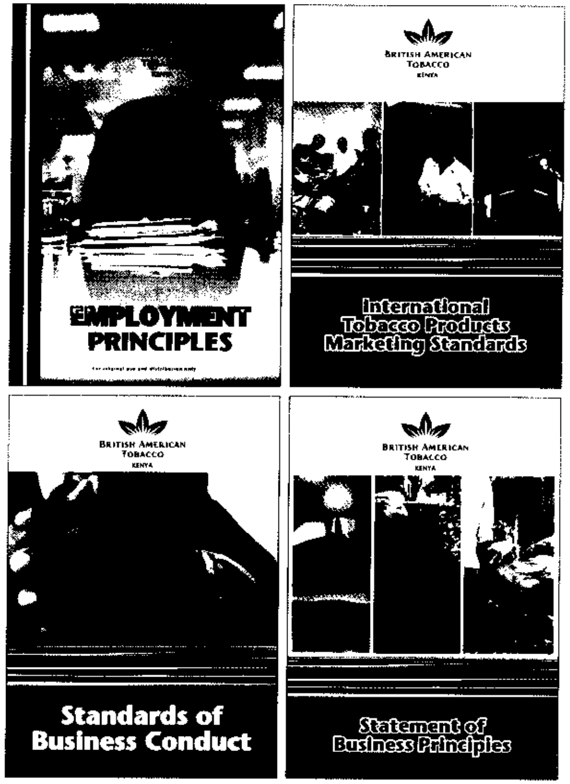
“adheres to the standards of good corporate governance”

The Company is committed to the highest standards of corporate governance and adheres to the standards of good corporate governance set out in the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya (CMA Guidelines).

-Naushad Ramoly, Legal Counsel-

Corporate Governance

The Company is committed to the highest standards of corporate governance and adheres to the standards of good corporate governance set out in the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya (CMA Guidelines).



The Company believes that the most potent form of corporate governance comes from within, with external guides and codes being overlays to the standards that we as a Group set ourselves. Those standards are codified in our own ***Standards of Business Conduct*** which every company and every employee worldwide is expected to live up to. In addition we also adhere to our ***Statement of Business Principles*** which is designed to help meet the expectations placed on us by our various stakeholders.

The board of directors

The company is managed under the direction of the Board of Directors, which oversees corporate governance and is also responsible for the overall system of internal control for the Company, thereby managing risks that may impede the achievement of the Company's business objectives. Responsibility for implementing strategy and day-to-day operations has been delegated by the Board to the Managing Director and the top management team.

Composition of the board of directors

The Board's current membership consists of six Non-Executive Directors and four Executive Directors. They are appointed for a period of two years; subsequent reappointment is subject to endorsement by the Board and the approval of shareholders at an AGM in the usual manner. The Board meets at least four times a year.

Evaluation of board performance

Every year, the Board conducts a critical evaluation of its performance for the preceding year. This evaluation is done by each Director completing a Board Effectiveness evaluation form. The information is then collated by the Company Secretary and presented to the Nominations Committee with a view to improving upon identified areas of weakness.

Committees are established to assist the Board in the performance of its duties. There are three standing committees:

The Audit Committee

The Audit Committee is chaired by Prof. J.H. Kimura (Non-Executive Director). It meets three times a year with internal and external auditors, as well as with management. The Committee monitors and reviews the integrity of the Company's financial statements and as appropriate, makes recommendations to the Board on business risks, internal controls and compliance. The scope of the Committee also includes the monitoring of corporate social responsibility issues; specifically - reputation, social and environmental risks.

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 Board Committees. In so doing, it monitors and ensures that appropriate Non Executive and Executive Directors' ratios are maintained. This Committee is also charged with the responsibility of evaluating and reporting to the Board on an annual basis, the effectiveness of the Board and effectiveness of the Directors in the discharge of their responsibilities.

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

The two British American Tobacco 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. Both Funds are compliant with the requirements of the Retirement Benefits Act.

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.

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 people on the basis of their ability without discrimination.

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

In a highly dynamic business environment such as ours, we are faced by constant change. This presents an opportunity to re-engineer our processes so as to grow our shareholders' value through being innovative, flexible and responsive. As such, our role as Internal Audit is not only to appraise and evaluate internal controls, but also to pre-emptively and constantly participate in the identification of areas of exposure and support efforts in developing sound business practices to mitigate these.

In 2009, the business was able to maintain a robust control environment despite the challenging economic conditions; usually characterized by increased business risk. We will continue to partner with management so as to ensure that this is maintained going forward.

Also, notable in 2009 was the increased focus on value addition i.e. work that helps management to improve the business in addition to our 'traditional' role of verifying compliance with policies and procedures. This too will also be an area of focus going forward.

Dennis Wasike, Audit Manager East Africa

"in 2009 total shareholder return was 49%. The business fundamentals are sound."

- Lawrence Kimathi, Finance Director -

British American Tobacco Kenya remains in a very strong position.

“ranked the 4th largest tax payer by Kenya Revenue Authority”

- Evanson Mwaniki, Chairman-

The company remitted Kshs 8.3 billion in 2009 compared to KSh 7.9 billion in 2008. Our business brought in USD 57 million in foreign exchange to the country from our export and contract manufacture operations.

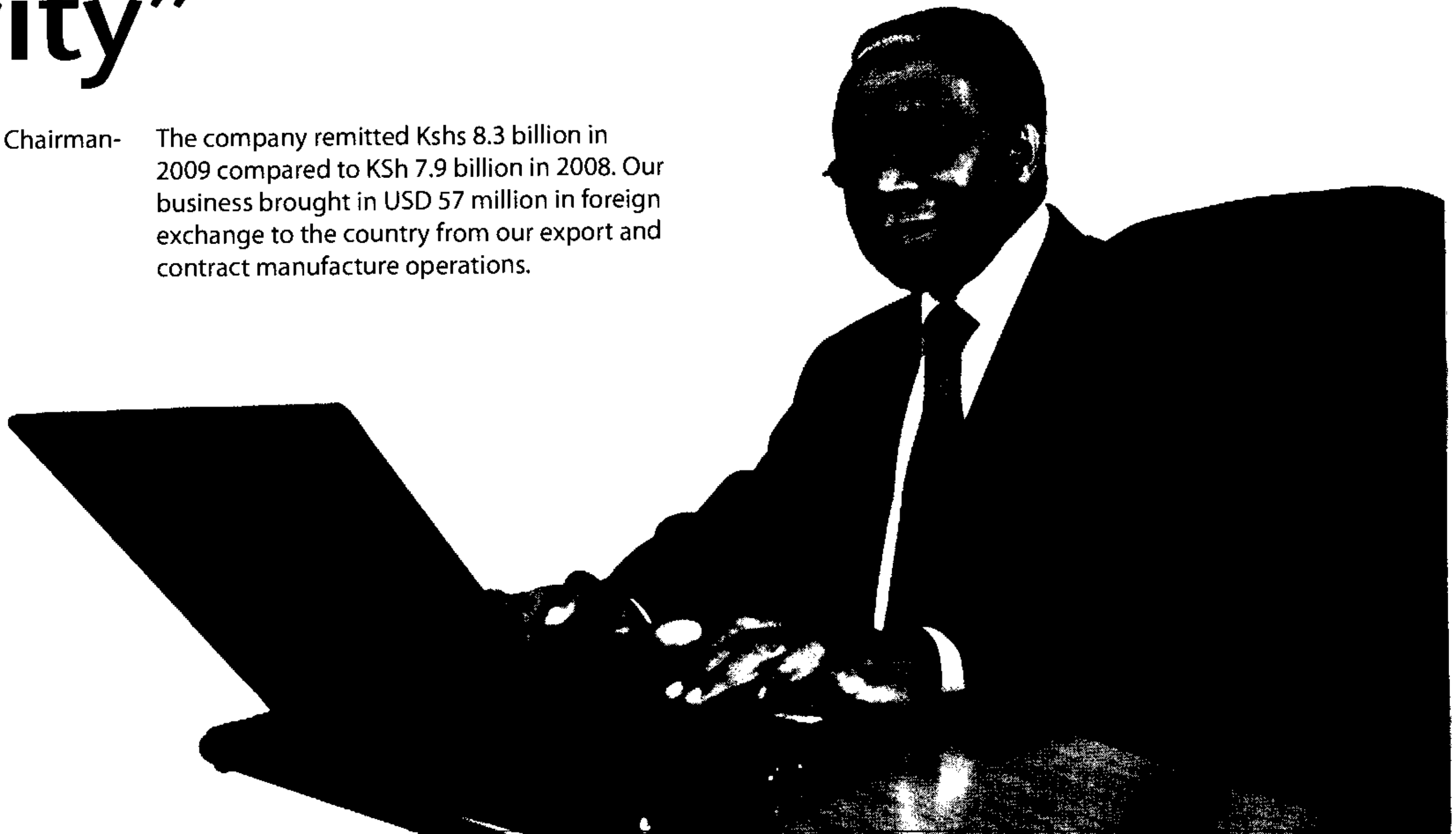


Image The HR Service Centre, based in Kenya provides services to BAT operations accross East Africa. The implementation of SAP HR enables a solid management information system for back-office operations.

Shareholding Structure

Major Shareholders as at 2nd March 2010	No. of Shares	% Shareholding
Major Shareholders as at 2nd March 2010	**Total Shares**	**% Shareholding**
Molensteegh Invest BV	60,000,000	60.00%
Board of Trustees NSSF	7,700,136	7.70%
Barclays (K) Nominees Ltd A/c 9002	2,499,700	2.50%
Barclays (K) Nominees Ltd Non Resident A/c 9296	1,947,531	1.95%
The Jubilee Insurance Co. of Kenya Ltd	1,068,915	1.07%
Barclays (K) Nominees Ltd Non Resident A/c 9057	1,032,163	1.03%
Kenya Commercial Bank of Nominees Ltd A/c 769G	1,016,500	1.02%
Barclays (K) Nominees Ltd A/c 1256	897,000	0.90%
Old Mutual Insurance Co. Ltd	877,734	0.88%
Barclays (K) Nominees Ltd Non Resident A/c 9055	855,825	0.86%
SHARES SELECTED	77,895,504	77.90%
Others	22,104,496	22.10%
Total	**100,000,000**	**100.00%**

Summary of Shareholders as at 2nd March 2010

Shareholder	No. of shareholders	No. of shares	% Shareholding
Foreign Companies	20	67,957,564	67.96%
Foreign Individuals	81	214,477	0.21%
Local Companies	565	23,581,977	23.58%
Local Individuals	4,914	8,245,982	8.25%
Total	**5,580**	**100,000,000**	**100.00%**

Distribution of Shareholders as at 2nd March 2010

Shareholder	No. of shareholders	No. of shares	% Shareholding
Less than 500	2,668	669,543	0.67%
501 - 5,000	2,398	3,942,665	3.94%
5,001 - 10,000	228	1,678,966	1.68%
10,001 - 100,000	240	7,537,264	7.54%
100,001 - 1,000,000	39	10,906,617	10.91%
Above 1,000,000	7	75,264,945	75.26%
Total	**5,580**	**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. 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. 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. G. Fagan	(Secretary)
Ms. R. Ngobi	

Remuneration Committee

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

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

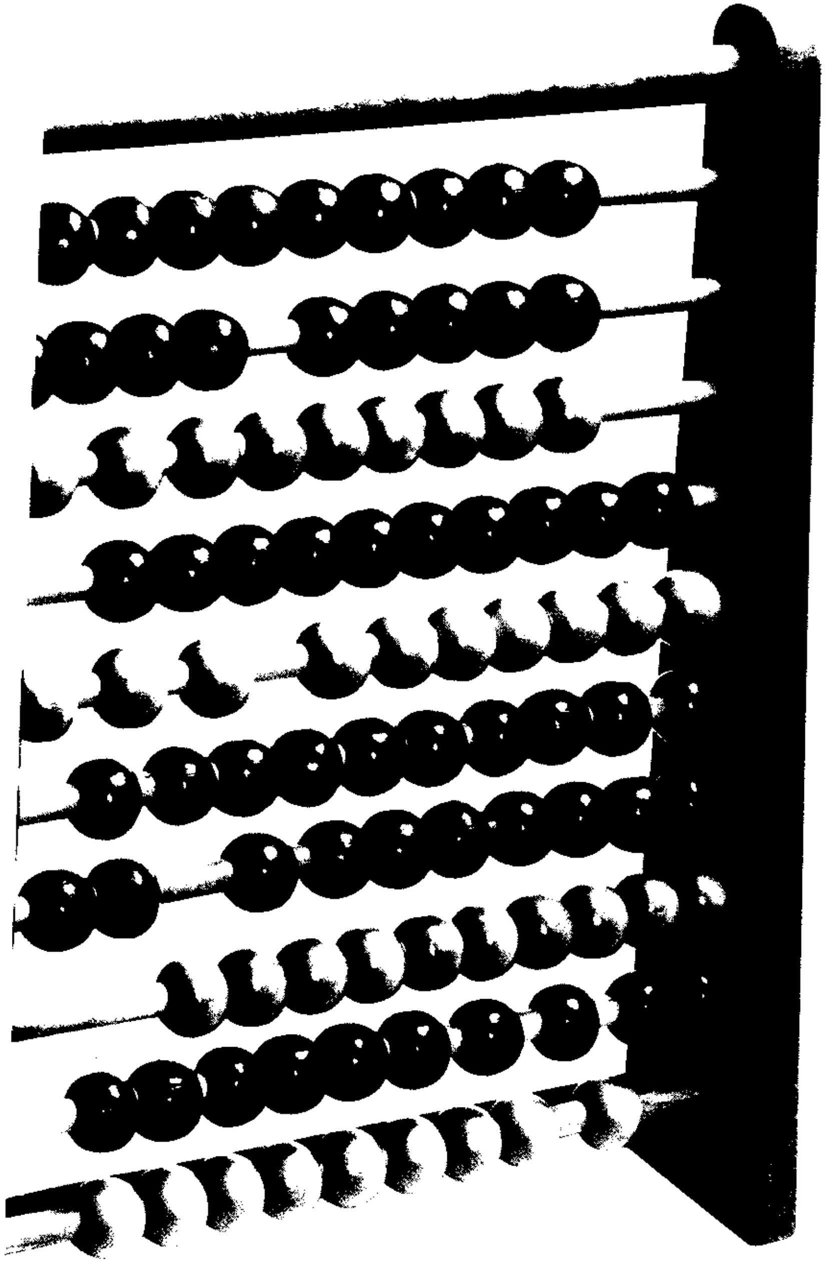
Transfer Agents
Custody & Registrar Services Limited
Bruce House, 6th floor, Standard Street,
P.O. Box 8484-00100,
NAIROBI

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

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

*Non-Executive Directors



British American Tobacco Kenya Limited

Annual Report And Financial Statements

For The Year Ended 31 December 2009

Table of contents

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2009, 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 1,478,431,000 has been added to retained earnings. During the year an interim dividend of Shs 450,000,000 (2008: Shs 450,000,000) was paid. The directors recommend the approval of a final dividend of Shs 1,025,000,000 (2008: Shs 1, 250,000,000)

Board of Directors

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

Mr. J. Pike resigned from the Board on 30 September 2009.
In accordance with Article 89 of the Articles of Association, Mr. H. Eloff and Mr. J. Dowd 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 70 on 23rd July 2007 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
2 March 2010

Taarifa ya Wakurugenzi

Wakurugenzi wanawasilisha taarifa yao pamoja na taarifa za ukaguzi wa kifedha kwa kipindi kilichomalizikia tarehe 31 Desemba 2009 kinachoelezea maswala ya kampuni.

Shughuli Kuu

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

Matokeo na Mgao wa Faida

Faida ya mwaka ya kampuni ya shilingi 1,478,431,000 imeongezwa kwa mapato yaliyoko. Katika mwaka huo mgao wa muda wa faida wa shilingi 450,000,000 (2008; Shs 450,000,000) ulilipwa. Wakurugenzi wanapendekezwa kuidhinishwa kwa mgao wa mwisho wa faida wa shilingi 1,250,000,000 (2008; Shs. 1,250,000,000)

Halmashauri ya Wakurugenzi

Mabadiliko yafuatayo yametekelezwa katika Halmashauri ya wakurugenzi tangu mkutano mkuu wa kila mwaka uliopita: Bwana J. Pike alijiuzulu kwenye Halmashauri tarehe 30 Desemba 2009.

Kwa mujibu wa kifungu nambari 89 cha sheria za kampuni, Bwana H. Eloff na Bwana J. Dowd wanastaafu kwenye Halmashauri kwa zamu wakati wa mkutano mkuu wa kila mwaka na kwa vile wanastahili wanajiwasilisha kuchaguliwa tena.

Bwana A Ngugi ambaye alitimiza umri wa miaka 70 tarehe 23 Julai 2007 anastaafu kuambatana na kifungu 186 (2) cha sheria za kampuni na kwa vile anastahili kwa mujibu wa ilani maalum iliyotolewa chini ya kifungu nambari 186 (5) anajiwasilisha kuchaguliwa tena.

Bwana E Mwaniki ambaye alitimiza umri wa miaka 70 tarehe 18 Novemba 2008 anastaafu kuambatana na kifungu nambari 186 (2) cha sheria za kampuni na kwa vile anastahili kwa mujibu wa ilani maalum iliyotolewa chini ya kufungu nambari 186 (5) anajiwasilisha kuchaguliwa tena.

Wakaguzi

Wakaguzi wa hesabu PriceWaterHouseCoopers wameonyesha hamu ya kuendelea na kazi ya ukaguzi kuambatana na kifungu nambari 159 (2) cha sheria za kampuni.

Kwa amri ya Halmashauri
R T. Ngobi (Ms.)
Katibu wa Kampuni
Tarehe 2 Machi 2010

Statement of Directors' Responsibilities

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

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

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

G. Fagan
Managing Director

L. Kimathi
Finance Director

2 March 2010

Report of the independent auditor to the members of BAT Kenya Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of British American Tobacco Kenya Limited (the company) and its subsidiaries (together, the group), as set out on pages 39 to 67. These financial statements comprise the consolidated balance sheet at 31 December 2009 and the consolidated statement of comprehensive income, statement of changes in equity and the statement of cash flow for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2009 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 2009 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.

Certified Public Accountants
Nairobi

2 March 2010

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2009 Shs'000	2008 Shs'000
Gross turnover		18,719,542	17,435,970
Excise duty and value added tax		(7,625,146)	(7,152,601)
Revenue	5	11,094,396	10,283,369
Other income		220,306	136,776
Cost of operations	6	(8,779,231)	(7,858,216)
Restructuring costs	7	(314,252)	-
Finance costs	8	(112,255)	(145,016)
Profit before income tax		2,108,964	2,416,913
Income tax expense	10	(630,533)	(716,518)
Profit for the year (of which Shs 1,478,431 has been dealt with in the accounts of the Company)		1,478,431	1,700,395
Other comprehensive income		-	-
Total comprehensive income for the year		1,478,431	1,700,395
Earnings per share			
Basic and diluted (Shs per share)	11	14.78	17.00
Dividends:			
Interim dividend – paid in the year	12	450,000	450,000
Proposed final dividend for the year	12	1,025,000	1,250,000
		1,475,000	1,700,000

The notes on pages 45 to 67 are an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	At 31 December 2009 Shs'000	At 31 December 2008 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	1,152,866	1,187,808
Retained earnings		1,494,187	1,455,814
Proposed dividend	12	1,025,000	1,250,000
Total equity		4,672,076	4,893,645
Non-current liabilities			
Borrowings	25	299,400	-
Deferred income tax liabilities	15	939,447	1,005,979
Retirement benefit obligations	16	-	7,545
Total non-current liabilities		1,238,847	1,013,524
Total equity and non-current liabilities		5,910,923	5,907,169
Non-current assets			
Property, plant and equipment	17	6,243,137	5,568,001
Intangible assets	18	56,336	116,131
Prepaid operating lease rentals	20	199	202
		6,299,672	5,684,334
Current assets			
Inventories	21	2,299,571	2,085,678
Receivables and prepayments	22	1,526,456	1,734,732
Current income tax		166,724	-
Cash and cash equivalents	23	251,575	802,858
		4,244,326	4,623,268
Current liabilities			
Payables and accrued expenses	24	2,606,885	2,663,073
Current income tax		-	104,196
Borrowings	25	1,672,602	1,239,334
Provisions for liabilities and charges	26	353,588	393,830
		4,633,075	4,400,433
Net current (liabilities)/assets		(388,749)	222,835
Total assets		5,910,923	5,907,169

The financial statements on pages 39 to 67 were approved for issue by the board of directors on 2 March 2010 and signed on its behalf by:

G. Fagan
Managing Director

L. Kimathi
Finance Director

Company balance sheet

	Notes	At 31 December 2009 Shs'000	2008 Shs'000
Equity			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,152,866	1,187,808
Retained earnings		1,494,187	1,455,814
Proposed dividend	12	1,025,000	1,250,000
Total equity		4,672,076	4,893,645
Non-current liabilities			
Borrowings	25	299,400	-
Deferred income tax liability	15	948,655	1,009,319
Retirement benefit obligations	16	-	7,545
Total non-current liabilities		1,248,055	1,016,864
Total equity and non-current liabilities		5,920,131	5,910,509
Non-current assets			
Property, plant and equipment	17	6,243,137	5,568,001
Intangible assets	18	56,336	116,131
Investment in subsidiaries	19	12,000	12,000
Prepaid operating lease rentals	20	199	202
		6,311,672	5,696,334
Current assets			
Inventories	21	2,238,085	1,989,883
Receivables and prepayments	22	1,428,919	1,655,288
Current income tax		158,961	-
Cash and cash equivalents	23	249,500	800,759
		4,075,465	4,445,930
Current liabilities			
Payables and accrued expenses	24	3,132,926	2,592,566
Borrowings	25	980,492	1,239,334
Current income tax		-	6,025
Provisions for liabilities and charges	26	353,588	393,830
		4,467,006	4,231,755
Net current (liabilities)/assets		(391,541)	214,175
Total assets		5,920,131	5,910,509

The financial statements on pages 39 to 67 were approved for issue by the board of directors on 2 March 2010 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 2008							
At start of year		1,000,000	23	1,223,110	1,420,117	1,050,000	4,693,250
Total comprehensive income for the year		-	-	-	1,700,395	-	1,700,395
Transfer of excess depreciation		-	-	(50,432)	50,432	-	-
Deferred income tax on transfer		-	-	15,130	(15,130)	-	-
Net (losses)/gains recognised directly in equity		-	-	(35,302)	35,302	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2007		-	-	-	-	(1,050,000)	(1,050,000)
- Interim for 2008	12	-	-	-	(450,000)	-	(450,000)
- Proposed final for 2008	12	-	-	-	(1,250,000)	1,250,000	-
Total transactions with owners		-	-	-	(1,700,000)	200,000	(1,500,000)
At end of year		**1,000,000**	**23**	**1,187,808**	**1,455,814**	**1,250,000**	**4,893,645**
Year ended 31 December 2009							
At start of year		1,000,000	23	1,187,808	1,455,814	1,250,000	4,893,645
Total comprehensive income for the year		-	-	-	1,478,431	-	1,478,431
Transfer of excess depreciation		-	-	(49,917)	49,917	-	-
Deferred income tax on transfer		-	-	(14,975)	(14,975)	-	-
Net (losses)/gains recognised directly in equity				(34,942)	34,942	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2008		-	-	-	-	(1,250,000)	(1,250,000)
- Interim for 2009	12	-	-	-	(450,000)	-	(450,000)
- Proposed final for 2009	12	-	-	-	(1,025,000)	1,025,000	-
Total transactions with owners					(1,475,000)	(1,250,000)	(1,700,000)
At end of year		**1,000,000**	**23**	**1,152,866**	**1,494,187**	**1,025,000**	**4,672,076**

The notes on pages **45 to 67** are an integral part of these consolidated financial statements.

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 2008							
At start of year		1,000,000	23	1,223,110	1,420,117	1,050,000	4,693,250
Total comprehensive income for the year		-	-	-	1,700,395	-	1,700,395
Transfer of excess depreciation		-	-	(50,432)	50,432	-	-
Deferred income tax on transfer		-	-	15,130	(15,130)	-	-
Net (losses)/gains recognised directly in equity		-	-	(35,302)	35,302	-	-
Transactions with owners							
Distribution to owners							
Dividends:		-	-	-	-	(1,050,000)	(1,050,000)
- Final for 2007		-	-	-	-	-	-
- Interim for 2008	12	-	-	-	(450,000)	-	(450,000)
- Proposed final for 2008	12	-	-	-	(1,250,000)	1,250,000	-
Total transactions with owners		-	-	-	(1,700,000)	200,000	(1,500,000)
At end of year		**1,000,000**	**23**	**1,187,808**	**1,455,814**	**1,250,000**	**4,893,645**
Year ended 31 December 2009							
At start of year		1,000,000	23	1,187,808	1,455,814	1,250,000	4,893,645
Total comprehensive income for the year		-	-	-	1,478,431	-	1,478,431
Transfer of excess depreciation		-	-	(49,917)	49,917	-	-
Deferred income tax on transfer		-	-	14,975	(14,975)	-	-
Net (losses)/gains recognised directly in equity				(34,942)	34,942	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2008		-	-	-	-	(1,250,000)	(1,250,000)
- Interim for 2009	12	-	-	-	(450,000)		(450,000)
- Proposed final for 2009	12	-	-	-	(1,025,000)	1,025,000	
Total transactions with owners		-	-	-	(450,000)	(1,250,000)	(1,700,000)
At end of year		**1,000,000**	**23**	**1,152,866**	**1,494,187**	**1,025,000**	**4,672,076**

The notes on pages 45 to 67 are an integral part of these consolidated financial statements.

BAT KENYA
Financial statements

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in accordance 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 directors to exercise their 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.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the group

IFRS 8, 'Operating segments' –effective 1 January 2009. - IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(b) Standards effective in 2009 but not relevant

In 2009, the following new interpretations became effective for the first time but have not had an impact on the group's financial statements:

IFRS 2 (amendment), 'Share-based payment' - effective 1 January 2009. It clarifies that vesting conditions are service conditions and performance conditions only. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment

IAS 23 (amendment), 'Borrowing costs' - effective from 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(c) Standards, amendments and interpretatians to existing standards that are nat yet effective and have nat been eorly-adapted by the group

Two new standards (IFRS 3 – Business combinations and IAS 27 – Consolidated and separate financial statements) and numerous amendments to existing standards and new interpretations have been published and will be effective for the group's accounting periods beginning on or after 1 January 2010, but the group 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 will not have a significant impact on the Group's financial statements for 2010

(b) Consolidation of 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 statement of comprehensive income.

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 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 statement of comprehensive income.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Leadership Team that makes strategic decisions.

Notes (continued)

(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 group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group and when specific criteria have been met for each of the group'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 group 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 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 statement of comprehensive income during the financial period in which they are incurred.

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 statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of comprehensive income) 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
Vehicles and equipment : 10% to 25% per annum

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

The carrying amount of the group's non-current assets 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 comparing proceeds with their carrying amount and are included in the statement of comprehensive income. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

Notes (continued)

(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.

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 statement of comprehensive income 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 less provision for impairment. 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 statement of comprehensive income.

(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

The group operates two defined contribution retirement benefit schemes for all its employees. The assets of each scheme are held in separate funds which are administered by an independent fund manager and are funded by contributions from both the group and employees. The group's contributions to the schemes are charged to the statement of comprehensive income in the year to which they relate.

Notes (continued)

n) Employee benefits (continued)

The group also operates an unfunded retirement benefit scheme to provide additional "top up" retirement benefits to management staff. The scheme operates on a defined benefit basis. No contributions are payable to the scheme, but a provision is made in the financial statements for the estimated cost of the future benefits under the scheme. The adequacy of such provisions is confirmed periodically by an independent actuarial valuation at least once every three years.

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

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

In determining this cost, the actuarial value of the liabilities of the scheme are calculated, modelling their future growth, based on key assumptions agreed with management as described in Note 16.

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

Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(o) Income tax

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax. Tax is recognised in the statement of comprehensive income unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.
Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Borrowings

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

Notes (continued)

(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 2009 and 2008, an increase/decrease of 100 basis points would have resulted in an insignificant change in consolidated and company post tax profit.

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.

The amount that best represents the group's and company's maximum exposure to credit risk at 31 December 2009 is made up as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Cash and cash equivalents	251,575	802,858	249,500	800,759
Trade/related party receivables	1,075,922	1,204,856	968,159	1,171,152
Other receivables	450,534	529,876	460,760	484,136
	1,778,031	**2,537,590**	**1,678,419**	**2,456,047**

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 h[illegible] 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):

Notes (continued)

4 Financial risk management (continued)

	Group		Company	
	2009	**2008**	**2009**	**2008**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Past due but not impaired:				
• by up to 3 months	154,204	202,004	153,937	192,168
• by 4 to 6 months	35,768	311,362	37,579	290,080
• by 7 to 12 months	85,668	71,273	84,805	76,572
• beyond 1 year	278,226	325,679	277,236	326,989
Total past due but not impaired	553,866	910,318	553,557	885,809
Receivables individually determined to be impaired:				
• Carrying amount before provision for impairment loss	1,320	22,582	-	11,449
• Provision for impairment loss (Note 22)	(1,320)	(22,582)	-	(11,449)
Net carrying amount	-	-	-	-

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying 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 following table 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.

Notes (continued)

4 Financial risk management (continued)

(a) Group	Less than 1 year	Between 1 and 2 years
	Shs'000	Shs'000
At 31 December 2009		
Liabilities		
- borrowings	1,672,602	299,400
- trade and other payables	2,606,885	-
Total financial liabilities (contractual maturity dates)	4,279,487	299,400
Assets		
- Cash and bank balances	251,575	-
- Amounts due from group companies	969,544	-
- Trade and other receivables	556,912	-
Total financial assets (expected maturity dates)	1,778,031	-
At 31 December 2008		
Liabilities		
- borrowings	1,239,334	-
- trade and other payables	2,663,073	-
Total financial liabilities (contractual maturity dates)	3,902,407	-
Assets		
- Cash and bank balances	802,858	-
- Amounts due from group companies	1,125,364	-
- Trade and other receivables	609,368	-
Total financial assets (expected maturity dates)	2,537,590	-

Notes (continued)

4 Financial risk management (continued)

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000
(b) Company		
At 31 December 2009		
Liabilities		
- borrowings	980,492	299,400
- trade and other payables	3,132,926	-
Total financial liabilities (contractual maturity dates)	4,113,418	299,400
Assets		
- Cash and bank balances	249,500	-
- Amounts due from group companies	969,544	-
- Trade and other receivables	459,375	-
Total financial assets (expected maturity dates)	1,678,419	-
At 31 December 2008		
Liabilities		
- borrowings	1,239,334	-
- trade and other payables	2,597,566	-
Total financial liabilities (contractual maturity dates)	3,831,900	
Assets		
Cash and bank balances	800,759	-
Amounts due from group companies	1,125,364	
Trade and other receivables	529,923	-
Total financial assets (expected maturity dates)	2,456,046	

Capital management

Capital comprises all components of equity as shown in the statements of changes in equity. 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.

Notes (continued)

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:

	2009	2008
	Shs '000	Shs '000
Local sales	6,595,964	6,050,517
Exports	4,498,432	4,232,852
	11,094,396	10,283,369
Analysis of revenue by category:		
Sale of goods	10,840,897	9,977,485
Sale of services	253,499	305,884
	11,094,396	10,283,369

None of our customers have sales in excess of 10% of the total revenue.

6 Cost of operations

	2009	2008
	Shs'000	Shs'000
Raw materials and consumables	5,676,057	5,142,870
Marketing and distribution costs	632,009	688,703
Administrative and other operating expenses	1,941,961	1,559,970
Depreciation of property, plant and equipment (Note 17)	467,512	405,653
Amortisation of intangible assets (Note 18)	61,689	61,017
Amortisation of prepaid operating lease rentals (Note 20)	3	3
	8,779,231	7,858,216

7 Finance costs

	2009	2008
	Shs'000	Shs'000
Interest income	(162)	(175)
Interest expense - bank borrowings and related party loans	165,777	105,792
Net foreign exchange (gains) / losses	(53,360)	39,399
Net finance costs	112,255	145,016

Notes (continued)

10 Income tax expense (continued)

The tax (charge)/credit relating to components of equity are as follows:

	2009 Shs'000			2008 Shs'000		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Transfer of excess depreciation	49,917	(14,975)	34,942	50,432	(15,130)	35,302
Effect on equity	49,917	(14,975)	34,942	50,432	(15,130)	35,302

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.

	2009	2008
Profit attributable to equity holders of the Company (Shs '000)	1,478,431	1,700,395
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	14.78	17.00

There were no potentially dilutive shares outstanding at 31 December 2009 or 2008. 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 28th April 2010, a final dividend in respect of the year ended 31 December 2009 of Shs 10.25 per share amounting to a total of Shs 1,025,000,000 is to be proposed. These financial statements do not reflect this dividend as a liability. 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 14.75 per share (2008: Shs 17.00), amounting to a total of Shs 1,475,000,000 (2008: 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 shareholders.

13 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 January 2008, 1 January 2009 and 31 December 2009	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.

Notes (continued)

15 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2008: 30%). The movement on the group deferred income tax account is as follows:

	2009 Shs'000	2008 Shs'000
At start of year	1,005,979	1,003,639
Charge to statement of comprehensive income (Note 10)	(66,532)	2,340
At end of year	939,447	1,005,979

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

Year ended 31 December 2009	1.1.2009 Shs'000	Charged/ (credited) to P/L Shs'000	31.12.2009 Shs'000
Deferred income tax liabilities			
Property, plant and equipment:			
- on historical cost basis	648,485	140,916	789,401
- on revaluation surpluses	509,059	(14,975	494,084
Unrealised exchange gains	106,266	(6,922)	99,344
	1,263,810	119,019	1,382,829
Deferred income tax assets			
Provisions	(140,522)	(22,587)	(163,109)
Unrealised exchange losses	(117,309)	22,628	(94,681)
Tax losses	-	(185,592)	(185,592)
	(257,831)	(185,551)	(443,382)
Net deferred income tax liability	1,005,979	(66,532)	939,447

Notes (continued)

15 Deferred income tax (continued)

Year ended 31 December 2008	1.1.2008 Shs'000	Charged/ (credited) 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

Deferred income tax of Shs 14,975,000 (2008: Shs 15,130,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

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

	2009 Shs'000	2008 Shs'000
Deferred income tax liabilities		
Property, plant and equipment:		
- on historical cost basis	808,923	648,485
- on revaluation surpluses	474,562	509,059
Unrealised exchange gains	99,344	106,266
Total deferred income tax liabilities	1,382,829	1,263,810
Deferred income tax assets		
Provisions	(160,540)	(137,182)
Unrealised exchange losses	(88,042)	(117,309)
Tax losses	(185,592)	
	(434,174)	(254,491)
Net deferred income tax liability	948,655	1,009,319

Notes (continued)

16 Retirement benefit obligations

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

The last actuarial valuation of the company's obligation was carried out at 31 December 2007 using the following actuarial assumptions:

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

The movement in the group and company provision during the year was as follows:

	2009 Shs'000	2008 Shs'000
At start of year	7,545	28,551
Utilised during the year	(7,545)	(21,006)
At end of year		7,545

17 Property, plant and equipment- Group and Company

	Buildings and freehold land Shs'000	Plant and machinery Shs'000	Vehicles and equipment Shs'000	Total Shs'000
At 1 January 2008				
Cost or valuation	2,338,475	4,213,563	577,592	7,129,630
Accumulated depreciation	-	(1,701,719)	(328,631)	(2,030,350)
Net book amount	2,338,475	2,511,844	248,961	5,099,280
Year ended 31 December 2008				
Opening net book amount	2,338,475	2,511,844	248,961	5,099,280
Additions	20,799	877,709	45,110	943,618
Disposals				
-Cost	(743)	(214,629)	(170,508)	(385,880)
-Accumulated depreciation	5	179,591	137,040	316,636
Depreciation charge	(70,130)	(252,449)	(83,074)	(405,653)
Closing net book amount	2,288,406	3,102,066	177,529	5,568,001
At 31 December 2008				
Cost or valuation	2,358,531	4,876,835	452,002	7,687,368
Accumulated depreciation	(70,125)	(1,774,769)	(274,473)	(2,119,367)
Net book amount	2,288,406	3,102,066	177,529	5,568,001

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Notes (continued)

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

Year ended 31 December 2009				
Opening net book amount	2,288,406	3,102,066	177,529	5,568,001
Additions	163,984	814,500	195,566	1,174,050
Disposals				
-Cost	(15)	(123,531)	(133,577)	(257,123)
-Accumulated depreciation	5	101,954	123,762	225,721
Depreciation charge	(73,622)	(300,198)	(93,692)	(467,512)
Closing net book amount	2,378,758	3,594,791	269,588	6,243,137
At 31 December 2009				
Cost or valuation	2,522,500	5,567,804	513,991	8,604,295
Accumulated depreciation	(143,742)	(1,973,013)	(244,403)	(2,361,158)
Net book amount	2,378,758	3,594,791	269,588	6,243,137

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:

	2009 Shs'000	2008 Shs'000
Cost	933,884	769,176
Accumulated depreciation	(200,822)	(177,637)
Net book amount	733,062	591,539

18 Intangible assets- Group and Company

Computer software licences

	2009 Shs'000	2008 Shs'000
At 31 December		
Cost	244,839	242,945
Accumulated amortisation	(188,503)	(126,814)
Net book amount	56,336	116,131

Notes (continued)

18 Intangible assets- Group and Company (continued)

	2009 Shs'000	2008 Shs'000
Year ended 31 December		
Opening net book amount	116,131	177,148
Additions	1,894	-
Amortisation	(61,689	(61,017)
Closing net book amount	56,336	116,131

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 (Overseas) Limited	Dormant
East Africa Tobacco Company Kenya Limited	Dormant

The investment in BAT Kenya Tobacco Company Limited is Shs 12,000,000 while the investment in the dormant companies is Shs 40,000 each.

20 Prepaid operating lease rentals - Group and Company

	2009 Shs'000	2008 Shs'000
At start of year	202	205
Amortisation for the year	(3)	(3)
At end of year	199	202

21 Inventories

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Raw materials (at net realisable value)	2,035,080	1,841,824	2,035,080	1,841,824
Work in progress (at cost)	58,800	7,104	58,800	7,104
Finished goods (at cost)	205,691	236,750	144,205	140,955
	2,299,571	2,085,678	2,238,085	1,989,883

Notes (continued)

22 Receivables and prepayments

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Trade receivables	34,884	102,074	605	57,237
Less: Provision for impairment losses	(1,320)	(22,582)	-	(11,449)
	33,564	79,492	605	45,788
Prepayments and other receivables	523,348	529,876	458,770	484,136
Due from related parties (Note 28)	969,544	1,125,364	969,544	1,125,364
	1,526,456	1,734,732	1,428,919	1,655,288

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

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
At start of year	(22,582)	(6,842)	(11,449)	-
Provision in the year	-	(15,740)	-	(11,449)
Utilised in the year	21,262	-	11,449	-
At end of year	(1,320)	(22,582)	-	(11,449)

The fair values of the current receivables are as follows:

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Trade receivables	33,564	79,492	605	45,787
Due from related parties	969,544	1,125,364	969,544	1,125,364
Prepayments and other receivables	523,348	529,876	458,770	484,136
	1,526,456	1,734,732	1,428,919	1,655,287

The carrying amounts of the above receivables and prepayments approximate to their fair values.

Notes (continued)

23 Cash and cash equivalents

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Cash at bank and in hand	251,575	802,858	249,500	800,759

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

	2009 Shs'000	2008 Shs'000
Cash at bank and in hand	251,575	802,858
Bank overdrafts (Note 25)	(1,373,202)	(1,239,334)
	(1,121,627)	(436,476)

24 Payables and accrued expenses

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Trade payables	524,395	686,906	466,865	667,691
Due to related companies (Note 28)	877,734	827,460	856,044	1,061,146
Accrued expenses and other payables	1,204,756	1,148,707	1,810,017	863,729
	2,606,885	2,663,073	3,132,926	2,592,566

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

25 Borrowings

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
The borrowings are made up as follows:				
Non-current				
Loan from BAT Investments	299,400	-	299,400	-
Current				
Bank overdrafts	1,373,202	1,239,334	681,092	1,239,334
Loan from BAT Investments	299,400	-	299,400	-
	1,672,602	1,239,334	980,492	1,239,334

The loan from BAT Investments is an unsecured US Dollar denominated floating rate loan repayable in two years at an interest rate of LIBOR plus 3%.

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.

Notes (continued)

The group has the following undrawn borrowing facilities:

25 Borrowings (continued)

	2009 Shs'000	2008 Shs'000
Overdraft facilities	1,300,570	1,323,500
Bond guarantees	714,445	862,500
	2,015,015	2,186,000

The facilities expire within one year and are subject to 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

	Group	Company
Year ended 31 December 2008	**Shs'000**	**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 statement of comprehensive income	(17,642)	(17,642)
Utilised during year	(125,964)	(125,964)
At end of year	393,830	393,830

	Group	Company
Year ended 31 December 2009	**Shs'000**	**Shs'000**
At start of year	393,830	393,830
Additional provisions	58,631	58,631
Unused amounts reversed	(26,600)	(26,600)
Charged to statement of comprehensive income	32,031	32,031
Utilised during the year	(72,273)	(72,273)
At end of year	353,588	353,588

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

Notes (continued)

27 Cash generated from operations

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

	2009 Shs'000	2008 Shs'000
Profit before income tax	2,108,964	2,416,913
Adjustments for:		
Interest income (Note 7)	(162)	(175)
Interest expense (Note 7)	165,777	105,617
Depreciation (Note 17)	467,512	405,653
Amortisation of intangible assets (Note 18)	61,689	61,017
Amortisation of prepaid operating lease rentals (Note 20)	3	3
Loss on sale of property, plant and equipment	17,230	62,969
Changes in working capital		
– receivables and prepayments	208,276	(190,416)
– inventories	(213,893)	(88,709)
– payables and accrued expenses	(56,188)	471,657
– provisions for liabilities and charges	(40,242)	(143,606)
Change in retirement benefit obligations	(7,545)	(21,006)
Cash generated from operations	2,711,421	3,079,917

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.

Notes (continued)

The following transactions were carried out with related parties:

i) Sale of goods and services	Group and Company	
	2009 Shs'000	2008 Shs'000
Other related parties	3,601,252	3,357,302
ii) Purchase of goods and services		
Parent company	400,040	283,231
Other related parties	294,145	93,460
	694,185	376,691
iii) Key management compensation		
Salaries and other short-term employment benefits	219,331	215,416
Other long-term benefits	42,952	44,855
	262,283	260,271
iv) Directors' remuneration		
Fees for services as a director	9,051	11,176
Other emoluments (included in key management compensation above)	136,373	168,042
Total remuneration of directors of the company	145,424	179,218
v) Outstanding balances arising from sale and purchase of goods/services		
Receivables from other related parties	969,544	1,125,364
Payables to the parent company	448,421	312,944
Payables to other group companies	429,313	514,526
	877,734	827,460
vi) Loans from related parties		
Loan from related party (BAT Investments)	598,800	-

29 Contingent liabilities

A case in which the company has taken the Kenya Revenue Authority to court over a dispute regarding interpretation of the Finance Bill 2008 is pending.

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

At 31 December 2009 and 2008, 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 and Company	
	2009 Shs'000	2008 Shs'000
Property, plant and equipment	161,089	223,549

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 28th, April 2010 in the Ballroom, Hotel Intercontinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this ....day of..............................2010

....(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 27th April 2010.
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