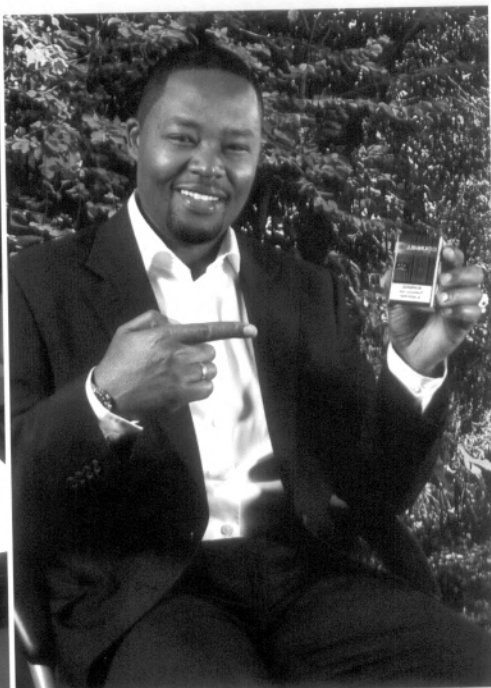
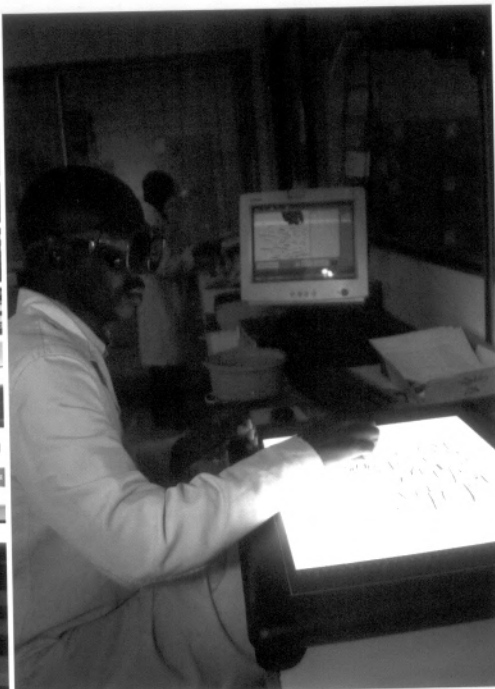
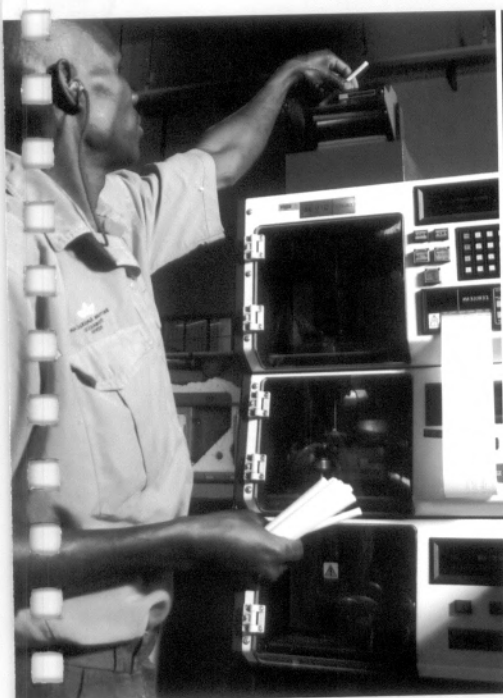




BRITISH AMERICAN
TOBACCO
KENYA



INNOVATION FOR
SUSTAINABLE GROWTH

ANNUAL REPORT
& ACCOUNTS

2012

DUNHILL
SINCE 1907

**INTRODUCING
DUNHILL SWITCH**
2 TASTES IN 1 CIGARETTE

CRUSH
THE CAPSULE



REFRESH
THE TASTE



WARNING:
Tobacco use
causes cancer

PERFECT TASTE. ALWAYS

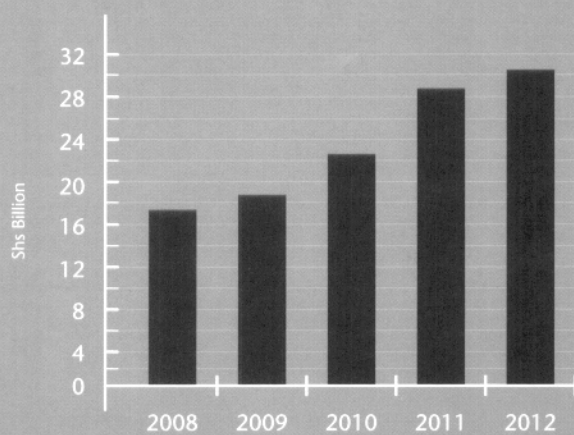
WARNING: SMOKING HARMS PEOPLE NEXT TO YOU
ONYO: UVUTAJI SIGARA HUDHURU WATU WALIO KARIBU NAWA

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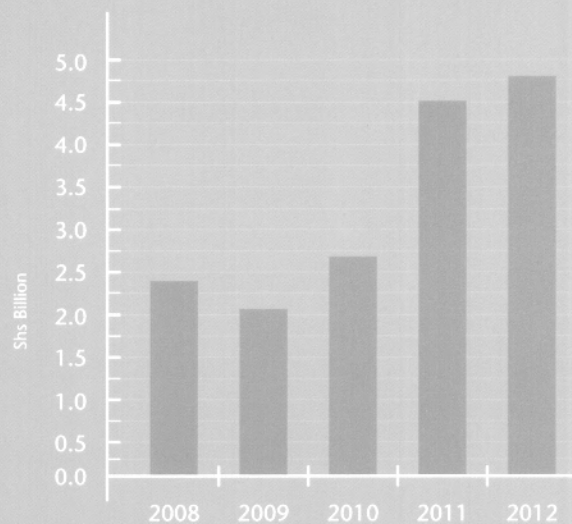
Highlights

Gross Turnover



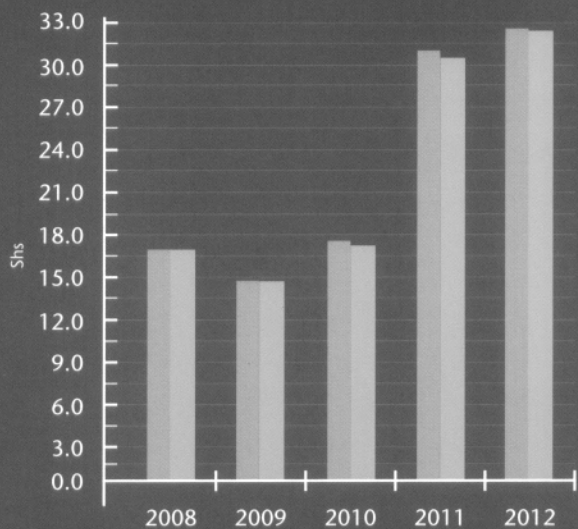
Gross turnover increased by 6% in 2012 to Shs 30.5 billion

Profit Before Income Tax



Profit Before Income Tax increased by 6% to Shs 4.8 billion

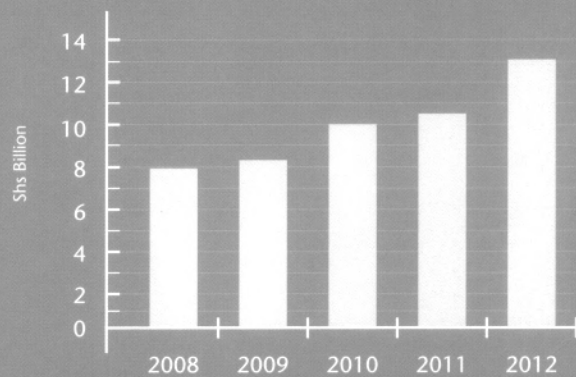
Earnings and Dividend per Share



Dividend per share increased by 7% in 2012

KEY
 ■ Earning per Share
 ■ Dividend per Share

Contribution to Government Revenue



Contribution to Government revenue increased by 25% to Shs 13.1 billion

Board of Directors' Profiles

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Mr. E. Mwaniki
(age 74)

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 is the Non-Executive Chairman of Kenya Airways Limited and also sits on the Boards of East African Breweries Limited, East African Packaging Industries Limited, Lion of Kenya Insurance Company Limited and Zimele Asset Management Company Limited.



Mr. G. Fagan
(age 50)

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 25 years ago in Marketing and has filled various senior management roles within BAT Eastern Europe, Middle East and Africa region over the years. He is currently also the Area Director for BAT East and Central Africa Area based in Nairobi.



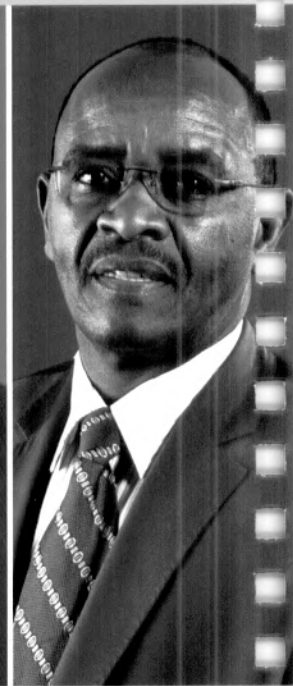
Mr. P. Lopokoiyit
(age 46)

Finance Director
Appointed to the Board in November 2010. He has extensive experience in financial management and served in senior management over the last ten years as Head of Finance in various BAT Business units. He was the BAT West Africa Area Finance Director based in Lagos, Nigeria before his current appointment. Philip is a member of ICPAK, a Fellow Member of the Institute of Chartered Accountants of England and Wales and holds an MBA from Warwick Business School.



Mr. G.R. May
(age 69)

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 Airside Limited (Swissport Kenya), Heritage Insurance Company Limited, CFC Stanbic Bank Limited, CFC Stanbic Holdings Limited, CFC Life Assurance Limited and Liberty Kenya Holdings Limited.



Dr. J. Ciano
(age 62)

Non-Executive Director
Appointed to the Board in July 2012. He is the Group CEO of Uchumi Supermarkets and well known for his efforts in restructuring Uchumi Supermarkets from a company under liquidation to a profit making company. Dr. Ciano holds a Bachelors of Commerce degree in Finance, an MBA in Strategy and Finance and a honorary doctorate in humanities. He is a Fellow of Certified Public Accountant and a Fellow of KIM. He is the Chair of ICPAK Disciplinary and is a Board member of the Nairobi Securities



Mr. G. Maina
(age 60)

Non-Executive Director

Appointed to the Board in November 2010. He is an engineer by profession. He worked with the Shell Group of Companies for 26 years during which time he served in senior management in Kenya, Jamaica and Ghana. In 1998 he was appointed Managing Director of Kenya Shell and BP Kenya Ltd before leaving corporate employment to pursue private business in 2004. He holds directorships in NIC Bank, Insurance Company of East Africa, Afrika Investment Bank, Faulu Kenya Limited and the Nairobi Stock Exchange. He is also a Trustee of Starehe



Ms. C. Musyoka
(age 40)

Non-Executive Director

Appointed to the Board in February 2011. She is a Lawyer by profession. She was previously Executive Director and Chief Operating Officer of K-Rep Bank, Kenya's first microfinance institution. Prior to this, she was a board member and Corporate Director of Barclays Bank Kenya. She currently provides consulting and training services for various local and international commercial banks and insurance companies and is also a popular weekly columnist on the Business Daily newspaper. She holds directorships in Transcendy Limited, SOS Children's Villages and Alliance Capital Partners.



Mr. A.N. Ngugi
(age 75)

Non-Executive Director

Appointed to the Board in April 2000. He has over 30 years experience in the corporate sector, having worked in various organisations in Kenya. He is a former CEO of Kenya Association of Manufacturers and former Chairman of BOC Kenya Limited. He currently sits on the Board of the Kenindia Insurance Company and Githaka Limited.



Dr. M. Oduor-Otieno
(age 56)

Non-Executive Director

Appointed to the Board in January 2013. Dr. Oduor-Otieno is the immediate former Chief Executive Officer of the Kenya Commercial Bank (KCB) Group, the largest bank in Kenya by assets. He has a wealth of experience in the corporate sector. He holds Executive MBA and Bachelor of Commerce degrees and is a Fellow of both the Kenya Institute of Bankers and the Institute of Certified Public Accountants of Kenya. He has also been awarded an Honorary Doctor of Business Leadership degree by KCA University and the National Recognition of the First Class Order of the Chief of the Burning Spear (CBS) for his contribution to National Development. He currently sits on the Board of SOS Children's Villages Kenya as well as the



Mr. M. Janmohamed
(age 59)

Non-Executive Director

Appointed to the Board in November 2012. He is currently the Managing Director for Serena Hotels Africa and head of the Tourism Department for Aga Khan Fund for Economic Development (AKFED) and is responsible for 35 Hotels, Lodges and Safari resorts located in 9 countries in Africa and Asia. Mr. Janmohamed's work experience includes Senior Management positions in Europe and Africa. He is the Founder Chairman of the Kenya Tourism Federation and a Trustee of the East African Wildlife Society. He is a Director on the Kenya Tourism Board and Kenya Land Conservation Trust. He is also a member on the Eastern Africa Association Advisory Council.



Ms. R. T. Ngobi
(age 52)

Company Secretary

Appointed Company Secretary in August 2002. She was educated in both Kenya and the UK and qualified as a lawyer in 1985. She previously worked with Unilever Kenya Limited for 15 years as Company Secretary with responsibilities for legal support and services to Unilever's operations in Kenya, Uganda, Tanzania and Ethiopia. She was Area Legal Counsel for BAT East and Central Africa Area until June 2010 when she retired from full time employment with the Company but retained her role as Company Secretary. She is a Non Executive Director on the Boards of CFC Stanbic Bank Limited, CFC Stanbic Holdings Limited and a member of

Leadership Team Members

With Responsibilities for BAT Kenya

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Gary Fagan
(age 50), South African

Managing Director
Joined the Group in September 1988 and held a variety of senior marketing, operations and general management roles in the Southern Africa Area including General Manager Southern Africa Markets, Zimbabwe, Zambia and Malawi. He joined the Leadership Team in October 2009 in his current role.



Philip Lopokoiyit
(age 46), Kenyan

Finance Director
Joined the Group in June 1996 in Internal Audit and held a variety of senior management roles in Finance in the Horn of Africa, East Africa and West Africa. He joined the Leadership Team in October 2010 in his current role.



Naushad Ramoly
(age 42), Mauritian

Area Legal Counsel
Joined the Group in February 2002 as Corporate & Regulatory Affairs (CORA) Communications Manager; he has held various senior management roles in CORA and Legal in the Middle East including Area Support Counsel in Middle East and Head of Legal in Iran. He joined the Leadership Team in April 2010 in his current role.



Jerry Gilbert
(age 59), British

Head of Corporate & Regulatory Affairs (CORA)
Joined the Group in 1977. He has held a variety of senior management roles in Marketing and CORA and recently as Head of Regulatory Affairs for the Southern Africa Area. He joined the Leadership Team in January 2013 in his current role.



Wael Atari
(age 45), Jordanian

Head of Marketing
Joined the Group in January 2001 as Trade Marketing Area Manager; he has held various senior marketing management roles in North Africa including most recently Head of Marketing in Algeria. He joined the Leadership Team in April 2011 in his current role.



Razeeah Belath
(age 34), Mauritian

Head of Human Resources
Joined the Group in September 2001 as a Management Trainee in Human Resources; has held several senior HR management roles including Area Head of Talent in Sub-Saharan Africa and most recently Eastern Europe Middle East Africa Regional Head of Talent in 2010. She joined the Leadership Team in August 2012 in her current role.



Wellington Masasabi
(age 33), Kenyan

Head of Information Technology
Joined the Group in March 2008 as a Business Engagement Manager and held other senior IT roles subsequently as Area Corporate Services IT Manager and Regional Operations Business Analyst. He joined the Leadership Team in January 2012 in his current role.



Arturo Rodriguez
(age 43), Mexican

Demand Chain General Manager
Joined the Group in November 1995 as a Production Engineer; has held various management roles in Operations in Mexico, Germany and most recently as Manufacturing Manager in Heidelberg, South Africa. He joined the Leadership Team in March 2011 in his current role.



Notice of the 2013 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty-First Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Intercontinental, Nairobi, on 30 April 2013, at 11:00 a.m. for the following purposes:-

Ordinary Business

1. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31 December 2012, together with the reports of the Chairman, Directors and Auditors thereon.
2. To declare a dividend.
3. To elect Directors:
 - (i) Dr. J. Ciano, Mr. M. Janmohamed and Dr. M. Oduor-Otieno retire and being eligible offer themselves for re-election in accordance with Article 95 of the Articles of Association.
 - (ii) Mr. P. Lopokoiyit and Mr. G.R. May retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.
 - (iii) Mr. E. Mwaniki having attained the age of 70 on 18 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.
 - (iv) Mr. A.N. Ngugi having attained the age of 70 on 23 July 2007 retires in terms of section 186 (2) of the Companies Act and does not offer himself for re-election.
4. To authorise the Directors to fix the remuneration of the Auditors, PricewaterhouseCoopers.

Special Business

To consider and if appropriate, to pass the following Special Resolutions:

"That the Articles of Association of the Company be amended as follows:

New Article 12A

By inserting the following new Article as Article 12A, immediately after Article 12, to read:

CENTRAL DEPOSITORIES ACT 2000

The provisions of the Central Depositories Act 2000 ("CD Act") as amended or modified from time to time shall apply to the Company to the extent that any securities of the Company are in part or in whole immobilized or dematerialized or are required by the regulations or rules issued under the CD Act to be immobilized or dematerialized in part or in whole, as the case may be. Any provisions in these Articles that are inconsistent with the CD Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these Articles of Association immobilization and dematerialization shall be construed in the CD Act.

Article 124

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

"The Company may, if required by law, deliver or pay to any prescribed regulatory authority any unclaimed assets including but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends remaining unclaimed beyond prescribed statutory periods. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder, or his or her estate, for the relevant unclaimed assets. No dividend shall bear interest as against the Company."

By Order of the Board

RT Ngobi (Ms.)
Company Secretary
P. O. Box 30000-00100, Likoni Road, Nairobi
28 February 2013

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/her 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





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KENYA

III. Regulatory and Political Environment

Excise

There were no changes to excise since the introduction of the hybrid system in June 2011.

BAT Kenya continues to engage the Government to ensure an optimal excise regime in order to generate sustainable Industry and Government revenues.

Tobacco Regulation

No new tobacco regulations were introduced in 2012. We believe that there are opportunities for amendments to improve clarity and support a more balanced enforcement of the statute.

Regulatory pressure is on the rise driven by an agenda under the Framework Convention on Tobacco Control (FCTC). We will maintain diligent dialogue with the government and all relevant stakeholders on regulatory matters affecting our operating environment.

Political Environment and Governance

The March 4th, 2013 General Elections were conducted peacefully, ushering in a new system of governance in our country. We now have a transformative new constitution in place that promises even greater accountability and transparency in the management of public affairs.

We urge the Government to continue to develop and implement progressive tax and expenditure policies that will create incentives for investment in the economy, diversify and enhance the export base to mitigate the impact of exchange rate shocks and high oil prices.

IV. Competition

Your Company continued to gain market share in the domestic market on the back of improved distribution and the equity of our brand portfolio. We continue to invest in optimising distribution coverage and in enhancing our brand portfolio to ensure we remain the best in meeting our consumers' expectations.

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Evanson Mwaniki, Chairman

V. Illicit Trade

In 2010, The Kenya Revenue Authority (KRA) introduced the Electronic Cargo Tracking System (ECTS), which has helped reduce the incidence of illicit trade in a broad range of goods, including cigarettes. In 2012, we continued to see the benefits of the ECTS and other relevant initiatives and commend the efforts made by KRA and other enforcement agencies. We reiterate our commitment to continue co-operating with the law enforcement agencies and other parties in this regard.

The Company's Performance

I. Growth

2012 was the first full year under the excise regime introduced in June 2011. Domestic cigarette volumes grew by 4% and BAT Kenya achieved a better product mix with Sportsman continuing to grow. This brand now accounts for more than half of domestic cigarette market volumes.

Exports and contract manufacture cigarette volumes grew by 18% over the previous year reflecting underlying growth in the export markets as well as strong incremental contract manufacture volumes during the year.

The Company's shipments of semi-processed leaf (cut rag) declined in 2012 due to a lower demand level and now account for 16% of net revenue (2011: 24%).

II. Key Initiatives

The growth witnessed above has been enabled by several key initiatives we have undertaken during the year, including further distribution optimisation, factory capacity and productivity improvements, reduction of tobacco and packaging waste and in energy conservation.

Indeed BAT Kenya emerged top in the 2012 Kenya Association of Manufacturers (KAM) Energy Management Awards, in recognition of strides that we have made in energy conservation.

III. Financial Performance

Gross Revenues were up 6% in the year and profit before tax rose by 6%, to Shs 4.8 billion, up from Shs 4.5 billion in 2011.

Contribution to Government Revenue

Our Company's contribution to the Exchequer, in the form of Excise Duty, VAT and Corporate Tax increased by 25% to Shs 13.1 billion and for the sixth consecutive year, we were recognized by Kenya Revenue Authority as the Fourth Largest Taxpayer in the country.

IV. Dividends

The Directors recommend a final dividend of Shs 29.00 per ordinary share which, when added to the interim dividend of Shs 3.50 per ordinary share paid out during the year, brings total dividends to a record Shs 32.50 per share. The dividend will be payable on 30 April 2013 to shareholders on the share register as at close of business on 29 March 2013. The dividend shall be subject to the deduction of withholding tax where applicable.

Changes to the Board of Directors

Dr. J. Ciano was appointed to the Board on 5 July 2012. He is currently the Group Chief Executive Officer of Uchumi Supermarkets. He brings over 25 years of experience in Regional and International management.

Mr. M. Janmohamed was appointed to the Board on 1 November 2012. He is the Managing Director for Serena Hotels Africa and Head of Tourism at the Aga Khan Fund for Economic Development. He has a vast wealth of international

Dr. M. Oduor-Otieno was appointed to the Board on 1 January 2013. He is the immediate former Chief Executive Officer of Kenya Commercial Bank (KCB) Group. He brings a wealth of experience from the corporate sector.

Mr. M.M. Wanyoike resigned from the Board on 20 June 2012 and Prof. J. H. Kimura resigned from the Board on 5 July 2012.

I take this opportunity to thank Mr. Wanyoike and Prof. Kimura for their invaluable contribution while serving on the BAT Kenya Board and wish them the best in their future endeavours.

Outlook for 2013

I. Economic Growth

The 2013 outlook is positive with an anticipated peaceful transition after the March 4th, 2013 General Elections. We believe that the second half of 2012 has set the pace for higher growth in 2013. According to the World Bank, export-led growth will provide a window of opportunity for the economy to achieve higher growth and create more jobs for the large number of people entering the workforce.

With a stable macro-economic environment, increased infrastructural development within the counties and an improved business environment under the new constitutional dispensation, we are hopeful of GDP growth rates in excess of 5%.

II. Continued Success

I express my thanks and appreciation to our Managing Director, Gary Fagan, to my fellow Directors on the Board, to management and indeed to all the staff working at BAT Kenya. 2012 has been a successful year for our Company and we carry the momentum in market share growth and margin improvement into 2013. The economic climate in the country is expected to improve and we remain confident that our strategy will continue to generate growth for our shareholders in the years ahead.

Evanson Mwaniki
Chairman

Wapendwa wenye hisa

Nina furaha kuu kuwajulisha ya kwamba 2012 ulikuwa mwaka wa ufanisi mkubwa kwa kampuni yenu, ambapo faida kwa wenye hisa iliongezeka kwa kiwango kubwa.

Mazingira ya biashara

I. Mazingira ya kiuchumi

Mwaka wa 2012 ulikuwa mwaka wa ufufuzi kiuchumi kufuatia mfumko wa bei ya bidhaa, pamoja na viwango vya juu vya riba katika mwaka uliotangulia, hali iliyosababishwa na ukame katika kanda hii, pamoja na bei ghali ya bidhaa katika soko la kimataifa. Hali hiyo ilichochea na unyumbufu wa kiwango cha ubadilishanaji pesa, huku thamani ya Shilingi ya Kenya ikipungua kwa kiwango kikubwa dhidi ya dola; ambapo dola moja ilikuwa ikibadilishwa kwa Shilingi 107.



Evanson Mwaniki, Mwenyekiti

Hata hivyo, kiwango kilichoimarika cha mvua katika mwaka wa 2012, kupungua kwa bei ya bidhaa katika soko la kimataifa na sera muafaka za kiuchumi zilizotekelezwa na serikali zilisaidia kurejesha nchi hii kwenye mkondo wa ukuaji.

Katika mwaka huo, Shilingi ya Kenya ilikuwa thabiti kiasi dhidi ya sarafu za kimataifa, ambapo dola moja ilibadilishwa kwa Shilingi 84.6, ikilinganishwa na dola moja dhidi ya Shilingi 88.9 katika mwaka wa 2011.

Msukumo wa mfumuko wa bei ya bidhaa ulipungua katika mwaka 2012, huku kigezo cha bei ya bidhaa kikipungua hadi asilimia 3.2 mnamo mwezi Disemba mwaka wa 2012, kutoka asilimia 14 mwezi Disemba mwaka 2011. Hali hii ilichangiwa pakubwa na hatua ya kamati ya sera za kifedha ya benki kuu ya Kenya, ya kuongeza kiwango cha riba kwa benki za biashara.

Kiwango cha ukuaji wa kiuchumi kiliongezeka hadi asilimia 4.7 katika robo ya tatu ya mwaka 2012, hali iliyotanguliwa na

III. Mazingira ya kisiasa na uthibiti

Ushuru wa bidhaa

Hakuna mabadiliko yaliyotekelezwa katika mfumo wa utozaji ushuru wa bidhaa, tangu kuzinduliwa kwa mfumo mseto yaani hybrid system mnamo mwezi Juni mwaka wa 2011.

Kampuni ya BAT Kenya itaendelea kuwasiliana na Serikali kupata mfumo bora wa ushuru wa bidhaa ili kuendeleza mapato endelevu za viwanda na Serikali.

Uthibiti wa tumbaku

Hakuna sheria mpya za kuthibiti setka ya tumbaku zilizoratibiwa mwaka wa 2012. Hata hivyo, tunaamini kuwa kuna nafasi ya kuboresha sheria zilizopo kwa manufaa ya wadau wote katika sekta hii.

Licha ya shinikizo ya uthibiti wa sekta hii kuambatana na azimio la kongamano la dunia kuhusu matumizi ya tumbaku



kiwango hafifu cha ukuaji katika robo ya kwanza ya mwaka huo. Katika kipindi hicho, sekta zote za kiuchumi zilianakili ukuaji, huku sekta za usambazaji umeme na maji, kilimo, fedha, uchukuzi na utengenezaji bidhaa zikinawiri zaidi.

II. Mazingira ya kijamii na kisiasa

Aidha msukumo mkubwa ulishuhudiwa katika utekelezaji katiba mpya kwenye mwaka huo, huku bunge likipitisha miswada muhimu inayohusiana na utekelezaji wa katiba.

Hata hivyo utekelezaji mfumo wa utawala wa magatuzi, ambao unatarajiwa kuongeza matumizi serikali, ni jambo ambalo tunafuatilia kwa makini jinsi litakavyoathiri gharama ya kufanya biashara hapa nchini.

Na tangu kupitishwa na kurasimishwa kwa katiba mpya, tunaendelea kushuhudia uwazi na uwajibikaji mkubwa katika uendeshaji masuala ya umma, mfano bora ukiwa kuchunguzwa kwa majaji na mahakimu, pamoja na mageuzi

(FCTC), tutaendelea kufanya mashauriano na serikali na wadau wengine kwenye sekta hii, kuhusu masuala yanayoathiri mazingira ambapo tunaendesha shughuli zetu.

Mazingira ya kisiasa na utawala

Uchaguzi wa 4 Machi 2013 ulikuwa wa amani, na umeleta mfumo mpya wa utawala kwenye nchi yetu. Ingawa kuna katiba mpya inayotuhakikishia uwazi na uwajibika katika usimamizi wa masuala ya umma, suala linalofuatiliwa kwa makini, ni jinsi hisia mseto zilizofuatia matokeo uchaguzi huo zitakapothibitiwa.

Tunahimiza serikali kuratibu na kutekeleza sera endelevu kuhusu ukusanyaji wa ushuru na matumizi ya pesa, ambazo zinatoa vihimizo kwa wawekezaji na kuweka mikakati ya kuongeza mauzo ya nje ili kuthibiti unyumbufu katika viwango vya ubadilishanaji pesa na pia bei ghali ya mafuta.

IV. Mashindano

Mauzo ya kampuni yetu hapa nchini valiendelea kuimarika

Tunaendelea kuwekeza katika upanuzi wa mitandao yetu ya usambazaji, na kuboresha chapa za sigara zetu, ili kuhakikisha ya kuwa tunatimiza matarajio ya wateja wetu.

V. Biashara haramu

Mnamo mwaka 2010 halmashauri ya ukusanyaji ushuru hapa nchini – KRA - ilizindua mfumo wa kielektroniki wa kufuatilia usafirishaji wa mizigo (ECTS), ambao umesaidia pakubwa kupunguza biashara haramu ya bidhaa mbali mbali, zikiwemo sigara. Katika kipindi cha mwaka 2012, tuliendelea kufurahia manufaa ya mfumo huo wa ECTS na miradi mengine, na hivyo basi tunaipongeza KRA na idara nyingine za utekelezaji sheria. Tunaahidi kuendelea kushirikiana na idara hizo za serikali na wadau wengine, katika suala hilo.

Utendaji wa Kampuni

I. Ukuaji

Mwaka 2012 ulikuwa mwaka wa kwanza kabisa chini ya mfumo mpya wa utozaji ushuru uliozinduliwa mwezi Juni mwaka 2011. Mauzo ya sigara hapa nchini yaliongezeka kwa asilimia 4, huku chapa yetu maarufu ya sigara ya Sportsman ikiendelea kushamiri.

Mauzo ya sigara katika nchi za nje pamoja na yale ya sigara zilizotengenezwa kwa kandarasi yaliongezeka kwa asilimia 18, kuashiria ukuaji katika mauzo ya nje. Mauzo ya mabaki ya tumbaku katika kipindi hicho pia yalipungua kufikia asilimia 16 ya mapato (2011: asilimia 24).

II. Mipango mikuu

Ukuaji ulioishuhudiwa katika kipindi hicho ulitokana na mipango kadha wa kadha ambayo tumetekeleza, ikiwa ni pamoja na uimarishaji mifumo ya usambazaji sigara, uwekezaji katika upanuzi wa kiwanda chetu na kupunguza hasara wakati wa upakiaji bidhaa zetu na uhifadhi wa kawi.

Aidha, kampuni ya BAT Kenya ilituzwa mnamo mwaka 2012 na chama cha watengenezaji bidhaa hapa nchini (KAM) kwa juhudi zake katika uhifadhi wa kawi.

III. Mapato

Mapato jumla yaliongezeka kwa asilimia 6 katika kipindi hicho, huku faida kabla ya kulipa ushuru ikiongezeka kwa asilimia 6 kutoka Shilingi bilioni 4.5 mnamo mwaka 2011 hadi Shilingi bilioni 4.8 katika mwaka wa 2012.

Mchango kwa mapato ya serikali

Mchango wetu kwa hazina ya serikali mintarafu ushuru wa bidhaa, ushuru wa thamani ziada (VAT) na ushuru wa ushirika yaani ya Corporate tax uliongezeka kwa asilimia 25 hadi Shilingi bilioni 13.1, na kwa mwaka wa sita mfululizo, tulitambuliwa na halmashauri ya ukusanyaji ushuru hapa nchini-KRA, kama mlipaji ushuru nambari nne kote nchini.

IV. Mgao wa faida

Wakurugenzi wa kampuni wamependekea mgao wa mwisho wa faida wa Shilingi 29.00 kwa kila hisa ya kawaida, ambao ukijumuishwa na mgao wa muda wa Shilingi 3.50 kwa kila hisa ya kawaida ulioliwa mwakani, unakuwa mgao jumla wa Shilingi 32.50. Mgao huo utalipwa tarehe 30 mwezi Aprili kwa wenye hisa ambao majina yao yatakuwa kwenye

Mabadiliko kwenye Bodi

Dkt. J. Ciano aliteuliwa kwenye bodi tarehe 5 mwezi Julai mwaka 2012. Ciano ambaye kwa sasa ni afisa mkuu mtendaji wa maduka ya Uchumi, analeta ujuzi wa miaka 25 katika masuala ya usimamizi kwenye kampuni yetu.

Bw. M. Janmohamed aliteuliwa kwenye bodi, tarehe 1 mwezi Novemba mwaka 2012. Kwa sasa yeye ni Mkurugenzi Mkuu wa kampuni ya hoteli za Serena, na pia mkuu wa kitengo cha masuala ya utalii katika hazina ya Aga Khan kuhusu maendeleo ya kiuchumi. Bw. Janmohamed ana uzoefu mkubwa katika sekta ya utalii, ambapo amehudumu barani Uropa na pia Afrika.

Dkt. M. Oduor-Otieno aliteuliwa kwenye bodi, tarehe 1 mwezi Januari mwaka huu wa 2013. Yeye ni afisa mkuu mtendaji wa hivi punde wa benki ya Kenya Commercial (KCB). Analeta ujuzi mkubwa kutoka sekta ya ushirika kwenye kampuni yetu.

Bw. M.M. Wanyoike alijiuzulu kutoka bodi ya kampuni tarehe 20 mwezi Juni mwaka 2012, ilhali Profesa J.H. Kimura alijiuzulu tarehe 5 mwezi Julai mwaka 2012.

Nachukua fursa hii kuwashukuru Bw. Wanyoike na Profesa Kimura kwa mchango wao walipokuwa wakihudumu kwenye bodi ya BAT Kenya, na kuwatakia kheri katika shughuli zao.

Mtazamo 2013

I. Ukuaji wa kiuchumi

Ni imani yangu kuwa mwaka 2013 utakuwa mwaka wa fanaka, mradi kuwe na mpito wa amani baada ya uchaguzi mkuu. Robo ya pili ya mwaka 2012 iliashiria msingi thabiti wa ukuaji mkubwa wa uchumi katika mwaka 2013. Kulingana na benki ya dunia, kuongezeka kwa mauzo ya nje kutatoa fursa ya ukuaji mkubwa wa uchumi, na hivyo kubuni nafasi zaidi za ajira.

Kutokana na mazingira thabiti ya kiuchumi yaliopo, upanuzi na ustawishaji wa muundo msingi kwenye kaunti, pamoja na mazingira ya biashara yalioimarika chini ya katiba mpya, tuna imani kwamba ukuaji wa kiuchumi utazidi asilimia 5.

II. Kuendeleza ufanisi

Natoa shukrani zangu za dhati kwa mkurugenzi wetu mkuu Gary Fagan, wakurugenzi wenzangu kwenye bodi ya kampuni ya BAT Kenya, wasimamizi, na wafanyakazi. Mwaka 2012 ulikuwa mwaka wa fanaka kwa kampuni yetu, na tutaendelea kuweka mikakati ya kupanua zaidi kampuni yetu, ili kujiongezea mapato katika mwaka 2013.

Mazingira ya kiuchumi hapa nchini yanatarajiwa kuimarika, na tuna imani kwamba mikakati tuliyoweka itaivezesha kampuni yetu kunakili ukuaji mkubwa katika miaka ijayo, kwa manufaa ya wenye hisa wetu.

Evanson Mwaniki

Mwenyekiti



*Gary Fagan, (centre)
and Philip Lopokoiyit
(right) during ground
breaking ceremony for
construction of the new Cut
Tobacco Store at BAT factory
on Likoni road.*

*Tutaendelea kuwianisha
malengo yetu ya biashara
na matarajio ya wadau
wetu mbali mbali ili kuweka
kampuni yetu katika
mkondo wa
ukuaji wa kasi.*



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Gary Fagan, Mkurugenzi Mkuu

Ukuaji

Umaridadi wa chapa zetu za sigara uboreshaji wa mifumo ya usambazaji bidhaa zetu, pamoja na nchi ya wakau wetu, zimekuwepesha kunakili matidokeo bora ya basiani kwa mwaka mwingine.

Mauzo ya bidhaa yaliimarika kwa kadin ya asilimia ya pointi 2 katika mwaka wa 2012, licha ya chinkamoto za kuchumi zivakumba nchi nchi. Katika kiphindi cha mwaka 2012, sekta ya tumbaku ilinakili ukuaji wa asilimia 16 kilinganishwa na ukuaji wa jumla wa asilimia 1 katika mwaka wa 2011.

Mauzo wa sigara yetu miongoni mwa chapa ya Sportsman, yaliendelea kuanzishwa kuongezeka kwa asilimia 14 katika mwaka wa 2012, huku mauzo ya sigara yetu ya chapa ya Durhill inayotambulika kote duniani yakiongezeka kwa asilimia 10 katika kiphindi nicho. Mwaka uliopita, tuta kila sigaramo ya chapa ya Durhill Switch, ukumbuziajika katika sekta ya tumbaku nchini.

Faida iliyotokana na mauzo ya hapa nchini yaliimarika kama kiondi nicho, hii kiwa ni kutokana na kuongezeka kwa kiwango cha mauzo, baadhi yomanka pamoja na kupungua kwa gharama ya mifumo ya kampuni, mauzo ya chini wa masoko ya tumbaku na kiwango cha ubadilishanaji, pwa mwaka 2012. Hapa pamoja na kumika kwa kiwango cha uzalishaji kwenye kiwanda yaliwezesha kampuni kuanzishwa asilimia 9 katika faida utendaji.

Aidha kuongezeka kwa asilimia 2 kwa mgozi wa faida kwa kila hisa, kumetoweza kutoka mapato bora kwa wenyochisa kwa maa nyingi. Thamini ya hisa za kampuni ya BAT Kenya lina zigeza cha kama 100 bora kwenye soko la hisa la Nairobi mwaka uliopita, kwa kunakili ukuaji wa asilimia 100, kilinganishwa na kigozi cha soko la hisa la Nairobi cha asilimia 29, huku mapato jumla kwa wenyochisa ikiwa ni pamoja na mgozi kama wafaida yakiongezeka nakutika asilimia 114.

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Mauzo ya sigara hapa nchini nchi za njie pamoja na yote ya kampuni yaliwezesha kuanzishwa kuongezeka kwa sigara yaliyoongezeka kwa asilimia 13, kilinganishwa na mwaka uliopita.

Soko la tumbaku nchini lilianzisha asilimia 37 ya mauzo ya mwaka 2012, kilinganishwa na soko la 19 mnamo mwaka 2011. Mauzo ya njie yaliyotambuliwa yaliwezesha sigara kwa kandasai katika jumla ya Afrika Mashariki, AO, eneo la COMESA, na upembaji wa Afrika yaliwezesha kwa asilimia 11 kilinganishwa na asilimia 1 mnamo mwaka 2011.

Mapato jumla yaliwezesha kwa asilimia 6 na kutika Shilingi bilioni 305, hali iliyochunguwa na kupungua kwa mauzo ya tumbaku ambayo hajakamika kutawabwa, pamoja na kukungua kwa thamani ya Shilingi dhidi ya sarafu, zakiwatambuliwa mnamo mwaka 2012, kilinganishwa na mwaka 2011.

Mapato mengine yaliipungua kwa kiwango cha asilimia 4, huku marufaa ya utendaji kutokana na kuongezeka la mauzo yakiathiriwa na viwango wa juu wa ushuru katika kina cha mwaka 2012. Viwango wa ushuru wa bidhaa viliongezwa mwezi Juni mwaka 2011, na athari kamili

Uzalishaji

Kiwanda cha Nairobi kinaendelea kutekera waibu mfulim, kama kituo kikuu cha eneo hili cha utendaji wa usambazaji sigara kwenda Uropa Mashariki, Mashariki ya kati na sehemu nyingine za bara la Afrika. Kampuni ya BAT Kenya ilivekeza Shilingi bilioni 1.2 mnamo mwaka 2012 katika jitihada za kuongeza kiwango cha uzalishaji na pia kunakikisha ubora wa bidhaa zetu.

Uzalishaji wetu uliendelea kuimarika katika mwaka wa 2012, huku tukiweka mikakati ya kuthibiti gharama ya uzalishaji, ili masala inayotokea wakati wa utayarishaji tumbaku pamoja na unaribiti wa karatasi za upakaji kupungua kwa kiwango kikubwa, hii ilitowezesha kuongeza kiwango cha utendaji mwaka wa 2012.

Uendelevu

Kwa sasa kampuni ya BAT Kenya inazingatia zaidi (practic) mipango ya kuborisha shughuli zake katika siku za usoni. Mnamo mwaka 2012 kampuni yetu ilitambuliwa na chama

matumizi bora ya kawi, ambapo ilichukua nafasi ya kwanza miongoni mwa kampuni zilizotachiniwa hapa ndani.

Mnamo mwaka 2011, tulahidi kulimisha mifumo yetu ya utendaji, ili kuafika malengo yetu ya uendeleu. Tunachindea kumkiki utafiti katika ajenda yetu ya uendeleu kwa kupunguza athari za shughuli zetu kwa mazingira, kwa kutia maanani namna tunavyoendesha shughuli zetu pamoja na mifumo ya usambaza bidhaa zetu.

Mnamo mwaka 2012 tulimarisha mpango kuhusu wajibu wetu kwa jamii SRTB mpango ambao unajumuisha taratibu endelevu, kuanzia upanji wa tumbaku, kuhirikiana na wakulima katika uhifadhi wa mivitu, matumizi ya dawa za kuangamiza wadudu waharibifu, matumizi ya maji, ukusanyaji na utayarishaji wa tumbaku, na utupaji wa mabeki yanayotokana na utayarishaji wa tumbaku. Vifuraha yanayo kuwajulisha kuwa mpango huo umefaulu.

Uzingatiaji kanuni na maadili ya biashara ni nguzo muhimu kwa biashara endelevu, kwani unatoa mwelekeo kuhusu wajibu wa wafanyakazi wetu na wadau wengine kwa jamii na pia maadili ya kibinafsi. Kufikiana na viwango hivyo, wafanyakazi wetu wote wanahitajika kudumisha kiwango cha juu cha maadili ya biashara, kuzingatia sheria zote zilizowekwa, na kuhakikisha kuwa viwango vya ubora havinujumiwi kwa minajili ya kupata faida.

Uthibiti Endelevu

Huku tukitambua ya kwamba uthibiti ni sehemu ya biashara yetu, tunachindea kuhimiza uzingatiaji mifumo wa uthibiti ambao unafu maanani maslani ya wateja na jamii kwa jumla, lakini unachindea ushahidi fulaji.

Kwa hivyo tutaendelea kushauriana na wadau mbali mbali kutafuta mwelekeo unokubalika kuhusu suala hilo tata. Mwaka uliopita, kongomano la shirika la abja duniani kuhusu uthibiti wa tumbaku lililandiwa nchini Korea kwa ushirikiano na vyama katika sekta ya binafsi, tulisitika haja ya kumuniwa kwa maoni yetu katika utaratibu wa kutayarisha kanuni za biashara na uthibiti wa sekta hii.

Tunaendelea kushauriana na serikali kuhusu sheria za kuthibiti tumbaku ya mwaka 2007, ili kupanua ushiriki wetu kwenye shughuli za kukua uendeleu katika sekta za kilimo, uhifadhi wa mazingira na masuala mengine yanayoyusu maendeleo ya kitaifa. Kwa sasa shughuli zetu kwa miradi ya kijamii ni kwa kiwango kidogo tu.

Makundi ya Washindi

Hatuwezi kupokea matokeo bora jinsi hii bila kuwapa umezo wafanyakazi wetu. Ikiwa kwa mmoja tunathamini hakizao ya kuwani mtazamo tofauti kuhusu masuala mbali mbali, tunawahimiza kutanua bidii kazini. Mnamo mwaka 2012 tuliendelea kuhimiza mifumo ya utendaji bora katika BAT Kenya kwa minajili ya utafiti. Mipango tofauti ya utafiti mafunzo kwa wafanyakazi kupita mtandao imezididhiwa na kampuni, na hivyo kutupa mwelekeo kuhusu viwango vya utendaji vya wafanyakazi wetu, pamoja na juhudi zinazohitajika kutanywa kuboresha viwango hivyo. Tunaendelea kutekeleza mipango mahususi kuhusu utafiti mpana wa wafanyakazi na tunakendelea kushauri

tumeweke mikakati ya uwazi kuhakikisha usawa kwa wafanyakazi wetu wote. Hatubaki tunapofanya uamuzi kuhusu wajiri, upandishaji madaraka au ustaafishaji wa wafanyakazi. BAT Kenya inatia maanani na kutanibua umahimu wa kushauriana na wafanyakazi kwa lengo la kutambua umahimu uliopo kwa utendaji waki na kisha kutekebisha kupita mpango wa kuwalatimwa wafanyakazi ambao hutokelewa kila baada ya miaka miwili.

Nachukua tursa ili kuwashukuru wenzangu katika BAT Kenya. Nina imani ya kwamba kwa pamoja tutafika utafiti zidi.

Ushuru wa bidhaa

Kwa mwaka wa siku mfuluzi, kampuni yetu lipongezwa kwa mchango wake kwa hazina kuti ya serikali. BAT Kenya iliorodheshwa ya mte kitala katika ulipaji ushuru na halmashauri ya ukusanyaji ndini (KRA) mwezi Oktoba mwaka 2012, ambapo mchango wake wa ushuru wa bidhaa ushuru wa thamani zaidi (VAT) na ana nyinginezo za ushuru uliongezwa na kufika Shilingi bilioni 13.1.

Hata hivyo tunahimiza serikali kutahisisha mifumo ya ulipaji ushuru wa bidhaa, kando na kuweka mikakati ya kuhakikisha matumizi bora ya mapato, ili kukidhi mahitaji ya jamii yanayongezeka kila uchao.

Adhata tunahimiza uwanishaji wa viwango vya ushuru wa forodha katika mataifa ya jumuiya ya Afrika Mashariki kwa manufaa ya serikali, watengeneza bidhaa wenye hika na wadau wengine katika mzungano wa forodha.

Biashara Haramu

Biashara haramu ya bidhaa za tumbaku inaendelea kuwa tisho kubwa kwa sekta hii. Mwaka 2012 tulitanya kazi kwa ushirikiano na polisi wa Kenya halmashauri ya kukusanyia ushuru hapa ndini (KRA) na shirika la kukabiliana na biashara ya bidhaa bandia. BAT Kenya inayapongeza masadirika hayo kwa juhudi zaidi.

Hata hivyo tunatarajia ushirikiano hata zaidi na wadau wote katika sekta ya umma na binafsi, kuhakikisha uzingatifu wa kanuni zilizowekwa, ili kuhimiza haki miliki, kuangamiza biashara ya bidhaa ghushi za tumbaku na kuwarisika sheria kuhusu uthibiti wa tumbaku katika mataifa yanachama ya jumuiya ya Afrika Mashariki.

Matarajio

Tunaendelea kuimarisha malengo yetu ya biashara na matarajio ya wadau wetu mbali mbali, ili kuwezesha kampuni yetu kuendelea kukua.

Tunaotaraa mwaka 2013 kwa mwaka wenye changamoto si haba. Ugatuzi wa serikali pamoja na kuongezeka kwa matumizi ya serikali, gharama ya kutadhihi uchaguzi mkuu, kuongezeka kwa pesa jumla la serikali, kuongezeka kwa bei za bidhaa na mafuta katika soko la kimataifa, ni baadhi tu ya changamoto zinazokabiliana hii. Hata hivyo, tutaendelea kutanua juhudi na kuweka mikakati ya kutuwezeshwa kuendelea kunakili ukuaji sawa na miaka minne iliyopita.

Kwa njia ya wasimami na wafanyakazi wa kampuni ya BAT Kenya, ninatoa shukrani zangu kwa halmashauri ya wakurugenzi kwa ushauri na usaidizi wao katika kipindi cha mwaka 2012. Kadhaika nawashukuru wenyesa wetu wateja wetu nawashukuru wao katika biashara.

Najunga nanyi katika kuitaka kampuni yetu utafiti zaidi katika miaka iliyayo.

Gary Fagan



BRITISH AMERICAN
TOBACCO
KENYA



Date 22/10/2012

03-094

KSh 13,100,000,000

Pay Kenya Revenue Authority

Kenya Shillings Thirteen billion one hundred million Only

22/10/12

BRITISH AMERICAN TOBACCO KENYA LTD

Cheque Number

Bank Code

Account Number

⑈ 201847 ⑈ : 021157 ⑈ 127436484803 ⑈

BAT Kenya was recognised by KRA for
being the fourth largest tax payer in 2012.
Above Finance team from left - Grace Njambi,
Joseph Getuno, Sebastian Nthama, Metian Pertet,
Patrick Nzau and Pauline Kimani.



**BRITISH AMERICAN
TOBACCO
KENYA**

These, in addition to improved factory productivity ensured that we delivered a 9% growth in operating profit.

The resulting 7% increase in dividends per share has helped us deliver superior returns to shareholders once again. The BAT Kenya share outperformed the NSE index in 2012, delivering a 100% capital appreciation versus the NSE index's 29%. Total return to shareholders including the full year's dividend was 113%.

Productivity

The Nairobi factory continues to play a key role as a regional centre of manufacturing and supply chain excellence in the Eastern Europe, Middle East and Africa region. The company invested Shs1.2 billion in 2012 to further increase capacity and efficiencies as well as enhancing quality standards.

Our productivity continued to improve in 2012 as we further addressed our cost base through productivity savings resulting in reduced tobacco and wrapping material waste.

These have helped us achieve an increase in operating margins in 2012.

Sustainability

Much of what we do today is about preparing for our future. We are proud of our record of sustainability across our operations. In 2012, our Company was recognized by The Kenya Association of Manufacturers for efforts in Energy Management, emerging top in the country.

In 2011, we promised to refine our approach towards achieving excellence in sustainability. We continue to make progress on our sustainability agenda, reducing our impact on the environment, in the way we conduct our operations and throughout our supply chain.

In 2012, we reinforced the Social Responsibility in Tobacco Production (SRTP) programme encompassing sustainability practices; right from the planting of tobacco, working with

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Gary Fagan, Managing Director

Managing Director's Message

**ANNUAL REPORT
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2012

our contracted farmers to ensure afforestation and re-afforestation, handling of pesticides, water use, handling and processing of tobacco, recycling and waste disposal. I am delighted to report that this has been a resounding success.

Our Business Principles and Standards of Business Conduct are an integral part of the continuing development of a business that is sustainable in the long term and set out what we require of our employees and business partners in terms of responsible corporate behaviour and personal integrity. The Standards require all staff to act with high standards of business integrity, to comply with all laws and regulations and to ensure that our business standards are never compromised for the sake of results.

Sustainable Regulation

While we acknowledge that regulation is part of our business, we continue to advocate for regulation that balances consumer preferences and the interest of society while also being evidence-based.

We thus continue to engage with the relevant stakeholders towards achieving common ground. Last year, the 5th Conference of the Parties of the World Health Organisation's Framework Convention on Tobacco Control (FCTC) was held in South Korea. Working with private sector associations, we sought to reiterate our position that our voice is heard and that the industry views are incorporated in the process of formulating regulations.

We continue to engage Government on issues around expanding the scope of our involvement in activities to promote sustainable agriculture, environmental conservation, and other priorities on the national development agenda. Currently, our Corporate Social Responsibility (CSR) activities are limited by the Tobacco Control Act, 2007.

Winning Teams

We can only deliver such great results if we nurture and develop our people. We value our employees' diverse perspectives and encourage them to perform to their best. In 2012, we continued to embed a High Performance Culture at BAT Kenya. A range of e-learning training and development programmes were rolled out giving us a clearer view of our employee training progress and actions they are undertaking to address capability gaps.

We continue to build robust succession plans at all levels and aim to recruit individuals who will help strengthen our core capabilities and culture.

We are dedicated to providing equal opportunities to each employee. We do not discriminate when making decisions on hiring, promotion or retirement.

BAT Kenya is committed to employee engagement throughout the business and this includes acting on areas needing improvement as identified in our employee survey, which is conducted every two years.

May I take this opportunity to express my heartfelt gratitude to each and every one of my colleagues at BAT Kenya. Together, we will continue to achieve even greater success.

Excise

For the 6th consecutive year, our Company was lauded for its contribution to the Exchequer. BAT Kenya was recognized as the 4th largest taxpayer by the Kenya Revenue Authority in October 2012 with remittance to the Exchequer in the form of Excise VAT and Corporate taxes growing by 25% to Sh513.1

We continue to encourage Government to further simplify the excise regime and protect government revenues in light of ever growing demand for resources to support our society.

We also call for harmonisation of taxation structures across the East African Community as a means to create shared value for governments, manufacturers, shareholders and other stakeholders in the customs union.

Illicit Trade

The illicit trade of tobacco products continues to pose serious challenges to the industry. In 2012 we worked closely with the Kenya Police, Kenya Revenue Authority and the Anti-Counterfeiting Agency in fighting the vice. We would also like to laud the authorities and enforcement agencies for their increased vigilance.

We look forward to more collaboration with stakeholders in both the private and public sectors towards implementing best practices in the protection of intellectual property, anti-counterfeiting efforts and tobacco control legislation across the East African Community.

The Future

We continually balance our commercial objectives with the expectations of a broad range of stakeholders, to position the Company for continued growth.

2013 is expected to be a challenging year. The devolution of Government and the attendant increase in Government expenditure, increased spending on the General Elections, record levels of Government debt, rising international commodity and energy prices are some of the challenges facing the Kenyan economy.

We will remain committed and focused on our strategy to continue delivering consistent growth.

On behalf of the Management and Staff of British American Tobacco Kenya, I sincerely thank the Board of Directors for their guidance and support in 2012.

I also extend my gratitude to our shareholders, consumers of our products and our business partners.

I join you all in looking forward to many successful years ahead for our business.

Gary Fagan
Managing Director

In Kenya, our Global Drive Brand Dunhill and our other local brands account for the largest percentage of the total market cigarette volumes.

III. Innovative products

We make significant investment in our brands and in the development of superior, differentiated products to drive growth. Our product and packaging innovations, such as convertibles (Dunhill Switch) and bevel edge packs were launched in Kenya in 2012 with commendable success. Our focus when designing these innovations is on relevance to the consumer and potential speed to market.

IV. Our people

In Kenya we have employed more than 400 people locally – from securing our leaf supply through production and distribution to our efforts to develop reduced-risk products. Our workforce is strongly multi-cultural, with employees

having responsibility for their areas of operations. We value our employees' talents, diverse perspectives and recognize their critical role in achieving the goals we set for our business.

Resource Management

Our key resources are:

- Employees and 3rd party staff
- Farmers
- Plant and machinery
- Land & Buildings
- Monetary assets

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Philip Lopokoityit, Finance Director

Our resources and their optimal use are largely geared to ensure that we operate sustainably. As part of the BAT Group, we are dedicating resources to the following broad categories:

- Harm reduction
- Marketplace
- Environment
- Supply chain
- People and culture

Harm reduction

Our long-term harm reduction goal is to strive to bring commercially viable, consumer acceptable reduced-risk products to market. Developing reduced-risk products for those adults who use tobacco is a priority as the greatest negative effects from our business are the real health risks of tobacco products. This comes with many challenges among them: the science is complex, collaboration is needed between scientists, tobacco companies and regulators, products need to meet consumer expectations and we need a regulatory framework that supports tobacco harm reduction. We are committed to meeting these challenges.

We are preparing for the future by:

- Identifying smoke toxicants that pose the greatest health risks and inventing new technologies to reduce them.
- Engaging with regulators, scientists and the public health community to develop the frameworks needed to bring them to market.
- Nicoventures (a British American Tobacco Plc subsidiary) is exploring the development of and commercialization of regulatory-approved nicotine products.

Marketplace

Our long-term marketplace goal is to take a lead in upholding high standards of corporate conduct. We aim to grow our market share responsibly through innovative products and satisfying consumer preferences. We believe that regulation should be shaped in collaboration with all stakeholders, including the tobacco industry. With our industry experience and expertise, we should be part of developing regulatory solutions. The illegal tobacco trade is a widespread problem, made worse by ill-considered regulatory policies, particularly by large and sudden increases in excise tax that destabilise the market. The perpetrators of this trade are criminals, often gangs that also traffic drugs, arms and people, and may have ties to terrorist organizations.

We are preparing for the future by:

- Sharing objective evidence to help contribute to the policy debate on regulation, as well as supporting regulation for the development and sale of reduced-risk products.
- Updating and strengthening adherence to our International Marketing Principles.
- Collaborating with governments and enforcement authorities to help address the illegal tobacco trade.

Environment

Our long-term goal is to actively address the impact of our business on the natural environment. Addressing the immediate impact of our business on the environment, as well as the likely future pressures, involves risk assessments,

performance management and investment in efficient technologies. Environmental problems cannot be solved by one company acting alone.

The success of our business now and in the future is largely dependent on biodiversity. Biodiversity provides resources like clean water, healthy soils and timber. Business can have a negative impact on biodiversity, as species and communities also depend on these resources.

We are preparing for the future by:

- Using risk assessments and stakeholder dialogue to guide our approach to climate change on a global level.
- Developing strategies to reduce our impacts, focusing on water, energy and biodiversity.
- Using biodiversity risk and opportunity assessments to guide our approach to sustainable agriculture.

Supply chain

Our long-term supply chain goal is to work for positive social, environmental and economic impacts in our supply chain. Our supply chain sustainability strategy covers our own planning, manufacturing, logistics and trade marketing operations, but the most significant part of it relates to tobacco growing. This is where our greatest environmental impact is but where we only have influence, rather than direct control.

We believe effective regulation in this area must cover all agriculture, not just tobacco. We also believe we have an important part to play in developing sustainable agriculture solutions.

We are preparing for the future by:

- Protecting the long-term security of our tobacco leaf supply by encouraging sustainable agriculture, involving multi-stakeholder partnerships.
- Working to help build an objective evidence base on the impact of tobacco growing compared to other crops.
- Reducing the environmental impact of our own operations and encouraging our suppliers to reduce their's.
- Using our supply chain programs and partnership projects with suppliers and third parties to protect the human rights of our suppliers, contracted farmers and local communities.

People and culture

Our people and culture goal is to ensure we have the right people and culture to meet our needs. To achieve the goals we set for our business we need a strong workforce – from securing our supply of tobacco leaf to developing reduced-risk products. We can only strengthen our culture and build competitive advantage if we continue to focus on driving high performance, encourage greater productivity and build on the excellence of our talent. Diversity helps us to understand our stakeholders and to meet their needs. It takes many forms including gender, nationality and background.

We are preparing for the future by:

- Continuing to build robust succession plans.
- Establishing clear principles and simple, effective tools to manage performance.
- Embracing the diversity of our workforce to encourage creativity and innovation.
- Improving our approach to the health, wellbeing and safety of our people.
- Strengthening our core capabilities, our values and our culture

Risk Management

The following section outlines the key risks facing BAT Kenya where operations are exposed and identify, in each case, their potential impact and the principal activities in place to manage the risk. These are illicit trade and excise and tax.

These risk factors listed in this section and the specific activities in place to manage them should be considered in the context of the Company's internal control framework. This is addressed in detail in the section on risk management and internal control in the Corporate Governance statement.

Mitigation plans are required to be in place to manage the risks identified and together with the risk registers, are reviewed on a regular basis.

Illicit Trade

Illicit trade in the form of counterfeit products, smuggled genuine products and locally manufactured products on which applicable taxes are evaded, continues to represent a significant and growing threat to the legitimate tobacco industry. The majority of such illicit products are sold at the bottom end of the market and in contravention of applicable regulatory requirements. Increasing excise rates can encourage more consumers to switch to illegal cheaper tobacco products and provide greater rewards for smugglers. The risk is exacerbated where current economic conditions have resulted in high unemployment and/or reduced disposable incomes.

Potential impact includes:

- Erosion of brand equity.
- Investment in trade marketing and distribution is undermined.
- Product is commoditised.
- Lower Industry and Government revenues.

Principal activities in place to address this risk are:

- A dedicated Anti-Illicit Trade (AIT) team supported through internal cross-functional coordination.
- Active engagement with key external stakeholders.
- Cross-industry and multi-sector cooperation on a wide range of AIT issues.
- Strong internal business conduct and customer approval policies.

Excise and Tax

Tobacco products in Kenya are subject to substantial excise taxes which are generally increasing.

Potential impact includes:

- Consumers rejecting tax-paid products for products from illicit sources.
- Lower Industry and Government revenues.

Principal activities in place to address this risk are:

- Engagement with Government authorities, where appropriate.
- Annual management review of brand portfolio, brand health and equity.
- Specialist resources available internally to provide advice and guidance and external advice sought where appropriate.

Relationships

As a corporate citizen, BAT Kenya operates in a society that has a variety of stakeholders. These stakeholders have diverse interests and interact with the Company differently. They include:

- The Government which receives substantial revenues from taxes paid by BAT Kenya. The Government also implements legislation that directly affects how we operate as a Company.
- The contracted farmers whose livelihoods depend on the tobacco they grow for BAT Kenya. The Company also supports these contracted farmers by encouraging improved farming practices thereby improving the sustainable use of their farms.
- Employees and 3rd party staff who are directly or indirectly employed by BAT Kenya.
- Distributors and the retail trade team which ensures effective delivery of products to the consumers.

Sustainability Statement

Organisational Profile

British American Tobacco Kenya Limited is a Kenya-based company and part of the British American Tobacco Group, the world's second largest tobacco group. Our core operations in Kenya are cigarette manufacturing for domestic and export consumption, cut rag (semi processed) tobacco manufacture for Egypt, leaf growing operations, and green leaf threshing in Ihika.

We set up operations in Kenya in 1907, and have since grown to become the market leader in the domestic cigarette industry. The Nairobi cigarette factory which was set up in 1956, and has since matured to become one of the Group's strategic manufacturing hubs. Approximately 60% of the

benefit from our commitment to sustainability. Collaborating with our esteemed business partners in this way strengthens both our relationship with them, and our commitment to our sustainability agenda. Sustainability is integral to everything we do and is especially important to a business such as ours where our product poses health risks. Sustainability is the catalyst for innovation, and we are committed to developing reduced harm products for the benefit of our adult consumers. Our determination to act in a sustainable manner spans the whole business from our contracted farmers to our consumers.

Our strategy is built upon the pillars of Growth, Productivity, Responsibility and a Winning Organisation.

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volumes produced in the Nairobi factory are exported to 17 markets within the East African Community Common Market and COMESA trade bloc.

We began our domestic leaf growing operations in 1975, and this was quickly followed by the set-up of our Green Leaf Threshing Plant in Ihika.

Strategy & Analysis

Our vision of a sustainable tobacco business is one that manages the impact of its operations and products responsibly today and prepares for a future in which it continues to create value for shareholders as well as being in the best interest of other stakeholders.

As a business, our primary role is to build long term shareholder value by meeting consumers' preferences for high quality tobacco products. We believe in ensuring our business is run responsibly in the interests of all stakeholders. Sustainability, for us is about creating shared value.

Sustainability is the right thing to do in terms of our customers, shareholders and the investing public. Our

Responsible Marketing to Consumers

Our long term marketplace goal is to continue to lead in upholding high standards of corporate conduct in the workplace.

We apply a responsible approach to marketing following our internal disciplines - the International Marketing Principles and the local law. The principles state that our marketing should be targeted at adult tobacco consumers and not undermine their understanding of the health risks.

Engaging with our Farmers

We work with our contracted farmers to help make their farms viable and efficient. This is with the help of 40 leaf managers and technicians working with over 5,000 contracted tobacco farmers in Kenya. We provide agronomy support and engage with farming communities on matters beyond tobacco farming such as environmental protection and agricultural practices. This helps improve their yields of food crops, making them more self-sufficient and protecting the security of our tobacco leaf supply.



Managing Environmental Impact of Our Operations and Biodiversity

Our long term goal is to actively address the impact of our business on the natural environment.

We monitor and reduce our direct impact on the environment by making our operations more efficient. In 2012, we set ourselves targets for our key environmental issues, including energy consumption, water usage, waste and recycling. We met these targets as described in the Environmental Sustainability section of this Sustainability Statement.

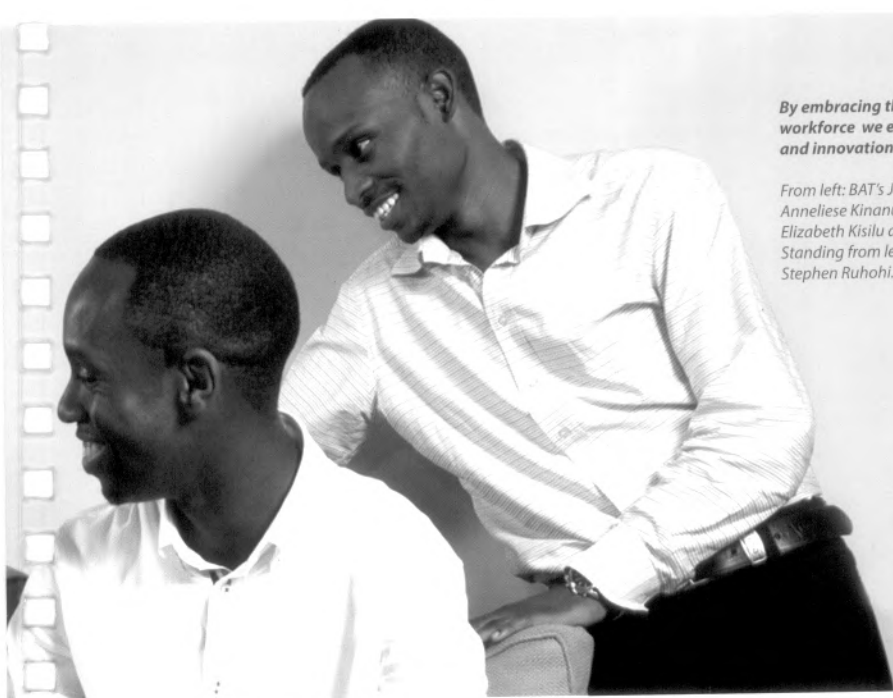
External Recognition

We were also recognized as industry leaders in several categories underlying our focus on sustainability. Kenya Revenue Authority acknowledged our contribution to Government revenue as the 4th largest taxpayer in Kenya. We also emerged top of the class in the Kenya Association of Manufacturers Energy Awards.

This was mainly driven by improved equipment efficiency in the Primary Manufacturing Department (PMD) and Secondary Manufacturing Department (SMD) achieved through initiatives in energy management. These initiatives include: installation of solenoid valves for automatic compressed air shut offs, lighting rationalisation with use of LED technology, occupancy sensors, use of low energy motors, installation of Variable Speed Drives and soft starts on electric drives, improvement of condensate recovery at the boiler house and lagging of all heated parts in steam distribution network. Finally, the upgrade of equipment in PMD factored in having more energy efficient equipment hence the positive impact on the energy results.

Water used per unit production

Water consumed per unit production was also on a positive trend with a reduction of 6.4% from the previous year's performance. This was mainly driven by the high efficiency and distribution of steam at the PMD and Boiler house, as well as the water conservation projects on site which included elimination of leakages and sub-metering at the individual end point use.



By embracing the diversity of our workforce we encourage creativity and innovation.

From left: BAT's Jennifer Padayatchy, Anneliese Kinanu, Ian Mokoosio, Elizabeth Kisilu and Clifford Machoka. Standing from left, Chris Luvisia and Stephen Ruhohi.

People and Culture

Our long-term people and culture goal is to work to ensure we have the right people and culture to meet our needs. See more details in the Human Rights, Labour Practices and Decent Work section of this Sustainability Statement.

Environmental Sustainability

In the year 2012 our track on sustainability has been based on two key fronts:

- **Going Green** – looking at all the key critical parameters in the environment.
- **Occupational Health and Safety** – relating to the health and safety of our workers and business partners.

Going Green

2012 was another year that we made great strides towards achieving our environmental key performance targets as highlighted below:

Energy used per unit production

Our key energy components are electricity used for driving the equipment and furnace oil used in the boilers for steam

Waste generated & re-cycling

We have sustained our solid waste re-cycling levels at highs of 94% through the various contracts that we have in place with our waste re-cyclers as well as our initiative of "segregation at source" with regards to waste. All our paper, plastic and tobacco dust is fully recycled. The reduction on energy consumption and minimal disposal of waste to the landfill has in turn driven down our total greenhouse gas emissions by 20% compared to last year. 2012 saw the completion of the feasibility studies for the use of sugar cane bagasse briquettes as an equivalent and sustainable source of fuel for curing tobacco, substituting wood fuel. This will open a new era in terms of sustainability for the tobacco curing process with an alternative fuel source made from the waste generated by sugar factories.

Afforestation

Our leaf growing arm has also strengthened its afforestation programme with the distribution of 1.6 million seedlings to contracted farmers. Indigenous species accounted for over 40% of seedlings planted. The afforestation programme is also complemented with our key activities of rehabilitation and recovery of river lines and dams.

Occupational Health and Safety

Great improvements were implemented with regards to ensuring a safe working environment. Key initiatives that enhanced health and safety in the year include:

Risk Assessment

Risk reviews with our business partners and contractors on site ensured key risks were highlighted and mitigation plans implemented enabling safer working practices.

LOTOTO

This stands for Lock Out, Tag Out and Try Out, a slogan on site to positively isolate energy sources while key works are being undertaken.

Communication

Improvement of the factory site safety instructions as well as reinforcement of safety messages through quarterly business cascades to all employees.

Back to Basics Approach

Use of the "Back to Basics Approach", which has been adopted within BAT's Eastern Europe, Middle East and Africa region in improving our facilities, equipment and operations to make them safer and fool proof.

Safety Campaigns

In 2012, staff participated in a competition to develop a safety slogan. The winning slogan was "Safety is Worth Your Life" and it has now been adopted as part of the factory site communication as a constant reminder of the safety campaign.

Social Responsibility in Tobacco Production (SRTP)

The SRTP audit that took place in our leaf growing areas in 2012 verified our practices with regards to the total impact of our activities on the society and environment at large. The audit indicated a marked improvement of 20%, and this went to show the effort that we as a company have invested and the great success we have achieved with regards to our responsibility in tobacco production.

These activities, coupled with the various safety management systems in place have made the site a safe haven in which to work.

Human Rights, Labour Practices and Decent Work

Core Values

BAT Kenya has adopted principles in line with the BAT Group guidelines which aim to align end markets with local and international best practice. Our policies are focused on:

- Our people and their development.
- Ensuring good governance.
- Strengthening the local economy.
- Being a valued member of the wider community.

The principles which are contained within our core values demonstrate our commitment to good employment practices, and point to our position as an employer of choice. Statistics on our employee base which indicate very low turnover and high attractiveness are evidence of our efforts in living our core values and maintaining our position as an employer of choice both locally and internationally.

2012	Total	Hires	Exits	Net Increase
Employees	449	47	29	18
% of staff base		10%	6%	4%

Non Discrimination

British American Tobacco is dedicated to providing equal opportunities to each employee. Our employment beliefs and standards mean that we will not discriminate when making decisions on hiring, promotion or retirement on the grounds of the employees' or candidates' race, community, colour, gender, age, social class, religion, smoking habits, sexual orientation, political orientation or disability - subject to the inherent requirements of the role to be performed. A fundamental aim is to ensure a diverse and representative workforce profile through the promotion of employment equality. Our employee statistics below show our commitment to living our core value of diverse teams.

	2012	2011
Non Management		
Male	298	267
Female	54	48
Total Non-management	352	315
Management		
Male	73	82
Female	24	34
Total Management	97	116
Total	449	431

Labour and Management Relations

We acknowledge the right of employees to be represented by local company recognised trades unions, or other bona fide representatives, and for these, where appropriate, to consult with the relevant stakeholders - within the framework of applicable law, regulations, the prevailing labour relations and practices, and company procedures. Close to 100% of the eligible workforce belong to the union and the company makes regular payments to the umbrella union to facilitate its activities. 2012 saw the company make great efforts to sustain the harmonious industrial relations environment. We continue to respect employee freedom of association and have facilitated the employee union in allowing it to represent and champion the interests of staff through agreed procedures. Continuous engagement between management and union leadership, joint training, and policy education sessions have been pillars in our strategy to maintain this very important relationship. The result of this has been reduced litigation and quick resolution of concerns raised.

The Institute of Human Resources Management recognized this effort by awarding the company the Best Company in Employee Relations award for 2012. We have continued to have regular reviews of our Collective Bargaining Agreement (CBA). Every two years the union makes proposals for amendment of the CBA and the company gives its counter proposals. The union and management teams then engage in a negotiation process to align the proposals leading to a sign off of the CBA. Preparation for the 2013 negotiations began in 2012 and we are expecting another successful sign off of the revised CBA in 2013. This document is summarised in a booklet every two years for quick reference by the union and management on the revised terms.

Standards of Business Conduct

Our Standards of Business Conduct set out the rules and policies that apply to everyone working within the British

and guidance to assist all employees in meeting the high standards expected of them. The central requirement of the Standards is to ensure that at all times employees act with high levels of business integrity and comply with all applicable laws and regulations. The Standards also provide guidance on specific areas relevant to the Group's business including Conflict of Interest, Bribery and Corruption, Entertainment and Gifts, Public Contributions, Corporate Assets and Financial Integrity and National and International Trade. The company ensures an annual circulation of the Standards to all managers accompanied by face to face cascades to all employees. Employees are then expected to sign a compliance form on an annual basis affirming their understanding of and adherence to the Standards.

Training and Development

Managing employee development and training is of strategic importance to the company. The company ensures an effective and consistent approach towards talent development. Managed by the Human Resources function the company endeavours to:

- Continuously develop individuals in order to enhance our competitive advantage.
- Provide development opportunities based on an individual's identified development plans.
- Deliver 80% of development on-the-job and 20% via off-the-job training programmes.

In 2012 we managed to deliver training to staff in line with our training plans. The training plans were derived from the performance appraisals and development plans which were done for 100% of the staff complement.

In addition to the employment related training, the company also invested time in training employees on skills management and lifelong learning. The training programs include *Personal Mastery, Preparing for Tomorrow, Simply Successful and The BAT Manager*. These programmes help to prepare individuals for future careers and after employment skills. Our employees are therefore better prepared to meet challenges they may face throughout their career.

Society

Sustainable Agriculture

The future of our business is inextricably linked to the sustainability of environmentally sustainable tobacco farming practices in Kenya and other countries where we grow tobacco. Improving agricultural sustainability and championing conservation, the rehabilitation of water catchment areas and afforestation efforts are a significant part of what we do, and we reaffirm our commitment to doing this well. Our Leaf Operations Team constantly re-evaluates our processes and methods to ensure that we, as a proud Kenyan corporate citizen, use this great nation's natural resources sustainably. We recognise the role we have to play in helping ensure the basic human rights of the communities we do business in, and the larger country of which we are a part.

Our Sustainability Roadmap

BAT Kenya joins Kenyans in promoting the country's sustainability agenda. We welcome the advent of this new dispensation which presents unlimited opportunities for growth to both the public and private sector. When communities in Kenya thrive, this translates into a better nation, and an even better place to do business. We can no longer cede this responsibility to Government. Rather we must partner with them in achieving it and ensuring its

Product Responsibility

Product Quality

All our product inputs meet the requirements of the Additives and Materials Guidance Panel (AMGP) – an expert panel comprising senior scientists from the BAT Group Research and Development team. The AMGP provides authoritative advice on the toxicological properties and acceptabilities of ingredients and materials for use within BAT products. We publish all these ingredients on a website to ensure full disclosure to our consumers (www.bat-ingredients.com). We continually measure product quality at retail level and our products have consistently demonstrated high quality standards.

Product Integrity and Traceability (PI&T) is a key quality management process that aims at certifying that our products provide the highest value to our consumers. This process involves materials verification and links finished products to the manufacturing data and material suppliers of every component of the cigarette. This aims at ensuring that only the highest quality products reach the consumer. To achieve this, an annual evaluation of all process risks is done to ensure controls in place are adequate to address the risks. The 2012 evaluation showed that we meet the required standards in both product integrity assurance and response capability.

Quality of service to our customers is measured in terms of the quality of our products, on time in full delivery to customers, levels of professionalism and efficiency of service. This is measured on a monthly basis by the Customer Service team through a customer mood tracking tool (a survey template for the customer to rate our quality of service). We also have a customer complaints database where all customer complaints are lodged and assigned to the appropriate department for resolution. In line with our Service Level Agreement, feedback is given to the customers within 2 weeks of receipt of complaints.

Marketing Communications

We believe in upholding high standards of corporate behaviour. Our marketing activities are guided by the International Marketing Principles whose core premise is self-regulation, compliance with the Tobacco Control Act guidelines and education of the Trade on Youth Smoking Prevention. We monitor and audit our performance against the Marketing Principles and report our findings in the Group's sustainability report. We believe our marketing should be responsible and honest.

Economic

The Company was recognised for its contribution to Government revenue in the 2012 KRA Taxpayers' Awards as the 4th largest taxpayer for the sixth year running. BAT Kenya contributed a record Kenya Shillings 13.1 billion in Excise, VAT and Corporate taxes, an increase of 25% over 2011. The Company was commended for the high tax payments, timeliness in remittance of taxes, voluntary compliance with the relevant tax statutes, transparency and high level of cooperation with the Kenya Revenue Authority officers.

The company also received Authorised Economic Operator (AEO) accreditation from KRA. AEO is part of KRA's Reforms and Modernisation initiatives which have allowed only 64 companies country-wide to assess their own customs entries and access expedited processing of shipments. This has delivered cost and time savings through faster port clearance, lower storage costs and reduced transit periods to ensure timely, efficient delivery to our export customers. This is critical in ensuring that our consumers get quality products at their



*"Governance is at the heart of
everything that we do in our business."*

*Audit Team, from left David Muriithi, Lilian
Maundu and Dennis Wasike.*



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KENYA

Governance is at the heart of everything that we do. Our systems and processes have effective controls built around them. This has significantly strengthened our business. We endeavour to partner with management in further building internal control awareness and supporting the control environment.

We will achieve this through supporting the risk management process and audit committees which form part of the governance structures within BAT.

As part of continuous improvement, BAT's Global Audit focus remains ensuring that we provide independent assessments and report on the effectiveness and efficiency of internal controls, utilising professional audit methodologies and tools.

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British American Tobacco Kenya reinforced its leadership position and recorded share growth of 2 percentage points in 2012. This growth is attributed to distribution reinforcement, the right pricing strategy and improved working relations with the retail trade.

Portfolio Strategy

In 2012 we made significant strides towards solidifying our offers to the consumer. The business continues to invest in stock dispensing units to enhance the presence and handling of our brands at the point of sale, consistent with the Tobacco Control Act.

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Global Drive Brands

In 2012 Dunhill made significant gains towards building a long term sustainable future. The brand augmented its position as the ultimate destination brand in the portfolio and registered a volume growth of 6% over the previous year. Dunhill was re-launched in a modern, stylish and innovative pack and extended the range by launching a new Switch variant - ultimate innovation in the product category. To further strengthen its position, the business focused on growing the distribution footprint through initiatives to grow its numeric availability.

National Brands

The core of our business remains the national pride brands in our portfolio. Sportsman, our market leader in the portfolio, delivered an outstanding performance with share growing to over 50%, driving the overall profitability of the business. This brand has continued to register double digit percentage growth over the last three years due to its equity amongst Kenyan consumers and improved availability through distribution investment.

Marketing Leadership Team

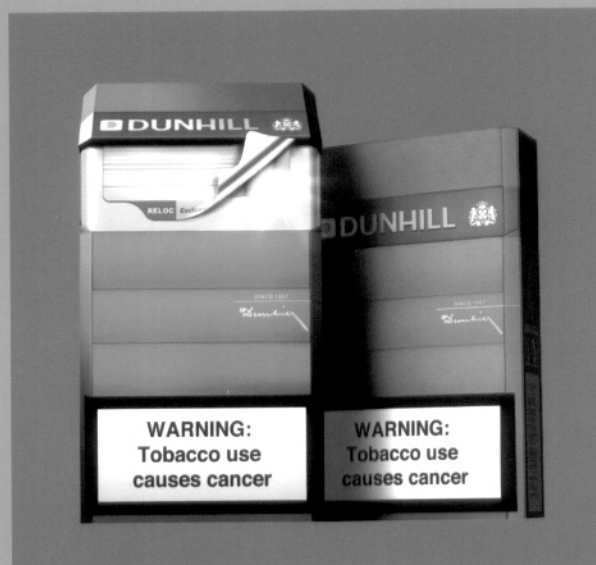
from left Louis Kamau, Lina Githuka, Dadson Mwaura, Calin Bota, Peter Ndegwa, and Wael Atari.

The exceptional performance was largely driven by Route to Market gains, remote markets coverage and improved interventions by the relevant authorities on illicit trade tracking and monitoring, leading to increased disruptions and seizures of contraband product.

Outlook

The performance in 2013 will largely be influenced by stability in the political environment following the General Elections in the 1st quarter of the year, stability in Somalia and security in the North Eastern part of the country. The performance is also expected to be impacted by moderate consumer price adjustments driven by changes in excise. With sustained efforts to strengthen our distribution capability, we aspire to further strengthen our market leadership position.

We remain well poised for further growth in 2013.



Wael Atari, Head of Marketing

Together we achieve

Supply chain team from left to right: Faith Kamuya, Vincent Cheruiyot, Damaris Kabura, George Okungu and Paul Mburu.



Talent Pipeline

The department continued with its commitment to attract, develop and retain key talent through various initiatives that empowered the Self Directed Work Teams (SDWTs). Some of the key highlights in 2012 included:

- Recruitment and training of 26 Technical Operator trainees to support growth.
- Revamped non-management Bonus Scheme that has helped improve productivity, quality and overall factory efficiency while at the same time motivating the employees to deliver exceptional results through streamlining the performance measures that contribute to the scheme.
- Investment in technical skills development - some of our employees attended overseas technical and leadership training which is critical in acquiring the requisite skills to handle the new technologies & processes in our manufacturing and threshing facilities. Many of the

employees also attended local technical and personal development courses helping us to build the required capabilities.

- Self Directed Work Teams continue to be the key for driving productivity and product quality improvements. Teams take responsibility for efficiency and quality in the process ensuring that quality is assured at source and that we maximise asset utilisation. We have embedded Root Cause Analysis Methodology in order to foster a continuous improvement culture. Our quality champions played a key role in this initiative.

Key investments

The Nairobi factory invested Shs 1.2 billion in 2012 to increase capacity, enable productivity, support innovation and modernise technology.

Arturo Rodriguez, Demand Chain General Manager

Secondary Manufacturing Department

Three production lines were installed in 2012 therefore increasing capacity by approximately 4.5 billion cigarettes per year. We also invested in other essential infrastructure including the palletising system expansion from 8 to 16 stations and new automated case packing machines. The Bevel Edge format kit created the capability to manufacture products with innovative packaging. Another very important capability is the technology introduced for the manufacture of Dunhill Switch, the latest innovation in our premium segment.

Primary Manufacturing Department

The upgrade of our Primary Manufacturing Department is progressing according to plan. New cut-rag silos and box filling stations were installed in 2012 and work commenced on the installation of a Fluidised Bed Dryer that will help improve cut-rag quality even further. The new carton filling station installed in December 2012 has improved shipping carton utilisation by 9% helping us to optimise our logistics cost. Furthermore, a new process line has been installed in Thika to localise processing of American Style grades hitherto imported from South Africa. Our technicians attended training at our

Our compliance with the legal requirements in import and export procedures was recognised and we were awarded the Authorised Economic Operator (AEO) accreditation by the Kenya Revenue Authority. In order to continuously optimise our cost base and support our growth agenda we maintained an aggressive spend management initiative realising productivity savings amounting to Shs. 305 million. This means an achievement of 37% improvement, compared to previous year.

We have also continued with efforts to secure a high performing and socially responsible supplier base by implementing a world class supplier management approach. This is fully aligned to our commitment to long term business sustainability and is playing a key role in our business continuity plans in 2013.

Going Green

BAT Kenya continued to maintain a strong focus on Social Responsibility in Tobacco Production (SRTPT). Overall, the afforestation programme distributed 1.6 million seedlings in 2012 with more than 40 per cent indigenous species.



sister factory in South Africa in order to develop the skills required for the new technology.

L-R: Engineer Kaburu Mwirichia hands the "Electricity Savings Award" to first place winners BAT Kenya's Kennedy Wafukho, Peter Kimaru, Stephen Muli and Jane Wangari at the Kenya Association of Manufacturers Energy Management Awards Gala Night

Infrastructure

Site infrastructure continued to be enhanced to support growth, optimise material flow and improve our safety standards. Construction of the new cut tobacco storage facility is progressing well and is scheduled for completion in Q2 2013. An elevated water tank with a 150,000 litre capacity was installed to improve water storage and distribution within the site, eliminating the need to pump water to the various sections within the plant. The company also invested in a new boiler to improve steam supply to the PMD and increase fuel efficiency.

Supply Chain

2012 was a very successful year despite congestion at the Port of Mombasa, which rapidly became a national issue. We managed to enhance service delivery to both domestic and export customers and achieved an improved customer mood index of 92%.

In addition, the versatility and resilience of our supply chain contributed in a major way to enhance the speed to market, and therefore our competitiveness, with exciting new innovations such

In order to conserve our biodiversity and help with the Government initiative to increase our national forest cover, the company continued with the rehabilitation of dams, river lines and hills by planting a significant amount of indigenous trees. This initiative was started in 2011 in the areas where we grow tobacco.

Some of the afforestation and rehabilitation projects undertaken by the company were:

- Kiorimba hill rehabilitation in Meru (5,000 trees)
- Kabkara Dam rehabilitation in Malakisi - phase 2 (7,500 trees)
- Magina hill rehabilitation in Oyani - phase 2 (8,000 trees)
- Several institutions across the country (100,000 trees)
- Prime Minister's Greening Kenya Initiative (150,000 trees)

improvement of 20% against 3 years ago. This is proof of our commitment to the sustainability of our farmer and community welfare and also of our environmental efforts.

Leaf Growing

During the 2012 season, the amount of tobacco grown in Kenya decreased by 16 per cent versus 2011. This was primarily driven by the drought in the Eastern and Western areas and the changing climatic conditions.

To ensure sustainability in our growing operations a number of initiatives were progressed and others rolled out. These initiatives include:

- Expansion of our farmer cell concept for extension model which enables contracted farmers to learn and practice as a group for improvements in their income and overall welfare.
- Enhancement of our Modular Production Training Program (MPTP) for our extension staff.

This process alignment and people integration is further reflected in product quality index improvement which moved from 45 in 2011 to 60 in 2012. Consequently, these process improvements have increased the threshing capacity of the plant to match the rated capacity of 32,000 tons per year.

In an effort to optimise our plant efficiency, the GLT team identified and implemented energy improvement initiatives which included installation of lower electricity consuming lighting, lagging of steam pipes and elimination of leaks. This contributed to the reduction in furnace oil consumption by 21%. Similarly, we reduced our electricity consumption by 13%. As part of the continuous safe workplace programme in the plant, we invested Shs 58 million to enhance health and safety standards.

All in all, the Operations team recorded a great year in terms of performance as it helped us progress on our Strategic Leadership Agenda. The momentum is very high and our staff



- On-line buying system to optimise the time taken to pay our contracted farmers and also improve on product traceability.
- Continue with the farmer insurance scheme as a robust way of ensuring sustained income even in the event of natural calamities. In 2012, contracted farmers claimed over Shs 14 million from this scheme.

Processing

The Green Leaf Threshing (GLT) continued to record very good performance in energy and water consumption reduction, the delivery of high quality product and health and safety results. In order to ensure sustainability of the GLT operations the company continued to invest in a number of projects addressing the areas of productivity, health and safety, security and product quality.

The GLT plant processed over 18,000 metric tons of tobacco in 2012, down 22 per cent from 2011 due to a smaller domestic crop. Nevertheless the team delivered exceptional results, improving factory productivity from 38 to 45 tons per hour. This was achieved through enhanced focus on proactive

are proud of our contributions to our business, which certainly supported our growth agenda. We look forward to an even better 2013!



*Innovating in cost effective products
is crucial in ensuring we have a well
connected organization that remains
relevant in this information age.*

*IT team from left, Joshua Ondera, Antony
Mbijiwe and Kenneth Ogwang.*



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Supporting a growing Demand Chain

Enabling the Leaf Business

In 2012, we continued our investment within our leaf centers to ensure consistent availability of our Online Leaf Buying platform. This is critical to ensure that the leaf buying process is efficient, resulting in higher turnaround times in farmer payments. In addition, we have piloted a Geographic Information System, aimed at giving our contracted farmers and field extension workers better visibility on the tobacco crop and its development from seed to harvest.

By providing visual information about farming practices, this initiative will help BAT Kenya engage contracted farmers on more sustainable farming practices, such as maximisation of crop production while ensuring a right balance between commercial farming and food production without undue negative effects to the environment.

Factory Systems Capabilities

Continued focus on the Nairobi factory as a manufacturing hub and emphasis on product quality has required us to make additional investments in our Quality systems to support this. In 2012, we implemented a new strategic Quality Monitoring Solution that will enable our manufacturing colleagues to obtain accurate real-time information on product quality parameters. This will go a long way in ensuring customer satisfaction.

Contemporary IT Experience

In 2012, we embarked on a journey to refresh our user experience by providing tools and platforms that will enhance productivity and meet the growing demands for flexible computing. This has also allowed us to provide cost-effective innovations to our executives that allow them to access enterprise information at their convenience and facilitate timely decision making. This is important in ensuring we have a well connected organisation that remains relevant in this information age.

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Wellington Masasabi, Head of Information Technology

Information Technology **2012**
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*Working together in
ensuring the growth
and sustainability of our
business*

*Corporate and Regulatory
Affairs team from top,
Connie Anyika, Keith
Obure, Selena Olende,
Clifford Machoka and
Emily Waita.*



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This means keeping abreast of emerging global regulatory trends in Kenya and the East African Community, and promoting the implementation of balanced, evidence-based legislation. It is the only way we can guarantee the sustainability of our business – by being informed, maintaining an open line of communication with Government, and working in the best interest of our consumers, stakeholders, business partners and tobacco farmers.

Both the excise structure and rate remained the same in 2012. While we commend Government on this decision to maintain the simplified system, we note that there is room for further gains to be made. In 2013 we will submit our proposal and put forward our arguments, partnering with Treasury in identifying the optimal system to ensure ease of administration, growing government and industry revenue, and ensuring total industry compliance.

Owing to the current Tobacco Control Act, 2007, our Corporate Social Responsibility (CSR) activities for the year were limited. We however continue to engage with Government to create

a legitimate corporate space within which we can support the communities in which we operate.

Within the allowable parameters for CSR support in 2012, we continued to focus on afforestation and environmental programmes in partnership with various stakeholders. As part of our support and commitment with the Greening Kenya Initiative, we donated over 10,000 tree seedlings towards the "Plant Your Age campaign." The campaign was aimed at supporting the efforts to increase forest cover by 10% in line with Vision 2030. Participants in the campaign were encouraged to plant trees equivalent to their age.

We continue to support our contracted farmers with tree seedlings to supplement their wood fuel needs and boost their investments. We believe this is a step in the right direction towards promoting a sustainable environment.

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Jerry Gilbert, Head of Corporate & Regulatory Affairs



*Nurturing a high
performance culture is
one of HR's objectives.*

*HR team from left, Chris
Chege, Lucy Evara, Eddah
Waruru and Wekulo
Nasokho.*



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KENYA

Management of legal and regulatory risks and acting as the first line of defence.

We continue to ensure that the business receives high quality legal advice on legal and regulatory matters and to shape our business to ensure compliance with the ever changing regulatory landscape in Kenya.

Efficient Contracts Management

In view of increasing efficiency and productivity, BAT Kenya has put in place an effective end to end process for the management of suppliers from the sourcing stage up to the provision of goods and services. This has largely been achieved through proactive business partnering and effecting service level agreements supported by training of all managers in charge of specific high impact contracts.

Records Management

Records management entails not only proper storage of all business records but also constantly adapting to best practice in terms of how and where we keep our records as well as complying with the various legal, audit and tax obligations surrounding these records. This has enhanced business efficiency by giving the business the necessary support to sustain its high performance but also acts as the first line of defence in litigation matters as part and parcel of risk management.

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Naushad Ramoly, Head of Legal

Legal **2012**
ANNUAL REPORT
& ACCOUNTS

Corporate Governance

Overview

Corporate governance refers to the structures and processes guiding the leadership of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organisation and is in compliance with the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya. Besides complying with external corporate governance guidelines, the Company has committed to embed internal rules of engagement to support corporate governance. These internal guidelines are constituted in the Standards of Business Conduct with which every employee makes a commitment to comply.

The Role of the Board

The Board is collectively responsible to the Company's shareholders for the long-term success of the Company and for its overall strategic direction, its values and governance. It provides the leadership necessary to meet its business objectives within the framework of its internal controls, while also discharging the Company's obligations to its shareholders.

The Key Responsibilities of the Board include:

1. To provide overall strategic direction and decide major corporate actions to be taken by the Company.
2. To review performance, take material policy decisions and give guidance on general policy.
3. Responsibility for the overall system of internal control for the Company thereby managing risks that may impede the achievement of the Company's business objectives.
4. Responsibility for implementing strategy and day to day operations is delegated by the Board to the Managing Director and the Leadership Team.

The Leadership Team is responsible for the oversight and implementation of the organisation's strategy as set out by the Board of Directors. Their profiles are set out on pages 8 and 9 of this Annual Report.

The Board has established three principal Board Committees, to which it has delegated some of its responsibilities namely, the Nominations Committee, the Audit Committee and the Remuneration Committee. The roles, membership and activities of these Committees are described in more detail later in this Corporate Governance Report.

Division of Responsibilities

The Chairman and Managing Director are responsible for the profitable operation of the Company. Their roles are separate, with each having distinct and clearly defined duties and responsibilities. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating the productive contribution of all Directors. He sets the agenda for Board meetings in consultation with the Managing Director and the Company Secretary. He is also responsible for ensuring that the interests of the Company's shareholders are safeguarded and that there is effective communication with them. The Chairman is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for the overall supervision of the policies governing the conduct of the business.

The Managing Director has overall responsibility for the performance of the business. He provides leadership to facilitate successful planning and execution of the objectives and strategies agreed by the Board. He is also responsible for stewardship of the Company's assets and, jointly with the Chairman, for representation of the Company externally.

Non-Executive Directors

The Board has 8 Non-Executive Directors and their role is to help develop strategy and, where appropriate, to provide constructive challenge to management's proposals. They are responsible for scrutinising the performance of management in meeting agreed goals and objectives and for monitoring the reporting of performance.

The Composition of the Board

As at the date of this Annual Report, composition of the Board is as set out on page 73.

Current Members

Mr. G. R. May (Chairman)

Mr. G. Maina

Ms. C. Musyoka

Attendance at meetings in 2012

Name	Meetings Attended	Meetings Eligible to Attend
Prof. J. H. Kimura ¹	2	3
Mr. G. R. May ²	3	3
Mr. G. Maina	2	3
Ms. C. Musyoka	3	3

¹ Prof. J.H. Kimura resigned from the Board on 5 July 2012.

² Mr. G.R. May is the current Chairman of the Audit Committee and has recent and relevant financial experience.

* Permanent invitees to the Audit Committee meetings are the Managing Director, Finance Director, Area Head of Audit, Area Head of Legal, Area Head of Corporate and Regulatory Affairs and the Area Head of Operations. Other senior managers may be invited to attend meetings based on issues for discussion.

* The Chairman of the Board is also a permanent invitee to the Audit Committee meetings.

The external auditors, PwC, attend all Audit Committee meetings and are represented by the Audit Manager and Audit Partner.

* As a matter of best practice, the Committee seeks private audience with the external auditors, PwC, and the Internal Audit team separately at the end of every meeting.

Mandate of the Audit Committee

The Audit Committee is responsible for monitoring the integrity of the financial statements and any formal announcements relating to the Company's performance, keeping under review the consistency of the accounting policies applied by the Company, reviewing the effectiveness of the accounting, internal control and business risk systems of the Company, reviewing and, when appropriate, making recommendations to the Board on business risks, internal controls and compliance. The Committee is also responsible for monitoring compliance with the Company's Standards of Business Conduct, monitoring and reviewing the effectiveness of the Company's internal audit function and monitoring and reviewing the performance of the Company's external auditors by keeping under review their independence and objectivity, making recommendations as to their reappointment (or, where appropriate, making recommendations for change), and approving their terms of engagement and the level of audit fees payable to them.

The Board has an obligation to establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the external auditors, which is delivered through the Audit Committee.

PricewaterhouseCoopers (PwC) are the Company's auditors. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. The external auditors are required to rotate the audit partners responsible for the audit at least every five years.

The Audit Committee is also responsible for monitoring and reviewing the effectiveness of the Internal Audit function. The Area Head of Internal Audit is a permanent invitee to the Committee. The Internal Audit manager presents a report to the committee of the audit plan for the year as well as updates on ongoing and completed audits. Further, the Audit Committee meets separately with the internal audit team at the end of every meeting without management.

Standards of Business Conduct

All BAT Kenya employees are expected to live up to the Standards of Business Conduct and guidance is provided through training and awareness programmes. Every employee and members of the Board sign a declaration to comply with the Standards of Business Conduct annually. The Standards of Business Conduct also set out the Group's whistle-blowing policy, which enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal, provided that such concerns are not raised in bad faith. Any whistle-blowing incidents are tabled at the Audit Committee. The procedures in place ensure independent investigation and appropriate follow-up actions. The Standards of Business Conduct are available on www.bat.com.

The Remuneration Committee

The Remuneration Committee determines the remuneration policy for employees and Non-Executive Directors. The remuneration committee ensures that compensation is performance driven and appropriately benchmarked against other companies in Kenya.

Remuneration Committee

Current Members

Mr. G. Maina (Chairman)

Mr. E. Mwaniki

Mr. G. Fagan

Mr. P. Lopokoiyit

Attendance at meetings in 2012

Name	Meetings Attended	Meetings Eligible to Attend
Mr. M. M. Wanyoike ¹	1	1
Mr. G. Maina	0	0
Mr. E. Mwaniki	1	1
Mr. G. Fagan	1	1
Mr. P. Lopokoiyit	1	1

¹ Mr. M. M. Wanyoike resigned from the Board on 20 June 2012.

Mr. G. Maina is the current Chairman of the Remuneration Committee.

Mandate of the Remuneration Committee:

The remuneration Committee is responsible for setting executive remuneration covering salary and benefits, performance based variable rewards, pensions and terms of service, setting of targets applicable for the Company's performance based reward schemes, monitoring and advising the Board on major changes to the policy on employee benefit structures for the Company.

Dialogue with Shareholders

The Company is keen to have interactive sessions with its stakeholders and makes arrangements to have specific engagement sessions in the course of the year.

The Company holds an Annual General Meeting (AGM) to discuss full year performance with the shareholders. The AGM provides a useful opportunity for shareholder engagement and, in particular, for the Chairman to explain the Company's progress and receive questions from investors. The Chairmen of the Audit, Nominations and Remuneration Committees are normally available at the AGM to take any relevant questions and all other Directors attend, unless illness or another pressing commitment precludes them from doing so.

The company also hosts investor briefs after half-year results are released. This facilitates engagement with key stakeholders from the Nairobi Stock Exchange, Capital Markets Authority and various fund managers representing institutional/foreign investors to interact with senior management to ask questions regarding the company's performance. The Managing Director and Finance Director are among senior management on hand at investor briefs to respond to stakeholder queries. The Chairman of the Board also attends the investor briefs to understand any concerns raised at such forums and represents non-executive Directors.

Constructive Use of the Annual General Meeting

Voting at any general meeting of shareholders is by a show of hands. On a show of hands, every shareholder who is present in person at a general meeting has one vote regardless of the number of shares held by the shareholder. Every proxy appointed by a shareholder and present at a general meeting has one vote.

The Company Secretary gives the Notice to the AGM 21 days prior to the meeting stipulating the agenda for the meeting including any resolutions that will be passed at the meeting in compliance with the Companies Act.

The Company has enlisted the services of Custody & Registrar Services Limited (CRS) to manage shareholder transactions such as distribution of dividends and management of refunds. CRS also ensures that all valid proxy appointments received are properly recorded and counted.

BAT Kenya Corporate Governance Factsheet

Size of Board including Company Secretary	11
Number of Independent Directors	8
Number of women on the Board	2
Separate Chairman and CEO	Yes
Terms of Reference for Board Committees	Yes
Independent Audit Committee	Yes
Number of Financial Experts on Audit Committee	1
Number of Independent Remuneration Committee members	2
Number of Independent Nominations Committee members	3
Number of Board and Annual General Meetings Held in Full Year 2012	5
Re-election of Directors in accordance with Articles of Association	Yes
Annual Board Evaluation	Yes
Individual Director Evaluations	Yes
Corporate Governance Guidelines Approved by Board	Yes
Standards of Business Conduct	Yes
Board Induction Programs conducted	Yes

Shareholding Structure

Major Shareholders as at 28 February 2013	Number of shares	% Shareholding
Molenssteegh Invest BV	60,000,000	60.00%
Standard Chartered Nominees Non-Resident A/c 9866	2,476,985	2.48%
Standard Chartered Nominees Non-Resident Ac 9002	2,362,434	2.36%
Standard Chartered Nominees Non-Resident Ac 9057	2,034,791	2.03%
Standard Chartered Nominees Non-Resident A/c 9054	1,412,357	1.41%
Kenya Commercial Bank Nominees Limited A/c 915A	955,023	0.96%
Standard Chartered Nominees Resident A/c Ke11401	950,023	0.95%
Kenya Commercial Bank Nominees A/c 915F	950,023	0.95%
Kenya Commercial Bank Nominees Limited A/c 915B	950,022	0.95%
Standard Chartered Nominees Resident A/c KE11450	950,022	0.95%
Shares Selected	73,041,680	73.04%
Others (5,138 shareholders)	26,958,320	26.96%
Total	100,000,000	100.00%

Summary of Shareholders as at 28 February 2013

Shareholder	No. of Shareholders	No. of shares	% Shareholding
Foreign Companies	53	76,643,249	76.64%
Foreign Individuals	79	184,330	0.18%
Local Companies	506	16,275,572	16.28%
Local Individuals	4,510	6,896,849	6.90%
Total	5,148	100,000,000	100.00%

Distribution of Shareholders as at 28 February 2013

Shareholding	No. of Shareholders	No. of shares	% Shareholding
Less than 500 shares	2,595	614,492	0.61%
500 – 5,000 shares	2,071	3,348,691	3.35%
5,001 – 10,000 shares	179	1,281,723	1.28%
10,001 – 100,000 shares	237	7,317,997	7.32%
100,001 – 1,000,000 shares	61	19,150,530	19.15%
Over 1,000,000 shares	5	68,286,567	68.29%
Total	5,148	100,000,000	100.00%

Corporate Information

Board of Directors

Mr. E. Mwaniki*	(Chairman)
Mr. G. Fagan	(Managing Director)
Mr. P. Lopokoiyit	(Finance Director)
Mr. A. N. Ngugi*	
Mr. G. R. May*	
Mr. G. Maina*	
Ms. C. Musyoka*	
Dr. J. Clano*	
Mr. M. Janmohamed*	
Dr. M. Oduor-Otieno*	
Ms. R. T. Ngobi	(Company Secretary)

Audit Committee

Mr. G. R. May*	(Chairman)
Mr. G. Maina*	
Mrs. C. Musyoka*	
Mr. G. Fagan	(Permanent invitee)
Mr. P. Lopokoiyit	(Permanent invitee)
Mr. E. Mwaniki*	(Permanent invitee)
Mr. A. Rodriguez	(Permanent invitee)
Mr. N. Ramoly	(Permanent invitee)
Mr. D. Wasike	(Secretary)

Nominations Committee

Mr. E. Mwaniki*	(Chairman)
Mr. A. N. Ngugi*	
Mr. G. R. May*	
Mr. G. Fagan	
Ms. R. T. Ngobi	(Secretary)

Remuneration Committee

Mr. G. Maina*	(Chairman)
Mr. E. Mwaniki*	
Mr. G. Fagan	
Mr. P. Lopokoiyit	
Mr. P. Uucci	

Auditor

PricewaterhouseCoopers,
The PwC Tower, Waiyaki Way,
P.O. Box 43963-00100,
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 4011-00100,
Nairobi

Bankers

Barclays Bank of Kenya Limited
Citibank NA
Commercial Bank of Africa Limited
Standard Chartered Bank Kenya Limited

Secretary and Registered Office

R. T. Ngobi (Ms.)
Likoni Road,
P.O. Box 30900-00100,
Nairobi

* Non-Executive Directors



BRITISH AMERICAN
TOBACCO
KENYA

**ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012**

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Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2012, 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 3,270,852,000 has been added to retained earnings. During the year an interim dividend of Shs 350,000,000 (2011: Shs 350,000,000) was paid. The Directors recommend the approval of a final dividend of Shs 2,900,000,000 (2011: Shs 2,700,000,000).

Board of Directors

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

Mr. M. Wanyoike and Prof. J. Kimura, resigned from the Board on 20 June 2012 and 5 July 2012 respectively.

Dr. J. Ciano, Mr. M. Janmohamed and Dr. M. Oduor-Otieno were appointed as Directors on 5 July 2012, 1 November 2012 and 1 January 2013 respectively.

In accordance with Article 95 Dr. J. Ciano, Mr. M. Janmohamed and Dr. M. Oduor-Otieno retire from the Board and being eligible, offer themselves for re-election.

Mr. R. Iopokoiyi and Mr. G. R. May retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

Mr. E. Mwaniki having attained the age of 70 on 18 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.

Mr. A. N. Ngugi having attained the age of 70 on 23 July 2007 retires in terms of section 186 (2) of the Companies Act and does not offer 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

28 February 2013

Report of the Independent Auditor to the Members of British American Tobacco Kenya Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of British American Tobacco Kenya Limited (the Company) and its subsidiaries (together, the Group), as set out on pages 80 to 105. These financial statements comprise the consolidated statement of financial position at 31 December 2012 and the consolidated statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2012 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 and for such internal control, as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 entity'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 Group and Company's financial affairs at 31 December 2012 and of the financial performance 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 statement of financial position and statement of comprehensive income are in agreement with the books of account.



Certified Public Accountants

Nairobi

28 February 2013

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December	
		2012 Shs' 000	2011 Shs' 000
Gross turnover		30,503,560	28,818,391
Excise duty and value added tax		(11,094,560)	(8,680,269)
Net revenue	5	19,409,000	20,138,122
Raw materials and manufacturing costs	6	(11,583,180)	(11,874,723)
Marketing and distribution costs		(1,894,730)	(1,718,330)
Administration and other expenses		(1,236,176)	(2,057,488)
Other income		426,785	298,885
Restructuring costs		(17,470)	(124,050)
Operating profit		5,104,229	4,662,416
Finance costs	7	(349,927)	(178,300)
Profit before tax	8	4,754,302	4,484,116
Income tax expense	10	(1,483,450)	(1,386,361)
Profit for the year		3,270,852	3,097,755
Other comprehensive income			
Gains from revaluation of land and buildings (net of tax)	14	464,998	
Total comprehensive income for the year		3,735,850	3,097,755
Profit for the year attributable to:			
Equity holders of the parent company (60%)		1,962,511	1,858,653
Other equity holders (40%)		1,308,341	1,239,102
Total Comprehensive income attributable to:			
Equity holders of the parent company (60%)		2,241,510	1,858,653
Other equity holders (40%)		1,494,340	1,239,102
Earnings per share:			
Basic and diluted (Shs per share)	11	32.71	30.98

The notes on pages 86 to 105 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December			
	Notes	2012 Shs' 000	2011 Shs' 000
Capital and reserves attributable to the company's equity holders			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,528,976	1,063,978
Retained earnings		1,668,918	1,648,066
Proposed dividend	12	2,900,000	2,700,000
Total equity		7,097,917	6,412,067
Non-current liabilities			
Borrowings	22	688,800	1,024,064
Deferred income tax liabilities	15	1,337,098	973,785
Total non-current liabilities		2,025,898	1,997,849
Total equity and non-current liabilities		9,123,815	8,409,916
Non-current assets			
Property, plant and equipment	16	8,046,667	6,756,340
Deferred income tax assets	15	-	14,491
		8,046,667	6,770,831
Current assets			
Inventories	18	4,393,589	4,374,777
Receivables and prepayments	19	2,026,948	1,648,650
Current income tax		514,977	235,607
Cash and cash equivalents	20	194,314	720,680
		7,129,828	6,979,714
Current liabilities			
Payables and accrued expenses	21	4,972,998	4,024,355
Borrowings	22	38,182	21,606
Provisions for liabilities and charges	23	901,437	1,005,589
Current income tax		140,063	289,079
		6,052,680	5,340,629
Net current assets		1,077,148	1,639,085
Total assets		9,123,815	8,409,916

The notes on pages 86 to 105 are an integral part of these consolidated financial statements.

The financial statements on pages 80 to 105 were approved and authorised for issue by the board of directors on 28 February 2013 and signed on its behalf by:

Company Statement of Financial Position

At 31 December

	Notes	2012 Shs' 000	2011 Shs' 000
Capital and reserves attributable to the company's equity holders			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,528,976	1,063,978
Retained earnings		1,668,918	1,648,066
Proposed dividend	12	2,900,000	2,700,000
Total equity		7,097,917	6,412,067
Non-current liabilities			
Borrowings	22	688,800	1,024,064
Deferred income tax liabilities	15	1,333,200	973,785
Total non-current liabilities		2,022,000	1,997,849
Total equity and non-current liabilities		9,119,917	8,409,916
Non-current assets			
Property, plant and equipment	16	8,046,667	6,756,340
Investment in subsidiaries	17	12,000	12,000
		8,058,667	6,768,340
Current assets			
Inventories	18	4,393,552	4,374,777
Receivables and prepayments	19	1,506,444	1,656,623
Current income tax		514,977	-
Cash and cash equivalents	20	194,314	712,685
		6,609,287	6,744,085
Current liabilities			
Payables and accrued expenses	21	4,608,641	3,786,235
Borrowings	22	37,959	21,606
Provisions for liabilities and charges	23	901,437	1,005,589
Current income tax		-	289,079
		5,548,037	5,102,509
Net current assets		1,061,250	1,641,576
Total assets		9,119,917	8,409,916

The notes on pages 86 to 105 are an integral part of these consolidated financial statements.

The financial statements on pages 80 to 105 were approved and authorised for issue by the board of directors on 28 February 2013 and signed on its behalf by:

G. Fagan
Managing Director

P. Lopokoit
Finance Director

Consolidated Statement of Cash Flows

		Year ended 31 December	
	Notes	2012	2011
		Shs' 000	Shs' 000
Operating activities			
Cash generated from operations	24	6,041,018	5,391,782
Interest received	7	787	634
Interest paid	7	(305,137)	(172,675)
Income tax paid		(1,732,218)	(1,350,923)
Net cash from operating activities		4,004,450	3,868,818
Investing activities			
Purchase of property, plant and equipment	16	(1,235,075)	(1,006,161)
Proceeds from disposal of property, plant and equipment		35,027	12,888
Net cash used in investing activities		(1,200,048)	(993,273)
Financing activities			
Dividends paid to the company shareholders	12	(3,050,000)	(1,800,000)
Borrowings		(297,344)	38,703
Net cash used in financing activities		(3,347,344)	(1,761,297)
(Decrease)/Increase in cash and cash equivalents		(542,942)	1,114,248
Movement in cash and cash equivalents			
At start of year		699,074	(415,174)
(Decrease)/ Increase		(542,942)	1,114,248
At end of year	20	156,132	699,074

The notes on pages 86 to 105 are an integral part of these consolidated financial statements.

Notes

1. General Information

BAT Kenya Ltd 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
PO Box 30000-00100
Nairobi

The Company is controlled by British American Tobacco Plc incorporated in the United Kingdom, which is also the ultimate parent company.

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

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of comprehensive income, in these financial statements.

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 policy and disclosures

(i) New and amended standards adopted by the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the group and the company.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

IFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition.

2. Summary of significant accounting policies (continued)

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 10, 'Consolidated Financial Statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of Interests in Other Entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

b) Consolidation

(i) 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, etc. 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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

2. Summary of significant accounting policies (continued)

b) Consolidation (continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

c) Functional currency and foreign currency translation

(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 'Kenyan Shillings (Shs), which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

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.

e) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group and Company's activities. Net revenue is stated net of value-added tax (VAT), excise duty, returns, rebates and discounts and after eliminating sales within the group. The Group and Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and Company and when specific criteria have been met for each of the Group and Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group and Company bases their 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: The Group manufactures and sells cigarettes to distributors and fellow subsidiaries of the ultimate parent company. Sales of goods are recognised in the period in which the Group delivers products to the customer, the customer has full discretion over the channel to sell the products and there is no unfulfilled obligation that could affect the customers acceptance of the goods. Delivery does not occur until the products are shipped to the specified location, the risk of obsolescence and loss has been transferred to the customer and the customer has accepted the products. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with the market practice.
- (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) Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.
- (iv) Interest income is recognised using the effective interest method.
- (v) Dividends are recognised as income in the period in which the right to receive payment is established.

2. Summary of significant accounting policies (continued)**f) Property, plant and equipment**

All categories of property, plant and equipment are initially recorded at cost. Land and buildings 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and cumulated in the revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation surplus directly in equity; all other decreases are charged to profit or loss.

Each year, the difference between depreciation based on the revalued carrying amount of the asset (i.e. the depreciation charged to profit or loss) and the depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts to 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 the end of each reporting 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 the carrying amount and are included in the profit or loss. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

g) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Accounting for leases

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

The Group and Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Group and Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the lease property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the assets useful life and the lease term.

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.

2. Summary of significant accounting policies (continued)

j) Financial assets

(i) Classification

The Group and Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group and Company's loans and receivables comprise 'trade and other receivables' and 'noncurrent receivables and prepayments' in the statement of financial position.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(iv) Impairment of financial assets

Assets carried at amortised cost

The Group and Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group and Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

k) Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in profit or loss. These derivatives are trading derivatives and are classified as a current asset or liability.

2. Summary of significant accounting policies (continued)

l) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment (note j).

m) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

n) 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.

o) Cash and cash equivalents

In the statement of cash flows, 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 statement of financial position.

(p) Employee benefits

Pension obligations

The Group and Company 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 profit or loss in the year to which they relate.

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 statement of financial position date is recognised as an expense accrual.

The Group and Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group and Company's shareholders after certain adjustments. The Group and Company recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation. The group and all its employees also contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme.

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected or after individual employees have been advised of the specific terms.

q) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that affects neither accounting nor taxable profit (and whose tax effect is not deductible for tax purposes).

2. Summary of significant accounting policies (continued)

q) Current and deferred income tax (continued)

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

s) Dividend distribution

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends are shown as a separate component of equity until declared.

t) Provisions

Provisions are recognised when, the Group and Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

u) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

v) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The Group and Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

3. Critical accounting estimates and judgements (continued)

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

- the classification of financial assets, liabilities and leases;
- whether assets are impaired;
- the amount of provisions and contingent liabilities;
- current income tax expense.

4. Financial risk management

The Group and Company's activities expose it to a variety of financial risks, market risk (including currency and interest risk), credit risk and liquidity risk. The Group and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Group occasionally uses forward exchange contracts to hedge against foreign exchange risk.

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

Market risk

(i) Foreign exchange risk

The Group and Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, British Pound and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities by regularly revising prices and robust working capital management and has not designated any derivative instruments as hedging instruments.

At 31 December 2012, if the Shilling had weakened by 10% against the US dollar with all other variables held constant, consolidated and company post tax profit for the year would have been Shs 68,524,235 (2011: Shs 69,719,106) higher, mainly as a result of US dollar receivables. At 31 December 2012, if the Shilling had weakened by 10% against the GBP with all other variables held constant, consolidated and company post tax profit for the year would have been Shs 22,992,669, (2011: Shs 24,642,120) lower, mainly as a result of GBP denominated trade payables. At 31 December 2012, if the Shilling had weakened by 10% against the Euro with all other variables held constant, consolidated and company post tax profit for the year would have been Shs 22,538,803 (2011: Shs 31,809,700) higher, mainly as a result of Euro receivables.

(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's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group and Company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group and Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2012, an increase/decrease of 1% would have resulted in a change of Shs 9,961,259 (2011: Shs 10,240,637) 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. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and Company. For banks and financial institutions, only reputable well established financial institutions are accepted. For trade receivables, group management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The amount that best represents the Group and Company's maximum exposure to credit risk at 31 December 2012 is made up as follows:

	Group		Company	
	2012	2011	2012	2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Cash and cash equivalents	194,314	720,680	194,314	712,685
Trade and related party receivables	1,550,951	1,137,555	1,033,556	1,137,555
Other receivables	254,561	511,095	251,453	519,068

4. Financial risk management (continued)

Credit risk (continued)

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated. None of the above assets are either past due or impaired except for the following amounts in trade and related party receivables (which are due within 30 days of the end of the month in which they are invoiced):

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Past due but not impaired:				
- by up to 3 months	207,130	99,939	207,130	98,497
- by 4 to 6 months	21,056	60,181	21,056	58,123
- by 7 to 12 months	253,309	76,632	253,309	76,632
- beyond 1 year	-	-	-	-
Total past due but not impaired	481,495	236,752	481,495	233,252

Past due amounts mainly relate to related party balances.

Liquidity risk

Liquidity risk is the risk that the group and company will not be able to meet its financial obligations as they fall due. 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 perform cash flow forecasting and monitor rolling forecasts of the group and company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the group and company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

The group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the group's reputation.

The table below analyses the group's and the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

a) Group	Less than 1 year	Between 1 & 2 years
	Shs'000	Shs'000
At 31 December 2012		
Liabilities		
Borrowings	38,182	759,367
Trade and other payables	3,713,860	-
Amounts due to related parties	1,259,138	-
Total financial liabilities	5,011,180	759,367
Assets		
Cash and bank balances	194,314	-
Amounts due from related parties	1,485,962	-
Trade and other receivables	540,986	-
Total financial assets (expected maturity date)	2,221,262	-

4. Financial risk management (continued)**Liquidity risk (continued)****a) Group (continued)**

	Less than 1 year Shs'000	Between 1 & 2 years Shs'000
At 31 December 2011		
Liabilities		
Borrowings	21,606	1,136,081
Trade and other payables	2,734,986	-
Amounts due to related parties	1,289,369	-
Total financial liabilities	4,045,961	1,136,081
Assets		
Cash and bank balances	720,680	-
Amounts due from related parties	1,130,524	-
Trade and other receivables	518,126	-
Total financial assets (expected maturity date)	2,369,330	-

b) Company**At 31 December 2012****Liabilities**

Borrowings	37,959	759,367
Trade and other payables	3,353,730	-
Amounts due to related parties	1,254,911	-
Total financial liabilities	4,646,600	759,367

Assets

Cash and bank balances	194,314	-
Amounts due from related parties	989,907	-
Trade and other receivables	516,537	-
Total financial assets (expected maturity date)	1,700,758	-

At 31 December 2011**Liabilities**

Borrowings	21,606	1,136,081
Trade and other payables	2,509,355	-
Amounts due to related parties	1,276,880	-
Total financial liabilities	3,807,841	1,136,081

Assets

Cash and bank balances	712,685	-
Amounts due from related parties	1,130,524	-
Trade and other receivables	518,126	-
Total financial assets (expected maturity date)	2,361,335	-

4. Financial risk management (continued)**Capital risk management**

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

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Total borrowings	726,982	1,045,670	726,759	1,045,670
Less: cash and cash equivalents	(194,314)	(720,680)	(194,314)	(712,685)
Net debt	532,668	324,990	532,445	332,985
Total equity	7,097,917	6,412,067	7,097,917	6,412,067
Total capital	7,630,585	6,737,057	7,630,362	6,745,052
Gearing ratio	7.5%	5.1%	7.5%	5.2%

Financial instruments by category

Financial assets:

All of the group and company's financial assets are classified as loans and receivables and comprise:

Trade and other receivables (excluding pre-payments)	1,805,514	1,652,897	1,285,009	1,643,423
Cash and cash equivalents	194,314	720,680	194,314	712,685
	1,999,828	2,373,577	1,479,323	2,356,108

Financial liabilities

All of the group and company's financial liabilities are classified as liabilities at amortised cost and comprise:

Borrowings	726,982	1,045,670	726,759	1,045,670
Trade and other payables (excluding statutory liabilities)	4,122,924	3,525,170	3,816,797	3,292,494
	4,849,906	4,570,840	4,543,556	4,338,164

5. Segment information

The Leadership Team is the group's chief operating decision-maker. The Leadership Team considers the business from a geographic and product perspective. Geographically, management considers the performance in Local Sales and Export Sales. From a product perspective, management considers sales of cigarettes and cut rag (semi-processed tobacco). All products are manufactured through the same process and in the same location.

	2012	2011
Analysis of net revenue by geography:	Shs '000	Shs '000
Local sales	9,630,357	8,744,643
Export sales	9,778,643	11,393,479
	19,409,000	20,138,122

Analysis of net revenue by product:

Sale of cigarettes	16,366,017	15,340,717
Sale of cut rag	3,042,983	4,792,405

6. Raw materials and manufacturing costs

	2012	2011
	Shs '000	Shs '000
Raw materials, consumables and other manufacturing costs*	11,028,550	11,150,767
Write-down of inventory (leaf and wrapping materials)	1,479	170,318
Depreciation of property, plant and equipment	553,151	553,638
	11,583,180	11,874,723

*Raw materials, consumables and other manufacturing costs include employee expenses of Shs 1,015,779,752 (2011: Shs 873,827,216)

7. Finance costs

Interest income	(787)	(634)
Interest expense	305,137	172,675
Net foreign currency exchange losses	45,577	6,259
	349,927	178,300

8. Profit before tax

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

Employee benefits expense (Note 9)	2,215,065	2,117,458
Auditor's remuneration	8,258	7,802

9. Employee benefits expense

Salaries and wages	2,132,257	2,035,119
Retirement benefits costs:		
- Defined contribution scheme	80,488	80,374
- National Social Security Fund	2,320	1,965
	2,215,065	2,117,458

10. Income tax expense

Current income tax		
- Current tax on profits for the year	1,304,881	1,355,549
- Adjustments in respect of prior years	50	(4,419)
Total current tax	1,304,931	1,351,130
Deferred income tax (Note 15)		
- Deferred income tax	192,685	35,491
- Adjustments in respect of prior years	(14,166)	(260)
Total deferred income tax	178,519	35,231
Income tax expense	1,483,450	1,386,361

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

Profit before income tax	4,754,302	4,484,116
Tax calculated at domestic rate applicable to profit: 30% (2011: 30%)	1,426,291	1,345,235
Tax effect of:		
Income not subject to tax	(958)	(164)
Expenses not deductible for tax purposes	72,283	45,969
(Over)/Under-provision of current tax in prior years	-	(4,419)
Over-provision of deferred tax in prior years	(14,166)	(260)
Income tax expense	1,483,450	1,386,361

10. Income tax expense (continued)

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

	2012 Shs'000			2011 Shs'000		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Gain on revaluation of land and buildings	(664,283)	199,285	(464,998)	-	-	-
Transfer of excess depreciation	-	-	-	63,492	(19,048)	44,444
Effect on equity	(664,283)	199,285	(464,998)	63,492	(19,048)	44,444

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.

	2012 Shs'000	2011 Shs'000
Profit attributable to equity holders of the Company (Shs'000)	3,270,852	3,097,755
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	32.71	30.98

12. Dividends per share

During the year a final dividend in respect of the 2011 financial results of Shs 27.00 (2010: Shs 14.50) and an interim dividend of Shs 3.50 per share (2011: Shs 3.50) was declared and paid. The total dividend paid in the year is therefore Shs 30.50 per share (2011: Shs 18.00), amounting to a total of Shs 3,050,000,000 (2011: Shs 1,800,000,000).

At the annual general meeting to be held on 30 April 2013, a final dividend in respect of the year ended 31 December 2012 of Shs 29.00 per share amounting to a total of Shs 2,900,000,000 is to be proposed. These financial statements do not reflect this dividend as a liability. Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

13. Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Issued			
Balance at beginning and end of year	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 surplus

The revaluation surplus relates to the revaluation of the group and company's land and buildings 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. The revaluation was accounted for as at 31 December 2012.

15. Deferred income tax

	2012 Shs'000	2011 Shs'000
The analysis of deferred tax assets and deferred liabilities is as follows		
Deferred tax assets	-	(14,491)
Deferred tax liabilities	1,337,098	973,785
Deferred tax liabilities (net)	1,337,098	959,294

Deferred income tax is calculated using the enacted income tax rate of 30% (2011: 30%). The movement on the group deferred income tax account is as follows:

	2012 Shs'000	2011 Shs'000
At start of year	959,294	924,063
Charge for the period (Note 10)	178,519	35,231
Deferred tax on revaluation surplus	199,285	-
At end of year	1,337,098	959,294

15. Deferred income tax (continued)

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

Year ended 31 December 2012	1.1.2012 Shs'000	Charged to P&L Shs'000	Charged to equity Shs'000	31.12.2012 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	1,086,229	94,805	-	1,181,034
- on revaluation surpluses	344,164	-	199,285	543,449
Unrealised exchange gains	46,169	9,933	-	56,102
	1,476,562	104,738	199,285	1,780,585
Deferred income tax assets				
Provisions	(463,863)	69,961	-	(393,902)
Unrealised exchange losses	(53,405)	3,820	-	(49,585)
	(517,268)	73,781	-	(443,487)
Net deferred income tax liability	959,294	178,519	199,285	1,337,098

Year ended 31 December 2011

	1.1.2011 Shs'000	Charged to P&L Shs'000	Charged to equity Shs'000	31.12.2011 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	808,586	277,643	-	1,086,229
- on revaluation surpluses	509,061	(145,849)	(19,048)	344,164
Unrealised exchange gains	822	45,347	-	46,169
	1,318,469	177,141	(19,048)	1,476,562
Deferred income tax assets				
Provisions	(319,499)	(144,364)	-	(463,863)
Unrealised exchange losses	(24,318)	(29,087)	-	(53,405)
Tax losses	(50,589)	50,589	-	-
	(394,406)	(122,862)	-	(517,268)
Net deferred income tax liability	924,063	54,279	(19,048)	959,294

Deferred income tax of Shs 199,285,000 (2011: Shs 19,048,000) 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:

	2012 Shs'000	2011 Shs'000
Deferred income tax liabilities		
Property, plant and equipment:		
- on historical cost basis	1,181,034	1,086,229
- on revaluation surpluses	543,399	344,164
Unrealised exchange gains	42,163	45,641
Total deferred income tax liabilities	1,766,596	1,476,034
Deferred income tax assets		
Provisions	(384,695)	(456,319)
Unrealised exchange losses	(48,701)	(45,930)
Tax losses	-	-

16. Property, plant and equipment – Group and Company (continued)

Land and buildings were revalued in 2012, 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 land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2012	2011
	Shs' 000	Shs' 000
Cost	1,221,374	1,119,345
Accumulated depreciation	(281,343)	(254,204)
Net book amount	940,031	865,141

17. Investment in subsidiaries

The company'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.

18. Inventories

	Group		Company	
	2012	2011	2012	2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Raw materials and consumables	3,478,980	3,698,557	3,478,980	3,698,557
Finished goods	731,632	53,510	731,595	53,510
Work in progress	182,977	622,710	182,977	622,710
	4,393,589	4,374,777	4,393,552	4,374,777

19. Receivables and prepayments

	Group		Company	
	2012	2011	2012	2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Trade Receivables	64,989	7,031	43,649	7,031
Prepayments and other receivables	475,997	511,095	472,888	519,068
Due from related parties	1,485,962	1,130,524	989,907	1,130,524
	2,026,948	1,648,650	1,506,444	1,656,623

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

20. Cash and cash equivalents

	Group		Company	
	2012	2011	2012	2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Cash at bank and in hand	194,314	720,680	194,314	712,685

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

	2012	2011
	Shs' 000	Shs' 000
Cash at bank and in hand	194,314	720,680
Bank Overdrafts (Note 22)	(38,182)	(21,606)
	156,132	699,074

21. Payables and accrued expenses

	Group		Company	
	2012	2011	2012	2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Trade payables	1,464,784	842,031	1,391,069	705,901
Due to related companies	1,259,138	1,289,369	1,254,911	1,276,880
Other payables and accrued expenses	2,249,076	1,892,955	1,962,661	1,803,454
	4,972,998	4,024,355	4,608,641	3,786,235

22. Borrowings

	Group		Company	
	2012	2011	2012	2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Non-current				
Loan from BAT Investments	688,800	1,024,064	688,800	1,024,064
Current				
Bank overdrafts	38,182	21,606	37,959	21,606
	726,982	1,045,670	726,759	1,045,670

The loan from BAT Investments is an unsecured US Dollar denominated floating rate loan repayable by June 2014 at an interest rate of LIBOR plus 2.5% up to July 2012 and thereafter LIBOR plus 4.0%.

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 statement of financial position date.

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

The group and company has the following undrawn borrowing facilities:

	2012	2011
	Shs' 000	Shs' 000
Overdraft Facilities	3,160,358	3,272,608
Bond Guarantees	1,751,614	316,067
	4,911,972	3,588,675

The facilities expire within one year and are subject to review at various dates during the year. Bond guarantees are issued in favour of the Kenya Revenue Authority to cover import duty, VAT and excise payable for all imported goods that are utilised to manufacture

23. Provisions for liabilities and charges

	Group Shs' 000	Company Shs' 000
Year ended 31 December 2011		
At start of year	983,549	983,549
Additional provisions	130,612	130,612
Unused amounts reversed	(104,205)	(104,205)
Charged to statement of comprehensive income	26,407	26,407
Utilised during the year	(4,367)	(4,367)
At end of year	1,005,589	1,005,589
Year ended 31 December 2012		
At start of year	1,005,589	1,005,589
Additional provisions	40,000	40,000
Unused amounts reversed	(89,273)	(89,273)
Credit to statement of comprehensive income	(49,273)	(49,273)
Utilised during year	(54,879)	(54,879)
At end of year	901,437	901,437

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

24. Cash generated from operations

	2012 Shs' 000	2011 Shs' 000
Profit before taxation	4,754,302	4,484,116
Adjustments for:		
Depreciation	553,151	553,638
Profit on sale of property, plant and equipment	(18,166)	(7,566)
Interest received (Note 7)	(787)	(634)
Interest expense (Note 7)	305,137	172,675
Changes in working capital:		
-receivables and prepayments	(378,298)	(47,601)
-inventories	(18,812)	(1,402,019)
-payables and accrued expenses	948,643	1,617,133
-provisions for liabilities and charges	(104,152)	22,040
Cash generated from operations	6,041,018	5,391,782

25. Related party transactions

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

The Company has an operating subsidiary, BAT Kenya Tobacco Company Limited.

The following transactions were carried out with related parties.

	Group		Company	
	2012 Shs' 000	2011 Shs' 000	2012 Shs' 000	2011 Shs' 000
i) Sale of goods and services				
Subsidiary	-	-	3,153,015	4,741,101
Other related parties	8,303,940	10,109,284	8,303,940	10,109,284
	8,303,940	10,109,284	11,456,955	14,850,385
ii) Purchase of goods and services				
Parent company	641,707	617,504	641,707	617,504
Other related parties	586,780	482,476	586,780	482,476
	1,228,487	1,099,980	1,228,487	1,099,980
iii) Outstanding balances arising from sale and purchase of goods/services				
Receivables from other related parties	1,485,964	1,130,524	989,907	1,130,524
Payables to the parent company	8,398	284,494	8,398	284,494
Payables to other related parties				
	1,250,740	1,004,875	1,246,513	992,386
	1,259,138	1,289,369	1,254,911	1,276,880
iv) Loans from related parties				
Loan from related party (BAT Investments)	688,800	1,024,064	688,800	1,024,064
v) Key management compensation			2012 Shs' 000	2011 Shs' 000
Salaries and other short-term employment benefits			179,925	160,005
Other long-term benefits			86,898	73,731
			266,823	233,736
vi) Directors' remuneration				
Fees for services as a director			15,752	13,021
Other emoluments (included in key management compensation above)			81,027	83,483
Total remuneration of directors of the company			96,779	96,504

26. Contingent liabilities

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

At 31 December 2012 and 2011, the group had no guarantees given on behalf of third parties.

27. Capital commitments

Capital expenditure contracted for at the statement of financial position date but not recognised in the financial statements is as follows:

	2012 Shs'000	2011 Shs'000
Property, plant and equipment	89,178	82,671

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/her, the Chairman of the Meeting as my/our proxy, to vote for me/us and on my/
our behalf at the Annual General Meeting of the Company to be held on 30 April 2013 in the
Ball Room, Hotel Intercontinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this

day of 2013

.....(Signature)

NOTES:

1. If a member is unable to attend this meeting personally this Form of Proxy should be completed and returned to reach the Company's Registered Office not later than 2.30 p.m. on 29 April 2013.
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



