



+



+



+



=

# The BAT Way

Annual Report 2013



**BRITISH AMERICAN  
TOBACCO**  
KENYA





## Table of Contents

Page

2013 Highlights	6
Board of Directors	13
Leadership Team	19
Notice of the 2013 Annual General Meeting	24
Chairman's Review	29
Managing Director's Message	39
Operating & Financial Review	51
Sustainability Statement	56
Management Reviews	62
Corporate Governance	76
Shareholding Structure	82
Corporate Information	83
Financial Statements	86
Form of Proxy	125

# The BAT Way



## GROWTH

Understand and deliver enjoyable **Consumer Moments**



## PRODUCTIVITY

Effectively deploy resources to **Increase Profits and Generate Funds**

The BAT Way is our strategy to deliver **Shareholder Value** and is built off 4 key strategy pillars.



## SUSTAINABILITY

Ensure a **Sustainable Business that Meets Stakeholders' Expectations**



## WINNING ORGANISATION

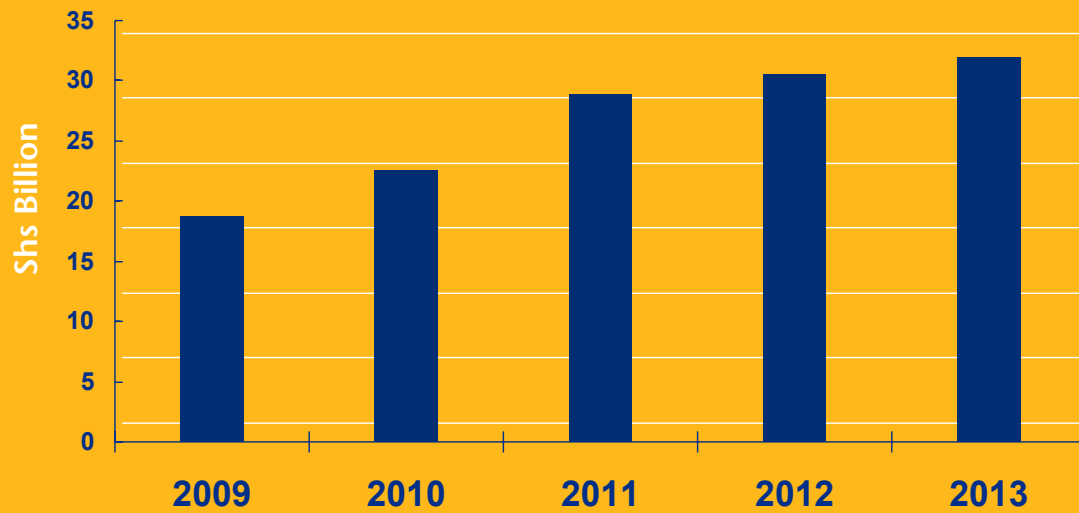
**Great People, Great Teams, Great Place to work**





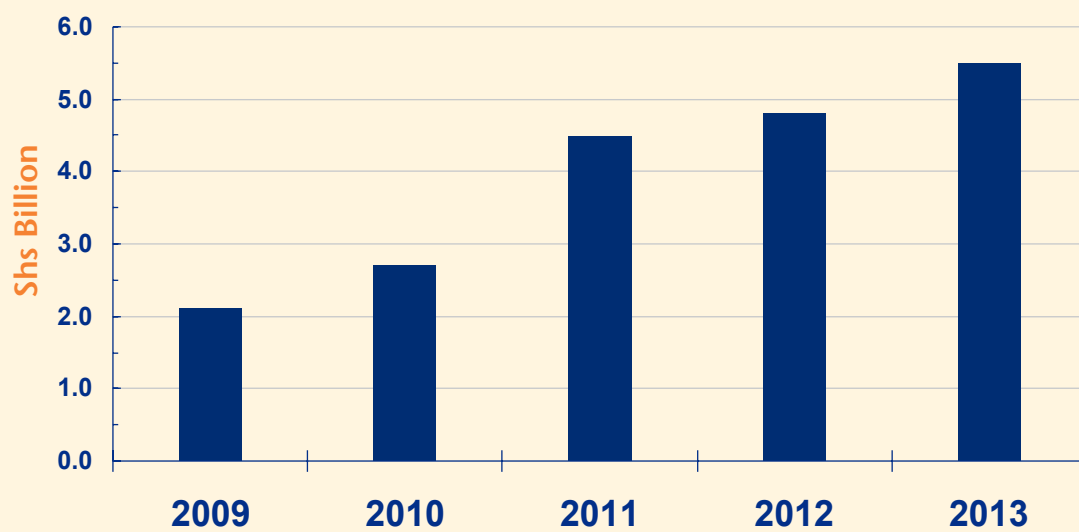
## 2013 Highlights

### Gross Turnover



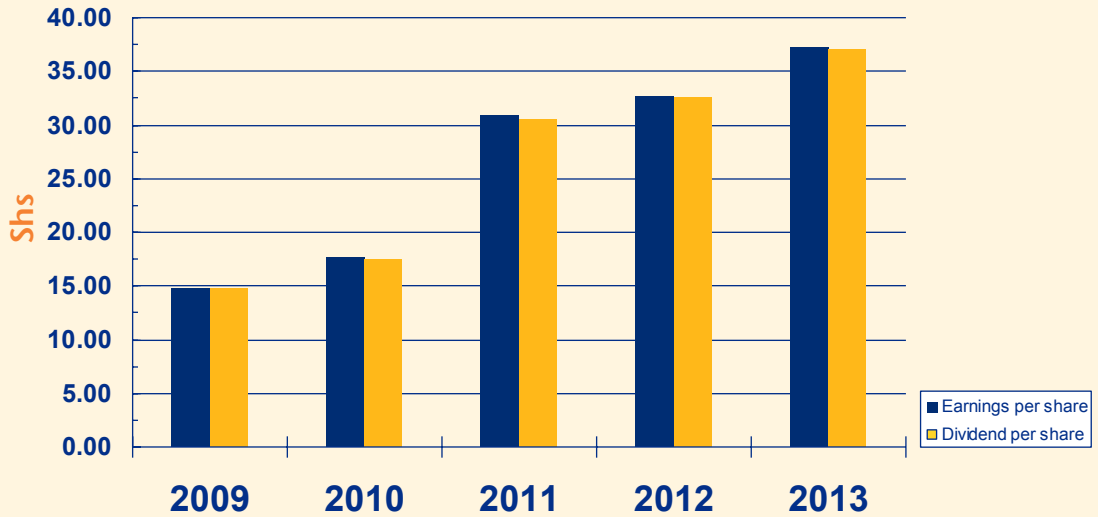
Gross Turnover was Shs 31.9 billion, an increase of 5% compared to 2012

### Profit Before Income Tax



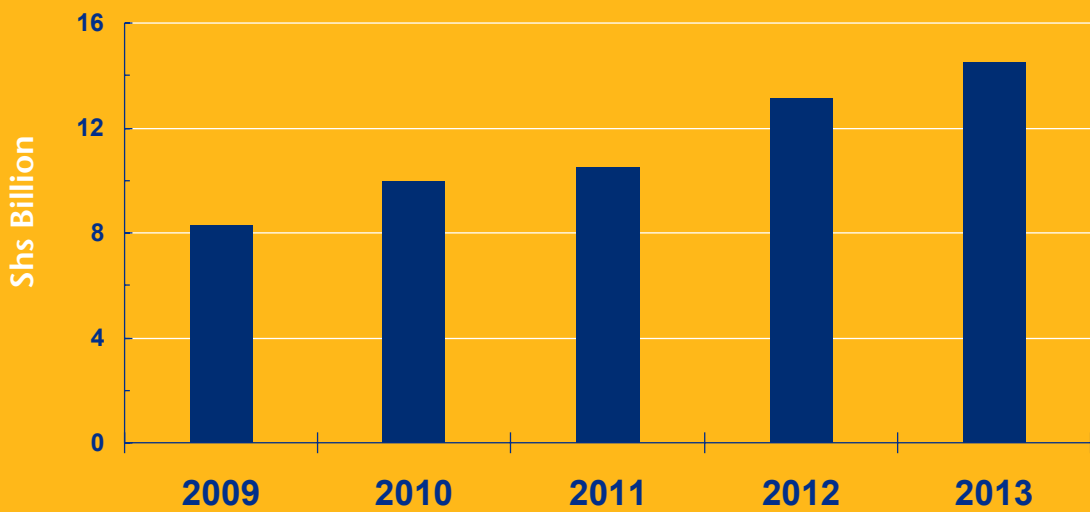
Profit Before Income Tax was Shs 5.5 billion, an increase of 15% compared to 2012

## Earnings/Dividend per share



Dividend per Share increased by 14% compared to 2012

## Contribution to Government Revenue



Contribution to Government Revenue was Shs 14.5 billion, an increase of 11% compared to 2012

**Growth**



*Product Obsessed*

*Understanding and delivering enjoyable  
**Consumer Moments***

*Brand Distinct*

*Excellence in  
Execution*





“**DUNHILL** BAT's Global International Premium Brand is available in over 100 countries. It was launched in Kenya in 2005 and is available in three different variants. From the packaging, to the refined taste of the tobacco, nothing is left to chance.”

### **DUNHILL Switch**

*The most recent innovative offer like no other, that offers consumers a choice of 2 tastes in 1 cigarette.*



### **DUNHILL Red**

*A Rich flavorful taste experience*



**DUNHILL**  
MASTER BLEND

### **DUNHILL Blue**

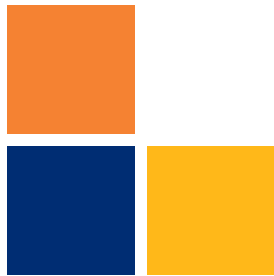
*A Smoother smoking experience*



The brand promises to offer consumers; **“Perfect Taste, Always.”** Dunhill is distinctively designed to reflect our desire to create a cigarette that is of exceptional standards and is known for its Premium Quality and Perfection.







## Board of Directors





**Mr G. Maina**  
**Non-Executive Chairman**  
*(age 61)*

Appointed to the Board as a Non-Executive Director in November 2010. Appointed Chairman of the Board on 1 September 2013. 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 Nairobi Stock Exchange. He is also a Trustee of Starehe Boys Centre, Africa Conservation Centre and Gertrude Gardens Children's Hospital.

**Mr C. Burrell**  
**Managing Director**  
*(age 54)*

Appointed to the Board on 1 June 2013. Prior to his appointment he was Area Director for BAT North African Area based in Egypt.

He joined Rothmans International as a Management Trainee in 1982 and spent most of his career in general management as well as in Strategic Planning and Business Development. From 1999 to 2005 he worked as Area Director for the then BAT Sub-Saharan Africa Area based in Kenya before moving to Switzerland as the General Manager.

He is currently also the Area Director for BAT East and Central Africa Area based in Nairobi.



**Mr P. Lopokoiyit**  
**Finance Director**  
*(age 47)*

Appointed to the Board in November 2010. He has extensive experience in financial management and served in senior management positions 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 this appointment. Philip is a member of ICPAK, a Fellow Member of the Institute of Chartered Accountants in England and Wales and holds an MBA from Warwick Business School.



**Mr G.R. May**  
**Non-Executive Director**  
*(age 70)*

Appointed to the Board in September 2005. He has a rich accounting background and is a Fellow of the Institute of Chartered Accountants in England and Wales. He has worked in various countries and has a history of 37 years with PricewaterhouseCoopers.

He is currently the Regional Representative of the Eastern Africa Association. He holds directorships in Groove Limited, Airside Limited (Swissport Kenya), Heritage Insurance Company Limited, CFC Stanbic Bank Limited, CFC Stanbic Holdings Limited, and CFC Financial Services Limited.



**Mr M. Janmohamed**  
**Non-Executive Director**  
*(age 60)*

Appointed to the Board in November 2012. He is currently the Managing Director of Serena Hotels Africa, and Head of the Tourism Department for The 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 Founding Chairman of the Kenya Tourism Federation, a Trustee of the East African Wildlife Society and 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 C. Musyoka**  
**Non-Executive Director**  
*(age 41)*

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 Transcentury Limited, BOC Gases Ltd, SOS Childrens' Villages and Alliance Capital Partners.





**Dr J. Ciano**  
**Non-Executive Director**  
*(age 63)*

Appointed to the Board in July 2012. He is the Group CEO of Uchumi Supermarket chain in East Africa.

Dr Ciano holds a Bachelor of Commerce degree in Finance, an MBA in Strategy and Finance and an 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 Exchange Ltd and Investeq Capital Ltd.



**Ms R. T. Ngobi**  
**Company Secretary**  
*(age 53)*

Appointed Company Secretary in August 2002. Ruth was educated in both Kenya and the UK and qualified as a lawyer in 1985. She previously worked at Unilever Kenya Limited for 15 years as Company Secretary before joining British American Tobacco Kenya Ltd in 2002 as Company Secretary and Area Legal Counsel.

She retired from full time employment with British American Tobacco Kenya Ltd in 2010 but retained her role as Company Secretary. She founded Cosec Solutions which provides company secretarial services and corporate governance solutions to various companies.

She is a Non- Executive Director on the Boards of CFC Stanbic Bank Limited, CFC Stanbic Holdings Limited and a member of the Public Procurement Oversight Authority Board





**Leadership Team**





**Leadership Team  
Members** with  
responsibilities for BAT  
Kenya

Standing from left: J. R.  
Gilbert, S. Munjanganja,  
R. Belath, C. Burrell, L.  
Githuka, D. Eloff and P.  
Lopokoiyit



**The Leadership Team** remains focused on delivering the Business Strategy which is built upon the pillars of Growth, Productivity, Sustainability and Winning Organization.

The strength of our Brands, continued focus on Distribution Excellence and the Quality of our People have helped position the Company for continued growth.

### **Chris Burrell**

**Nationality**

British

**Age**

54

**Position**

Managing Director

**Skills & Experience**

Joined BAT in 1982 and has held several management roles in Europe and Africa. Chris returned to Kenya as Managing Director in June 2013, having previously served in this capacity between 2000 and 2005.



### **Philip Lopokoiyit**

**Nationality**

Kenyan

**Position**

Finance Director

**Age**

47

**Skills & Experience**

Joined BAT in June 1996. He has held a variety of senior management roles in Finance in the Horn of Africa, East Africa and West Africa. He was Finance Director, West Africa Area prior to his current appointment. He joined the Leadership Team in November 2010 in his current role.



### **Dirk Eloff**

**Nationality**

South African

**Position**

Operations General Manager

**Age**

56

**Skills & Experience**

Joined BAT in January 1982. He has filled various Operations roles in Kenya, Pakistan, the UK, Turkey and South Africa. He joined the Leadership Team in January 2014 in his current role.



## Lina Githuka

### Nationality

Kenyan

### Position

Head of Marketing

### Age

43

### Skills & Experience

Joined BAT in September 2000. She has held various management positions in Kenya, South Africa and Uganda. Lina becomes the first Kenyan Head of Marketing. She joined the Leadership Team in January 2014 in her current role.



## Simukai Munjanganja

### Nationality

Zimbabwean

### Position

Head of Legal

### Age

40

### Skills & Experience

Joined BAT in 2000. He has held several management roles in both Legal and Corporate & Regulatory Affairs in Southern Africa and the United Kingdom and most recently as Global Regulation Counsel based in the Group Head Office. He joined the Leadership Team in 2013 in his current role.



## Razeeah Belath

### Nationality

Mauritian

### Position

Head of Human Resources

### Age

35

### Skills & Experience

Joined BAT in September 2001. She has held several senior HR management roles including Area Head of Talent in Sub-Saharan Africa and Regional Head of Talent in 2010. She joined the Leadership Team in August 2012 in her current role.



## Jerry Gilbert

### Nationality

British

### Position

Head of Corporate and Regulatory Affairs

### Age

60

### Skills & Experience

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





# Notice of the 2013 Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Sixty-Second Annual General Meeting of British American Tobacco Kenya Limited will be held in the **Amphitheatre of Kenyatta International Conventional Centre, Nairobi**, on 29 April 2014, at 11am 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 2013, together with the reports of the Chairman, Directors and Auditors thereon.
2. To declare a dividend.
3. To elect Directors:  
Mr C. Burrell, retires and being eligible offers himself for re-election in accordance with Article 95 of the Articles of Association.  
Mr G. Maina and Ms C. Musyoka retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.  
Mr G. R. May having attained the age of 70 in March 2013 retires in terms of section 186(2) of the Companies Act and being eligible by virtue of a Special Notice given under section 186 (5) offers himself for re-election.
4. To authorise the Directors to fix the remuneration of the Auditors, PricewaterhouseCoopers.

By Order of the Board

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

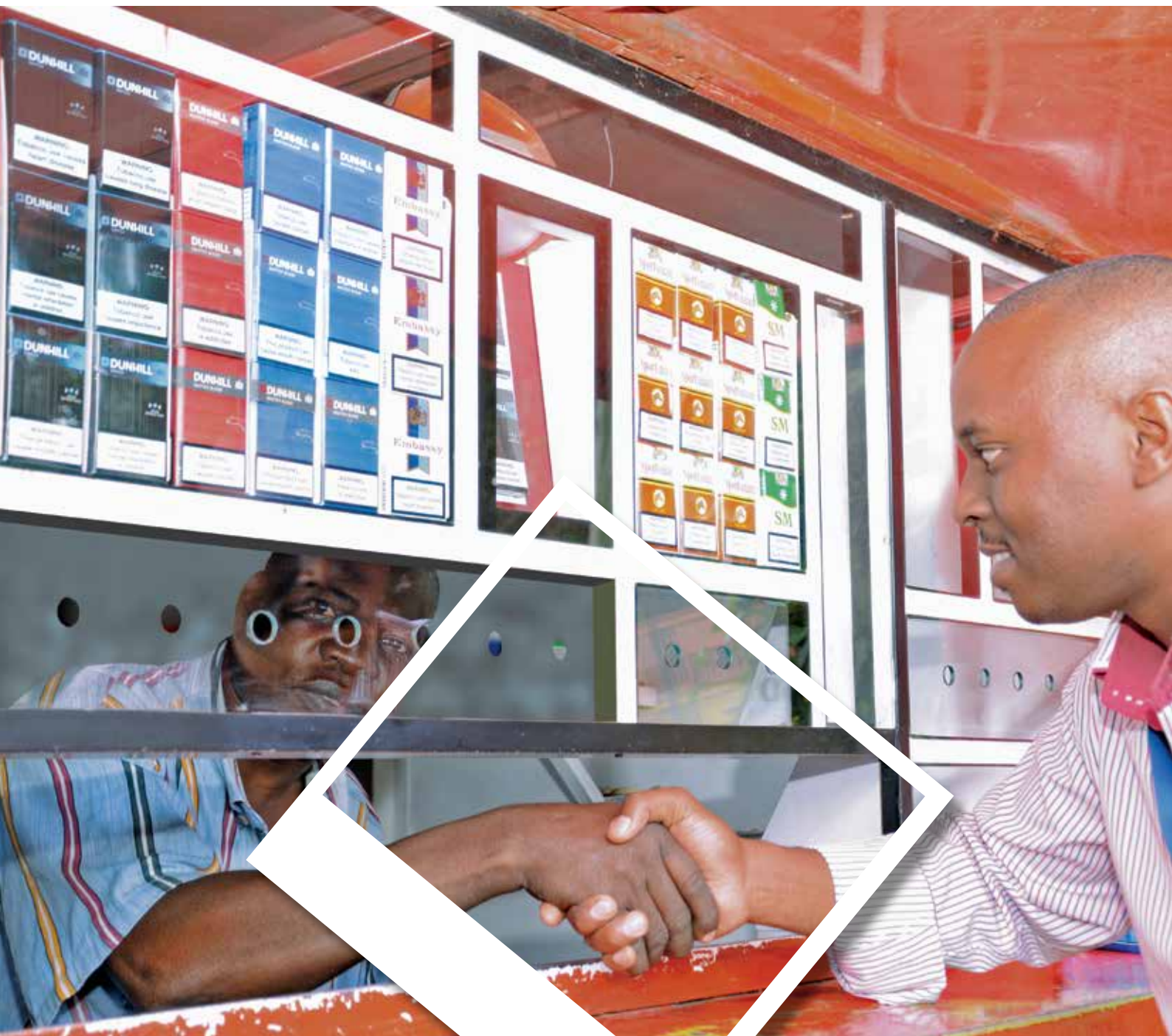
27 February 2014

## NOTES:

1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. Such proxy need not be a member of the Company.
2. A proxy form is provided with this report. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the form to the Registered Office of the Company so as to arrive not later than 2:30pm on 28 April 2014.



***“BAT imenitoa mbali. Nawashukuru nyote kwa usaidizi wote na uhusiano ambao tumekuwa nao. Ahsanteni Sana!”***  
Nathan Sianga - Owner, Fundi Kiosk



**Productivity**

*Operationally Best*



*Effectively deploy resources to **Increase Profits** and **Generate Funds***

*Globally  
Integrated  
Enterprise*

*Cost and Capital  
Effectiveness*





Mr G. Maina  
Chairman



## Chairman's Review

### Dear Shareholder,

It gives me great pleasure to introduce the Annual Report on the Financial Year ended

31 December 2013. Our results for the year are driven by volume and revenue growth, an improved operating margin, and growth in market share due to our successful brands.

Since the Company was listed in 1969, the business has developed and grown significantly, becoming recognised as one of Kenya's leading companies. Last year, we were recognized as the Best Quoted Company listed on the Nairobi Securities Exchange at the Capital Markets Awards.

## The Business Environment

### I. Macro-Economic Environment

The economic environment in 2013 was that of a sustained recovery and improved resilience.

The first part of the year saw sufficient rainfall support food and electricity prices resulting in moderate uptick in inflation. Interest rates and the Kenya Shilling remained relatively stable despite a relatively weak current account position. Peaceful General Elections were followed by a smooth transition of power into a devolved system of governance. Modest GDP growth was recorded in 2013 and attributed to a slow down in activity after the March elections, as businesses took a "wait and see" approach, coupled with reduced government spending.

### II. Socio-Political Environment

2013 ushered in the devolved system of governance and we are beginning to see some of the positive impacts emerging. Nevertheless, it is also clear that challenges remain.

We also celebrated the Country's Golden Jubilee. BAT Kenya has been part of this country's journey ever since setting up operations in Mombasa in 1907. We are proud of our contribution to the economic and social well-being of the entire nation.

We look forward to working together with the County and National Governments in the quest for prosperity and a better future for Kenya.

### Strong Performance

Your Company delivered strong profit growth in 2013. Domestic cigarette volumes grew by 7% accompanied by an improvement in sales mix. We grew our market share further during the year, a strong sign of the efficacy of our strategy.



## ***BAT Kenya has been part of this country's journey ever since setting up operations in Mombasa in 1907***

Export volumes grew by 16% while contract manufacture cigarette volumes remained stable over the previous year. The Company's shipments of cut rag declined in the year, but due to management's outstanding efforts, the impact was more than fully mitigated. We continued to invest for the long term, further enhancing our capabilities and capacity.

This success is reflected in earnings per share for 2013 rising to Ksh 37.24 per share an increase of 14% on last year.

The Company is in excellent shape and we remain confident that our strategy will continue to deliver superior shareholder returns.

Our financial highlights indicate how the business is delivering superior returns. You can read a full summary of our successful year on the pages following on from here.

### **Dividends**

The Directors recommend a final dividend of Ksh 33.50 per ordinary share which, when added to the interim dividend of Ksh 3.50 per ordinary share paid out during the year, brings total dividends to Ksh 37.00 per share.

The dividend will be payable on 29 April 2014 to shareholders on the share register as at close of business on 28 March 2014. The dividend shall be subject to the deduction of withholding tax where applicable.

### **Changes to the Board of Directors**

- Mr Chris Burrell joined the Board of Directors as a Director of the Board and as Managing Director of BAT Kenya on 1 June 2013.
- Chris brings a wealth of experience in general management as well as in strategic planning and business development. He was previously the Managing Director of BAT Kenya between May 2000 and October 2005.
- Mr Allan Ngugi resigned from the Board of Directors on 30 April 2013.
- Mr Gary Fagan resigned as Managing Director and as a Director of the Board on 31 May 2013.
- Dr Martin Oduor-Otieno resigned from the Board of Directors on 1 July 2013.
- Mr Evanson Mwaniki resigned as Chairman and a Director of the Board on 31st August 2013. I take this opportunity to thank Mr Mwaniki for his invaluable

contribution having served the Company as Chairman of the Board since November 1995, and wish him the best in his future endeavours.

- In particular, I record my appreciation for Mr Gary Fagan who stood down as the Managing Director in May 2013 for his contribution.
- I'd like to also appreciate Dr Martin Oduor-Otieno and Mr Allan Ngugi for their invaluable service to the company.

#### **On Track for Further Success**

Reflecting on the success of 2013, let me thank our Managing Director, Chris Burrell, my fellow Directors on the Board, management, our business partners and in indeed all the staff working at BAT Kenya for an excellent performance and for their continued contribution to the success of your company.

Looking forward, I am confident that we have the strategy, people and resources to continue to deliver growth and value to all our stakeholders in the years ahead.

**George Maina**  
**Chairman**

***Your Company delivered strong profit growth in 2013. Domestic cigarette volumes grew by 7% accompanied by an improvement in sales mix***



# Embassy



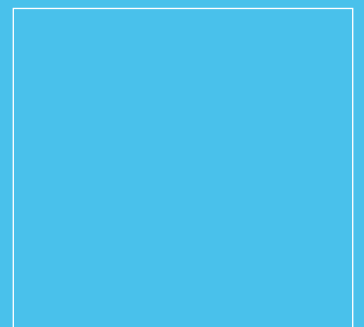
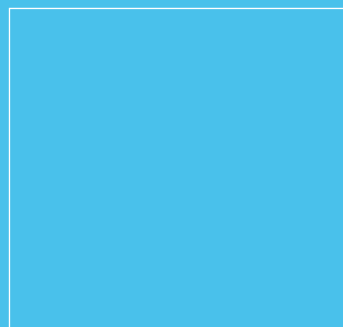
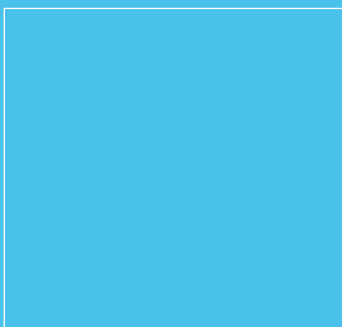
“

**Embassy** is BAT's well known local Premium Brand that has been in Kenya since 1970. It is manufactured from fine quality local tobacco, made to International standards and known for being there all the way.

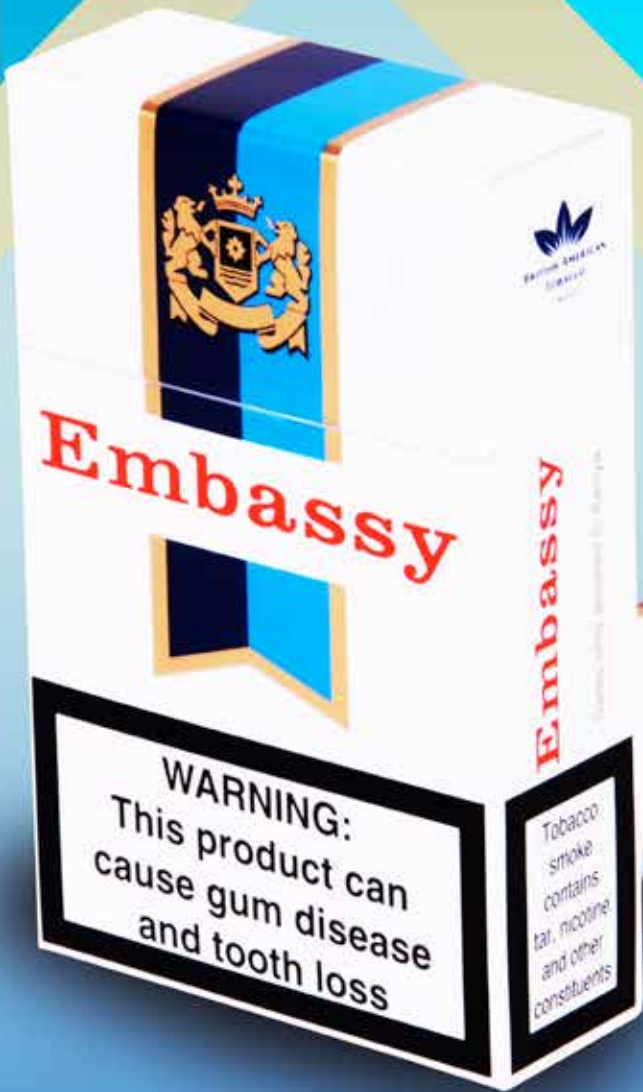
”



Available in 2 different variants, **Embassy Red** and **Embassy Blue**









*Bw. G. Maina  
Mwenyekiti*



## Taarifa ya Mwenyekiti

### Mpenzi Mwenye Hisa

Nina furaha kukuletea utangulizi wa taarifa ya kila mwaka, hususan mwaka wa kifedha uliokamilika tarehe 31 Desemba, 2013.

Matokeo yetu ya mwaka jana yanafuatia kuongezeka kwa viwango vya bidhaa, kuimarika kwa biashara, na kupanuka kwa soko; kutokana na bidhaa zetu maarufu.

Tangu ilipoorodheshwa mwaka wa 1969, kampuni yetu imepanuka na kukua kwa kiwango kikubwa. Hii imepelekea BAT kutambulika kama mojawapo ya kampuni zinazoongoza nchini. Mwaka jana katika tuzo za Capital Markets Awards, tulituzwa kwa kuwa kampuni yenye hisa maarufu zaidi katika soko la hisa la Nairobi.

## Mazingira ya Biashara

### I. Mazingira Pana ya Biashara

Uchumi uliendelea kuimarika katika mwaka wa 2013.

Mvua ya kutosha ilinyesha mapema 2013, kukawa na vyakula vya kutosha, bei nafuu ya stima; na hivyo kudhibiti gharama ya maisha. Riba inayotozwa mikopo na dhamani ya shilingi pia zilisaliamara licha ya hali dhaifu ya akaunti ya hundi na sarafu ya Kenya.

Uchaguzi mkuu na mabadiliko ya serikali yalifanyika kwa amani, na baadaye kukaanzishwa serikali za ugatuzi.

Licha ya serikali kupunguza matumizi yake na mashirika ya kibiashara yakiendesha shughuli chache tu huku yakingoja kuona matokeo ya uchaguzi mkuu, mapato ya taifa na hali ya maisha iliendelea kuimarika.

### II. Hali ya Maisha na Siasa

2013 pia ilikaribisha serikali za ugatuzi na manufaa yake yameanza kuchipuzwa. Hata hivyo, bado kuna changamoto tele zinazozikabili serikali hizi.

Mwaka huo huo wa 2013, Kenya pia ilisherehekea miaka hamsini ya uhuru. BAT imekuwa kiungo muhimu cha historia ya Kenya tangu ilipoanzishwa mjini Mombasa namo 1907. Tunajivunia mchango wetu kiuchumi na uzima wa Jamii nzima ya Kenya.

Tunatarajia kuwa na ushirikiano mzuri na serikali kuu na zile za kaunti katika mikakati yetu ya kufanikisha biashara na kuboresha maisha ya Wakenya.

### Matokeo Bora Zaidi

Kampuni yako ilipata faida zaidi katika mwaka wa 2013. Viwango vya sigara zinazotengenezwa humu nchini viliongezeka kwa asilimia saba nukta tano (7%). Aina ya bidhaa tunazotengeneza pia iliongezeka.



## **Viwango vya sigara zinazotengenezwa humu nchini viliongezeka kwa asilimia saba (7%)**

Soko letu lilipanuka katika mwaka wa 2013, na kudhihirisha umuhimu wa mikakati yetu ya biashara.

Viwango vya bidhaa zinazouzwa soko la nje viliongezeka kwa asilimia kumi na sita (16%), huku zile zinazotengenezwa kwa kandarasi zikisalia imara mwaka huo. Viwango vya tumbaku ghafi vilipungua, lakini kufuatia ustadi na mbinu za wasimamizi, hali hii iliweza kudhibitiwa barabara. Tuliendelea pia kuwekeza katika mikakati ya vipindi virefu na hivyo kuboresha uwezo na viwango vya bidhaa zetu.

Mafanikio haya yalidhihirishwa na kupanda kwa bei ya hisa yetu kwa asilimia kumi na nne (14%) na kufikia shilingi 37.24.

BAT Kenya iko imara na tunaamini kwamba mikakati yetu italeta faida zaidi kwa wawekezaji.

Mukhtasari wetu wa mapato umeonyesha kuwa biashara yetu inaleta faidi zaidi. Unaweza kusoma ripoti kamili ya mafanikio yetu ya mwaka wa 2013 katika kurasa zifuatazo.

### **Mgao wa Faida**

Wakurugenzi wamependekeza mgao wa faida wa shilingi 33.50 kwa kila hisa ya kawaida, hii ikiwa kando ya faida ya awali ya shilingi 3.50. Kwa hivyo kila mwenye hisa atapata jumla ya faida ya shilingi 37.00 kwa kila hisa.

Malipo haya yatafanywa tarehe 29/04/2014 kwa wataokuwa wameorodheshwa katika sajili ya wenye hisa kufikia mwisho wa siku, tarehe 28/03/2014. Ikiwezekana, malipo haya pia tatatozwa kodi ya mapato.

### **Mabadiliko Katika Bodi ya Wakurugenzi**

- Bwana Chris Burrell alijiunga nasi kama mkurugenzi wa bodi ya wakurugenzi na pia kama mkurugenzi mkuu wa BAT Kenya kuanzia Juni 1, 2013. Chris ana tajriba kubwa katika usimamizi, kuunda mikakati, na upanuzi wa biashara. Chris pia aliwahi kuwa mkurugenzi mkuu wa BAT Kenya kuanzia mwezi Mei mwaka 2000 hadi mwezi Oktoba, 2005.
- Bwana Allan Ngugi alijiuzulu wadhfa wake katika bodi ya wakurugenzi tarehe 30 mwezi Aprili, 2013.
- Bwana Gary Fagan alijiuzulu wadhfa wake wa mkurugenzi mkuu na kama mkurugenzi wa bodi ya wakurugenzi tarehe 31 mwezi Mei, 2013.
- Daktari Martin Oduor-Otieno alijiuzulu kutoka kwa bodi ya wakurugenzi tarehe 1 mwezi Julai, 2013.
- Bwana Evanson Mwaniki alijiuzulu wadhfa wake wa mwenyekiti na mkuu wa bodi ya wakurugenzi tarehe 31 mwezi Agosti, 2013.

- Nachukua fursa hii kumshukuru Bwana Mwaniki kwa mchango wake wa dhamani tangu alipoanza kuitumikia BAT mwaka wa 1995. Namtakia kila la heri popote aendapo.
- Pia, nampongeza Bwana Gary Fagan aliyejiuzulu wadhfa wake wa mkurugenzi mkuu mwezi Mei 2013 kwa mchango wake muhimu.
- Nawashukuru pia Daktari Martin Oduor-Otieno na Bwana Allan Ngugi kwa kujitoa kuhudumia kampuni ya BAT.

**Tungali katika harakati za Kuleta Mafanikio Zaidi.**

Huku tukiangazia mafanikio ya mwaka wa 2013, nampongeza mkurugenzi wetu mkuu, Bwana Chris Burrell, wakurugenzi wenzangu katika bodi, wasimamizi, washirika wetu wa biashara na wafanyakazi wote wa BAT Kenya, kwa kazi nzuri na mchango wao katika kufanikisha kampuni yetu.

Pia, nina uhakika kwamba tuna mikakati, watu wenye vipawa, na raslimali tosha kuikuza BAT na kuwapa wenye hisa wetu faida zaidi katika siku zijazo.

**George Maina**  
**Mwenyekiti**

***Kampuni yako ilipata faida zaidi katika mwaka wa 2013. Viwango vya sigara zinazotengenezwa humu nchini viliongezeka kwa asilimia saba (7%).***

***Aina ya bidhaa tunazotengeneza pia iliongezeka***





*Mr C. Burrell  
Managing Director*



## Managing Director's Message

***The World's Best at Satisfying Consumer Moments in Tobacco and Beyond***

Your Company continued its good performance in 2013 against a backdrop of a challenging trading environment, heightened insecurity and increased costs of doing business.

### **Growth**

Growth is the strategic imperative that we aspire to deliver on and in this respect, British American Tobacco Kenya grew market share by 1.6 percentage points in 2013 while total domestic volumes grew 7%.

Sportsman continues to grow and now one in every two cigarettes smoked in Kenya is a Sportsman. Following the launch of Dunhill Switch in late 2012, The Dunhill brand family has grown by 33% in volume terms.

Kenya domestic revenues exceeded export revenues for the first time since 2010, driven by the increases above and exemplary performance by our distribution partners.

Export revenues also improved, driven by increased sales to the Horn of Africa.

Contract manufactured cigarette volumes were relatively flat in the year while cut rag exports declined further due to lower demand levels.

As a result, Gross revenue grew by 5% to Ksh 31.9bn.

Government levies paid in 2013 grew by 11% to Ksh 14.5bn whilst profit before tax improved by 15% during the year to Ksh 5.5bn (2012: Ksh 4.8bn).

***Following the launch of Dunhill Switch in late 2012, the Dunhill brand family has grown by 33% in volume terms***

## Productivity

During the year, your company continued to invest in improving productivity. Ksh1bn of capital expenditure was made to further enhance our capacity and capabilities.

In 2013, The BAT Group consolidated its East African Leaf operations which resulted in the migration of Uganda's leaf processing to our Thika Green Leaf Threshing (GLT) plant. As a result, the GLT's throughput increased by 51% in the year.

Leaf production volumes improved by 26% while the quality index rose by 29% driven by better crop planning and farmer performance, helped by our farmer cell extension programme.

Productivity initiatives supplemented the top line growth to deliver an increased operating margin of 29% in 2013, up from 26% in 2012.

## Sustainability

Our focus on running a sustainable business in the interest of all stakeholders continues.

For the seventh consecutive year, our Company was lauded for its contribution to the exchequer: BAT Kenya was recognized as the 4th largest tax payer by the Kenya Revenue Authority in October 2013 with remittances to the exchequer in the form of excise, VAT and corporate taxes growing to Ksh14.5 billion in 2013.

At the Institute of Certified Public Accountants of Kenya (ICPAK) 2013 Financial Reporting Excellence Awards, your Company was recognized for excellence in Sustainability Reporting.

In 2013, your Company was also recognized at the 2013 Capital Markets Awards as the Best Quoted Company at the Nairobi Securities Exchange.







### **Winning Teams**

Our people are a core strength of our business, and we will make sure that our focus on talent in the business remains strong and sustainable for the future of the business.

We have seen more East Africans assume senior management roles in the company over the last year after successfully completing development programs within the BAT Group of companies. In early 2014, Ms Lina Githuka was appointed as the Head of Marketing for East & Central Africa, becoming the first Kenyan to hold this position.

### **The Future**

In 2014 we will remain focused and committed on our strategy to continue delivering consistent growth.

From an operating environment perspective, we continue to monitor developments within the East African Community with concern as the competitiveness of EAC manufactured goods is challenged by intra-EAC duties and non-tariff barriers.

Investment in the Nairobi factory will continue to pay off and in 2014, we will add further contract manufacture volume for the Democratic Republic of Congo's market.

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 2013.

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

**Chris Burrell**  
**Managing Director**

***"Pamoja Twasonga Mbele"***

# Sportsman

“

**Sportsman** was launched in Kenya in 1932, and celebrates a rich heritage of over 80 years, delivering great consistent taste and high quality to our smokers in Kenya.

”



Launched under the popular tag “*ni sawa hasa*”, **Sportsman** has grown to become BAT’s flagship value for money cigarette offer, catering to the needs and aspiration of the mainstream Kenyan smokers.

Sportsman is made by our own Kenyan local experts to International standards from a selection of the finest tobaccos reinforcing our continued commitment and pride in delivering true quality and promises to continue providing its consumers a rewarding smoking experience.



Sportsman

Sportsman



KING SIZE

WARNING:  
Tobacco use  
kills

Sports



6160 0119



KING SIZE

WARNING:  
Tobacco use  
kills



6160 0119



*Bw. C. Burrell*  
*Mkurugenzi Mkuu*



## Taarifa ya Mkurugenzi

Kampuni yenu ya BAT Kenya iliendelea kufanya vyema zaidi katika mwaka wa 2013, licha ya changamoto tele katika mazingira ya biashara, ukosefu wa usalama, na gharama kubwa za kuendesha biashara.

### **Tumekua Kibiashara**

Kukuza biashara yetu ni mojawapo ya maazimio na mikakati yetu muhimu. Kutokana na haya, soko la British American Tobacco Kenya lilikua kwa pointi asilimia moja nukta sita (1.6) katika mwaka wa 2013, huku uzalishaji wa bidhaa ukikua kwa asilimia saba (7%).

***Nambari Moja Duniani Kwa Kutosheleza  
Utashi wa Wateja Kwa Tumbaku na Zaidi!***

***Baada ya kuanzishwa  
sigara ya Dunhill  
Switch mwakani  
2012, chapa ya Dunhill  
imeongezeka kwa  
asilimia thelathini na  
tatu (33%)***

Umaarufu wa Sportsman uliongezeka hivi kwamba moja kati ya sigara mbili zinazovutwa nchini, ni Sportsman.

Baada ya kuanzishwa sigara ya Dunhill Switch mwakani 2012, chapa ya Dunhill imeongezeka kwa asilimia thelathini na tatu (33%).

Mapato ya soko la humu nchini yalizidi yale ya soko la nje kwa mara ya kwanza tangu mwaka wa 2010, hasa kufuatia bidii na ustadi wa kipekee wa wasambazaji wa bidhaa zetu nchini.

Mapato ya soko la nje pia yaliongezeka, hasa baada ya kuongezeka kwa mauzo katika eneo la pembe ya Afrika.

Viwango vya sigara zinazotengezwa kwa kandarasi zilisalia imara huku viwango vya tumbaku ghafi vikipunguka kufuatia kudorora kwa soko la mataifa ya nje.

Hivyo basi, mapato ya jumla yaliongezeka kwa asilimia tano (5%) na kufikia shilingi bilioni thelathini na moja nukta tisa (31.9bn).

Kodi zilizolipwa serikali ziliongezeka kwa asilimia kumi na moja (11%) na kufika shilingi 14.5bn.

Faida kabla ya kutozwa ushuru iliongezeka kwa asilimia kumi na tano (15%) mwaka jana na kufikia shilingi bilioni tano nukta tano (5.5bn), ikilinganishwa na shilingi bilioni nne nukta nane (4.8bn) katika mwaka wa 2012.

**Faida kabla ya kutozwa  
ushuru ziliongezeka kwa  
asilimia kumi na tano (15%)  
mwaka jana na kufikia  
shilingi bilioni tano nukta  
tano (5.5bn)**

**Uzalishaji Bidhaa**

Katika mwaka wa 2013, kampuni ya BAT Kenya iliendelea kuwekeza katika uzalishaji wa bidhaa. Shilingi bilioni moja ziliwekezwa ili kuboresha viwango na uwezo wetu wa kuzalisha bidhaa.

Mwaka jana, kampuni ya BAT iliungamanisha shughuli za matawi ya East African Leaf. Hii ilifuatia kuhamishia shughuli za kiwanda cha Uganda hadi Thika Green Leaf Threshing (GLT), hatua iliyochangia kuongezeka kwa viwango vinavyozaliswa na GLT kwa asilimia hamsini na moja (51%).

Viwango vya tumbaku mbichi viliongezeka kwa asilimia ishirini na sita (26%), huku viwango vya ubora vipikanda hadi asilimia ishirini na tisa (29%). Hii ni kufuatia mpangilio mzuri wa kuzalisha tumbaku shambani, bidii ya wakulima, na pia mpango wetu wa farmer cell extension programme.

Kwa ujumla, mikakati hii ya kuboresha uzalishaji wa bidhaa ilichangia kukua kwa uzalishaji wa kampuni ya BAT Kenya hadi asilimia ishirini na tisa (29%) katika mwaka wa 2013, ikilinganishwa na asilimia ishirini na sita (26%) katika mwaka wa 2012.

**Kuimarisha Biashara**

Mikakati yetu ya kuendesha biashara imara kwa niaba ya washikadau wote inaendelea.

Kwa mwaka wa saba sasa, kampuni yetu imepongezwa kwa mchango wake kiuchumi.

BAT Kenya ilitambuliwa kama kampuni nambari nne kwa kulipa kiwango kikubwa cha ushuru kwa kampuni ya ukusanyaji ushuru, Kenya Revenue Authority, mwezi Oktoba mwaka jana. Kodi hizi ni pamoja na zile za excise, VAT na kodi mbalimbali za biashara ambazo zilifikia jumla ya shilingi bilioni kumi na nne nuka tano (14.5bn) mwaka jana.

Katika tuzo za taasisi ya Certified Public Accountants of Kenya (ICPAK) 2013 Financial Reporting Excellence Awards, kampuni ya BAT Kenya ilituzwa kwa uhodari wake katika kutoa taarifa za uimarishaji wa biashara. Mwaka jana pia, kampuni yako ilitambuliwa katika tuzo za Capital Markets Awards kama kampuni yenye hisa maarufu katika soko la hisa la Nairobi.





## ***Tunafuatilia kwa makini mazingira ya biashara katika Jumua ya Afrika Mashariki***

### **Vikosi Hodari**

Wafanyakazi wetu ni kiungo muhimu kwa mafanikio yetu kibiashara, na tutaimarisha juhudi zetu kuwapata wafanyakazi wenye vipaji ili kuiendeleza biashara yetu katika siku za baadaye.

Wananchi wa mataifa Afrika Mashariki walichukua nyadhfa za juu mwaka jana, hasa baada ya kukamilisha miradi muhimu ya maendeleo katika kampuni za mbalimbali za BAT.

Mapema mwaka huu, Bi. Lina Githuka aliteuliwa kuwa afisa mkuu wa mauzo eneo la Afrika Mashariki na Kati, na kuwa Mkenya wa kwanza kushikilia wadhfa huu.

### **Mategemeo Ya Baadaye**

Tumejitoa kuendeleza juhudi na mikakati yetu ili kukuza biashara ya BAT. Tunafuatilia kwa makini mazingira ya biashara katika Jumua ya Afrika Mashariki, huku tukielewa fika kwamba bidhaa zinazotengenezwa humu zinakabiliwa na ushindani mkubwa kutoka kwa ada zinazototzwa na changamoto zingine zisizo za kifedha. Tunatumai pia kwamba fedha tunazowekeza katika

kiwanda cha Nairobi zitazaa matunda mwaka huu. Pia, tutaongeza idadi ya bidhaa zinazotengenezwa kwa kandarasi katika soko la Demokrasia ya Kongo (DRC). Kwa niaba ya wasimamizi na wafanyakazi wa British American Tobacco Kenya, natoa shukrani za dhati kwa bodi ya wakurugenzi kwa uongozi na usaidizi wenu katika mwaka wa 2013.

Pia, nawashukuru wenye hisa, wateja wa bidhaa za BAT, na washirika wetu katika biashara.

***Chris Burrell***

***Mkurugenzi mkuu***

***“Pamoja Twasonga Mbele”***

**Sustainability**

*Ethical Standards*



*World - Class  
Science*

Ensure a **sustainable business** that meets **stakeholder's expectations**

*Societal  
Engagement*

*Lower Public  
Health Impact*





***“BAT products have good margins. The partnership with BAT is great”***

Mr Pardip Rai, Argwings Total Ltd





## Operating and Financial Review

***Our vision is to be the “World’s best at satisfying consumer moments in tobacco.”***

***We have centred our vision around the consumer***

### ***Business Strategy***

In the year 2013, we unveiled a new strategy, The BAT Way. Whereas there was no paradigm shift, we have redefined key focus areas. Our vision is to be the “World’s best at satisfying consumer moments in tobacco and beyond”. We have centred our vision around the consumer. Everything we do must be about exciting the consumer, being passionate about meeting their needs and making sure that they buy our products rather than those of our competitors. Our ambition is still to be Number 1 and if we are the world’s best at satisfying consumer moments, we will be the leaders of the industry. Kindly refer to the Sustainability Statement on Pages 56 to 61 for more details on our Strategy.

### ***Resources Management***

Our key resources are our brands, employees, farmers, plant and machinery, land and buildings and monetary assets. Our resources and their optimal use is largely geared to ensure that we operate sustainably. As part of the BAT Group we are dedicating resources to the following broad sustainability categories: Harm Reduction, Marketplace, Environment, Supply Chain and People & 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 impacts from our business are the real health risks of tobacco use. In preparation for the future we are 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 and working with Nicoventures (a BAT Group Company focused on developing new reduced harm tobacco 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 packaging and we believe that regulation should be shaped in collaboration with all stakeholders, including the tobacco industry. 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 and updating and strengthening adherence to our International Marketing Principles. We are also collaborating with government authorities to help address the illicit tobacco trade.

### **Environment**

Our long-term environmental 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. We are preparing for the future by using stakeholder dialogue to guide our approach to climate change, developing strategies on water conservation, energy management and biodiversity.

### **Supply Chain**

Our long-term supply chain goal is to work towards 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 have influence, rather than direct control.

We are preparing for the future by protecting the long-term security of our tobacco leaf supply by encouraging sustainable agriculture, working to help build an objective evidence base on the impact of tobacco growing compared to other crops and 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 long-term people and culture goal is to ensure we have the right people and culture to meet our goals. 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. We are preparing for the future by continuing to build robust succession plans, establishing clear principles and effective tools to manage performance and embracing the diversity of our workforce to encourage creativity and innovation.

***We are preparing for the future by continuing to build robust succession plans***



### **Risk Management**

The following section outlines the key risks facing BAT Kenya where operations are exposed and identify, in each case, their potential impact on and the principal activities in place to manage the risk. Each risk is considered in the context of the BAT Group strategy by identifying the principal strategic element to which it relates, although other elements may also be relevant.

#### **a) 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 the erosion of brand equity, undermining of investment in trade marketing and distribution, product commoditisation and lower Industry and Government revenues. Among the principal activities in place to address these risks are dedicated Anti-Illicit Trade (AIT) teams 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 and strong internal business conduct and customer approval policies.

***We continue to engage the Government and other relevant stakeholders with a view to addressing issues on the illicit trade in cigarettes***

**b) Excise and Tax**

Tobacco products in Kenya are subject to substantial excise taxes. The potential impact includes consumers rejecting tax-paid products for products from illicit sources as well as lower Industry and Government revenues. Principal activities in place to address this risk are engagement with Government authorities, where appropriate, annual management review of the brand portfolio, brand health and equity and specialist resources available internally to provide advice and guidance as well as external advice sought where appropriate.

***Relationships***

As a corporate citizen, British American Tobacco operates in a society that has a wide variety of stakeholders with diverse interests who interact with the Company in different ways. They include:

- a) The Government which receives substantial revenues from taxes paid by the Company and also implements legislation that directly affects how we operate as a business
- b) The farmers whose livelihoods depend on the tobacco they grow for the Company. We also support these farmers by encouraging improved farming practices thereby improving the sustainable use of their farms
- c) Employees and 3rd party staff who are directly or indirectly employed by British American Tobacco

***Business Performance***

Gross turnover increased by 5% relative to the prior period despite a challenging operating environment. This increase reflected the impact of growth in domestic and export volumes, an improved sales mix and pricing on domestic sales.

Gross turnover also positively benefited from foreign exchange movements arising from cigarette and semi-processed leaf (cut rag) exports, and was partially offset by lower cut rag export volumes during the year.

Operating profit grew by 13% over 2012 driven by revenue growth as well as the positive impact of productivity savings on the cost of operations. We achieved a 3.1% improvement in operating margin reflecting improved mix on turnover and the impact of cost saving benefits.

In addition to the focus on cost reduction, we continue to engage relevant stakeholders both domestically and within regional trade blocs to mitigate costs of manufacture and supply from the manufacturing hub.

The main factors that are likely to affect performance in the future include:

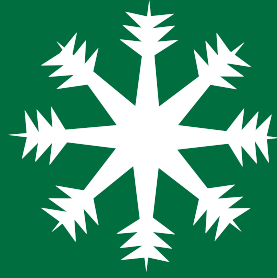
- a) Geo-political stability in the export markets such as Somalia and Egypt which are key drivers of the export and contract manufacture revenues
- b) Investment in people (employees and other stakeholders such as farmers and 3rd party staff)
- c) Investment in capacity and efficiency improvements in the factory

***As a corporate citizen, British American Tobacco operates in a society that has a wide variety of stakeholders with diverse interests who interact with the Company in different ways***



BAT Kenya staff receiving the *Best Quoted Stock of the Year Award* at the 2013 Capital Markets Awards

# SM

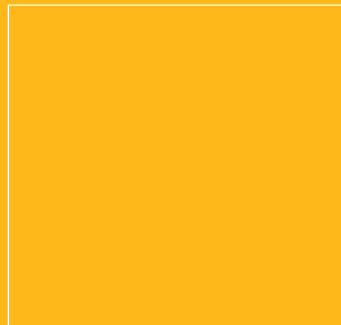


“

**SM** celebrates its proud heritage in Kenya since 1966, an offer of choice for mainstream adult menthol smokers

It is the leading menthol offer in our portfolio, made to international standards using quality Kenyan tobaccos to deliver a cool menthol taste.

”





## ***Our determination to act in a sustainable manner spans the whole business, from our farmers to our consumers***

### ***Strategy & Analysis***

---

Our strategy is built upon the pillars of Growth, Productivity, Winning Organisation and Sustainability:

- a) Growth is the strategic imperative and we will grow by understanding and delivering enjoyable consumer moments in combustibles and non-combustibles.
- b) Productivity is the key pillar to support growth by funding future investments.
- c) Winning Organisation is simple; we want great people, great teams and to be a great place to work.
- d) Sustainability is about ensuring we have a sustainable business that meets the needs of shareholders and other stakeholders.

Sustainability is integral to everything we do. Our determination to act in a sustainable manner spans the whole business, from our farmers to our consumers. We enable our people to make decisions in their unique situations and encourage creativity as this is the only way we can remain relevant to our consumer.

#### **Responsible marketing to consumers**

We apply a responsible approach to marketing by following our 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. Our adherence to these principles is monitored through self-assessments and internal company audits.

#### **Engaging with our farmers**

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 and where we have influence, rather than direct control.

We work with our contracted farmers to help make their farms viable and efficient and have 16 leaf managers and technicians working with over 5,700 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 quality and yields of food crops, making them more self-sufficient and protecting the security of our tobacco leaf supply.



## **Sustainability Statement**

---

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.

---

***We enable our people to make decisions in their unique situations and encourage creativity as this is the only way we can remain relevant to our consumer***

---





BAT Kenya Finance Team receiving the Sustainability Reporting Award at the 2013 Financial Reporting (FiRe) Awards

**Managing the environmental impact of our operations and biodiversity**

We monitor and reduce our direct impact on the environment by making our operations more efficient. In 2013, 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**

In 2013 we were recognised as industry leaders in several categories, underlying our focus on sustainability. The Kenya Revenue Authority acknowledged our contribution to Government revenue as the 4th largest taxpayer in Kenya. Our focus on Sustainability was also recognised through the 2013 Financial Reporting (FiRe) Awards where we emerged winners in the Corporate Social Investment in Sustainability Reporting.

Contributions to Key Stakeholders		
Shs	2013	2012
Government	14.5 Bn	13.1 Bn
Farmers	1,045 Mn	690 M

**Environmental Sustainability**

In the year 2013 our focus on sustainability was leveraged on the following key areas in the business across and the strategy applied has delivered sustained positive results in terms of performance:

- 1) **Going Green** – relating to key critical parameters for environmental sustainability
- 2) **Occupational Health and Safety** – relating to the health and safety of our workers and business partners

**Going Green**

The year 2013 was a year that showed great improvement on all our environmental key performance targets, confirming the direction of our strategy and approach. The key areas of performance were as follows:

**Energy used per unit production**

With regards to the total energy employed by the business to run its operations, we achieved a reduction of 10% compared to last year, reflecting a saving of Shs 14 mn. This was mainly driven by the energy saving projects conducted for both electricity usage and steam generation. Key activities included improved equipment efficiency in the Primary Manufacturing Department, the installation of a new high efficiency boiler unit for steam generation replacing the need to run two boilers for our operations and the completion of various LED lighting projects.

**The Kenya Revenue Authority acknowledged our contribution to Government revenue as the 4th largest taxpayer in Kenya**

### Water used per unit production

Water consumption per unit of production was also on a positive trend with a reduction of 5% over the previous year. This was mainly contributed to by the replacement of two boilers with one highly efficient unit, supplemented by continual water conservation projects on site such as sub-metering at the individual end points and wastage reduction.

### Waste Management

Solid waste re-cycling levels were maintained above 94%, with new initiatives on waste usage being adopted in conjunction with the small cottage industries as per the photos below:



Plastic straps used to tie C48 carton



The plastic waste produced



Recycled end products - plastic woven baskets!



Cotton twines strapping tobacco leaf



The cotton waste produced



Recycled end products - cleaning mops!

Coupled with the sustained reduction of energy and water consumption and a minimal disposal of waste to landfill sites, a reduction of 4% of our total carbon emission over last year has been realised, which enhances our strategy for the reduction of the carbon footprint of our operations.

### Afforestation

Our afforestation programme ensured the distribution of around two million tree seedlings, with the involvement of local community based afforestation programmes as well as government bodies such as the Kenya Defence Force, to whom we donated 90,000 seedlings.

***The year 2013 was a year that showed great improvement on all our environmental key performance targets, confirming the direction of our strategy and approach***



Our annual Social Responsibility in Tobacco Production self-audit in leaf growing areas indicated a 5pp improvement in our social and environmental practices with regards to tobacco growing and processing compared to the previous year.

### Occupational, Health and Safety

Our investment in safety programmes and a continuously positive cultural shift with regards to safety by our business partners delivered a significant return in 2013.

The site enjoyed zero accidents for the year and is on track to keep our vision a reality in the years to come. This has been possible due to the following key activities:

- Embedding risk assessment processes with our business partners and contractors on site coupled with frequent reviews
- Improvement of hazard communication in operations with the introduction of the safety observation near miss reporting process
- Robust Health and Safety Training programmes and workshops targeting staff and business partners to ensure they are equipped with the necessary knowledge and skill with regards to health and safety practices at the work place

## Human Rights, Labour Practices and Decent Work

### Core Values

British American Tobacco Kenya continues to focus its efforts around core values that demonstrate a commitment to good employment practices and point to our position as an employer of choice.

Our employee statistics indicate the company as a highly attractive place to work, which is evidence of our commitment to living our core values and maintaining our position as an employer of choice both locally and internationally.

2013	Total	Net Increase	% Increase
Employees	475	26	6%

### Eradication of Discrimination

The global eradication of discrimination in our workplace is a key facet to our values and is underpinned by one of our Guiding Principles – Strength from Diversity. 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 employee or candidate's race, colour, gender, age, social class, religion, smoking habits, sexual orientation, politics, 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 making us a stronger business as we will benefit from the different perspectives and experiences that characterise our diverse organisation.

Our employee statistics below show our commitment to living our core value of diverse teams.

	2013	2012
<b>Non Management</b>		
Male	315	298
Female	60	54
Total Non-management	375	352
<b>Management</b>		
Male	72	73
Female	28	24
Total Management	100	97
<b>Total</b>	<b>475</b>	<b>449</b>

## Our employee statistics indicate the company as a highly attractive place to work

### Labour and Management Relations

In 2013 we completed the signing of a Collective Bargaining Agreement which was cascaded to relevant employees and implemented. This is evidence of the sustained 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.

We acknowledge the right of employees to be represented by recognised trade unions or other bodies and for these to consult with the company within the prevailing labour relations practices and procedures. We are able to track our performance against employee expectations through climate surveys run throughout the entire organisation, including those represented by the union. These surveys touch on issues relating to reward, developing talent, line manager relationship and work-life balance amongst others, which help management sustain a suitable working environment for all parties.

### Standards of Business Conduct

Our Standards of Business Conduct set out the rules and policies that apply to everyone working within the British American Tobacco Group, while also providing support and guidance to assist all employees in meeting the high standards expected of them. The central requirement is to ensure that at all times employees act with high standards of business integrity and comply with all applicable laws and regulations. The Standards also provide guidance on specific areas relevant to the BAT Group's business, including Conflicts of Interest, Bribery and Corruption, Entertainment and Gifts, Public Contributions, Corporate Assets and Financial Integrity and National and International Trade.

The company endeavours to ensure compliance to the Standards 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.

## ***BAT Kenya appreciates the vital need to balance our commercial interests with the interests of our many and diverse stakeholders***

### **Training and Development**

Managing employee development and training is of strategic importance to BAT. The company ensures an effective and consistent approach as it is an area in which the individual and the company work in partnership. Through the Human Resources department, the company endeavours to:

- continuously develop individuals with the potential to grow in order to maintain and enhance our competitive advantage
- provide development opportunities, both on and off the job, based on their identified needs and ensuing development plans
- deliver 80% of development on-the-job and 20% through off-the-job training programmes

In 2012 we launched the Growth Academy, an 18 month programme for high potential non-managers looking to grow into management positions. The programme is designed to do this through mentoring and coaching sessions as well as customised training that will accelerate graduates into management positions. We are pleased that out of the thirteen original participants, 10 graduated from the programme in January 2014. This complements the Management Trainee Programme by ensuring that opportunities are open to internal candidates looking to move into management positions.

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

### ***Society***

#### **Sustainable Agriculture**

We have continued to work on our undertaking with regard to the Social Responsibility in Tobacco Production programme. Within the permissible parameters of the law governing the tobacco industry in Kenya and Corporate Social Investment activities, we continue to engage in environmentally sustainable tobacco farming practices, conservation

and afforestation activities as well as the rehabilitation of water catchment areas. Through our Leaf Operations Team, we have continuously improved our processes to ensure that we safeguard not only the sustainability of the environment and natural resources of this country, but also the food security and broader human rights of our contracted tobacco farmers and the communities around them.

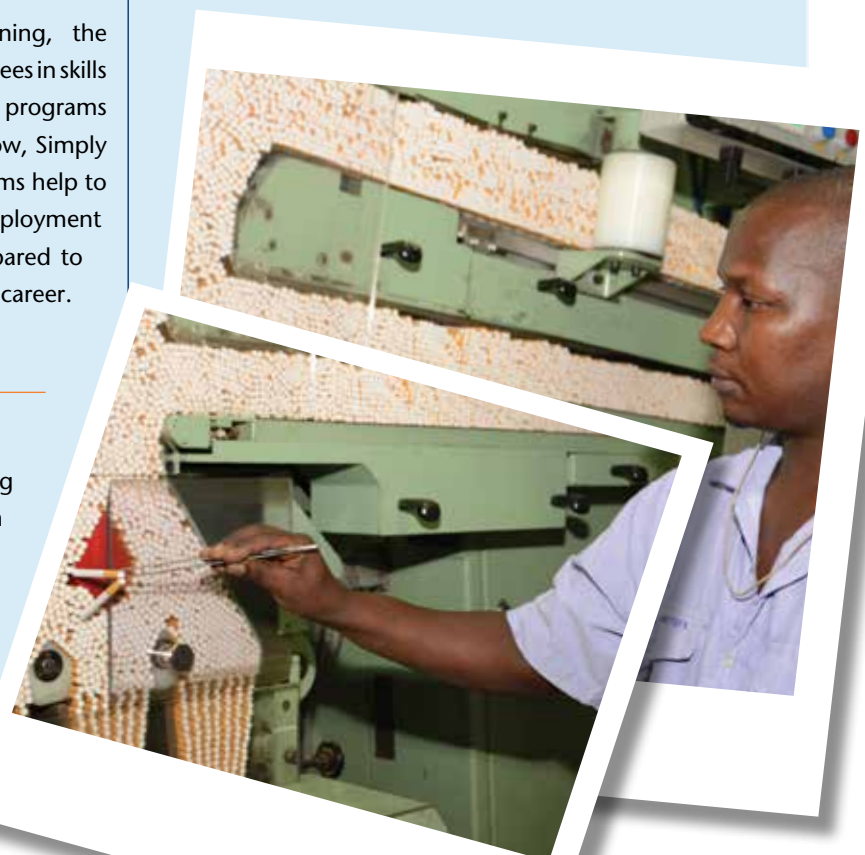
### **Our Sustainability Roadmap**

BAT Kenya appreciates the vital need to balance our commercial interests with the interests of our many and diverse stakeholders. Alongside our efforts to position our company for continued growth, we have consistently worked with our stakeholders in furthering the country's sustainability agenda. The newly devolved system of governance presents the company with a good opportunity to work closely with the Government in utilising the various avenues available to ensure a sustainable socio-economic environment that is beneficial not only to the present interests of the private and public sectors but also to future generations.

### ***Product Responsibility***

#### **Product Quality**

Our product strategy was developed with a focus on delivering superior products in existing and emerging consumer spaces, compliance with the regulatory environment as well as bringing innovations to our consumers. This strategy will drive our approach to product improvement as well as new product introductions with the consumer at the center of what we do.





***BAT Kenya's continuous efforts at creating value by operating responsibly were recognised, thanks to our sustainability agenda which has positively impacted on the social, environmental and economic fronts***

An innovative exhibition was held during the year in Nairobi which provided BAT Kenya employees and business partners with a hands-on experience and learning about our products. This program was supported by the Eastern Europe Middle East and Africa (EEMEA) Regional Product Centre and covered areas such as tobacco, cigarette components, other tobacco products, manufacturing, packaging and the regulatory environment. It offered delegates an opportunity to enhance their general product knowledge and learn more about our current and future products.

We revamped our Retail Quality Assessment, the methodology of assessing products at retail level to focus more on consumer relevant attributes. This entails packs being bought at the retail level and assessed "through the eyes of the consumer" for look, feel, function and sensory attributes. A cross functional team has been put in place to drive a structured approach to improvement in the quality of the product across the whole supply chain. This process looks at the holistic improvement cycle from raw materials

right up to the final product in the hands of the consumer. As part of our Product Integrity and Traceability process end market assessments were carried out across The East and Central Africa Area. The assessment scope included product freshness at point of purchase, product storage, handling awareness for all who come into contact or handle the product, and customer or consumer complaint handling. The assessments showed that the required standards and controls are in place to address any risk that may arise in our end markets.

**Marketing Communications**

At British American Tobacco marketing activities are guided by our International Marketing Principles whose core premise is self-regulation. However where the law is more stringent than our Principles, we comply with the Tobacco Control Act. We continuously educate the Trade on Youth Smoking Prevention and monitor and audit our performance against the Marketing Principles, reporting our findings in the Group's Sustainability Report. We believe in upholding high standards of corporate behaviour and our marketing should be responsible and honest.

**Economic**

The Company was recognised as the 4th largest taxpayer for the seventh year running for its contribution to Government revenue in the 2013 Kenya Revenue Authority Taxpayers' Awards. In the year ended 31 December 2013, BAT Kenya contributed a record Ksh 14.5bn in Excise, VAT and Corporate taxes, an increase of 11% over 2012. The recognition was a clear demonstration of excellent work in compliance by BAT Kenya staff in consistently delivering value to the consumers, shareholders, employees and other business partners.

The Company also emerged the winner of the Corporate Social Investment category in Sustainability Reporting at the 2013 Financial Reporting (FiRe) Awards. The awards were organised by the Institute of Certified Public Accountants of Kenya, the Capital Markets Authority (Kenya) and the Nairobi Securities Exchange. The FiRe Awards, held annually, are intended to enhance accountability, transparency and integrity in compliance with appropriate financial reporting frameworks and other disclosures on governance, social and environmental reporting by private, public and other entities from East Africa.

BAT Kenya's continuous efforts at creating value by operating responsibly were recognised, thanks to our sustainability agenda which has positively impacted on the social, environmental and economic fronts. This is in line with the BAT Group strategy to build a strong reputation in sustainability and is seen by some as the industry leader as reflected by the inclusion of BAT plc in the highly coveted Dow Jones Sustainability Index for nine consecutive years.

# Management Reviews



## Finance

### **The Finance team has an integral role to play in driving the business in delivering The BAT Way.**

Our Finance function has a role to play in supporting the execution of the corporate strategy. This demands encouraging staff to take personal accountability for building value and driving out complexity and cost. Outlined below are highlights of how we aim to achieve this goal:

#### ***a. High-Flying Finance Our Team***

We will sustain our high talent pool through continuous development initiatives and have regular team sessions to foster an open and trusting culture.

#### ***b. Enhancing Shareholder Value***

We will deliver maximum shareholder value through a strong revenue strategy to support both pricing and trade investments. We will focus our resource allocation to the most effective channels and ensure we prioritise growth initiatives.

These will be supported by robust specialist finance teams.

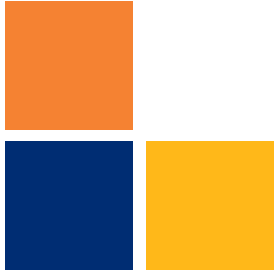
Seamless implementation of the above-mentioned will ensure that we support profit growth and improve our cashflow conversion.

#### ***c. Simplicity and Discipline across our business***

We are implementing a project that will ensure that we leverage on the integration of our systems and standardisation of processes across all BAT end markets for a more agile, responsive and efficient business.

We will support this through an efficient Finance Shared Service Centre by ensuring On Time and In Full delivery of key efficiency metrics.

***We will focus our resource allocation to the most effective channels and ensure we prioritise growth initiatives***



## Audit

---

Good corporate governance is a key element underpinning the sustainable, long-term growth of our business. Our primary goal is to provide independent assurance to the Board and Audit Committee that there is an acceptable balance of risk and control in the business as it seeks to deliver on its corporate objectives.

During the year, the control environment remained robust, significantly strengthening the business.

We will continue to partner with Management to ensure that there is an acceptable balance between risk and control in the business. We will maintain focus on the key risks facing the business, remain independent and objective while adding value to the organisation.

***Good corporate governance is a key element underpinning the sustainable, long-term growth of our business***





“

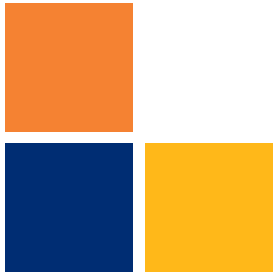
**Safari** was launched in 2000 and has grown to be the 3rd largest cigarette brand in Kenya. The brand underwent a successful pack upgrade in 2013. It is known to give its consumer “Affordable Value” with an appropriate tagline “Thamani Bora! Chaguo Langu! Bei Tangu!”

”









## Marketing

### **Market Share and Volume Performance**

In 2013, BAT Kenya recorded remarkable volume and share performance. Domestic volume grew by 7% over the previous year while the Share of Market was up 1.6 percentage points. This exceptional performance was largely driven by excellent execution of Trade Marketing and Distribution activities, consumer price stability in 2013 and a stable operating environment following a peaceful general election in March. The trading environment faced several challenges during the year. Security threats remained a major challenge to tourism in the country and the VAT bill passed by Parliament in September 2013 led to an increase in prices of basic goods, further constraining consumer disposable income.

---

***The Safari family was revamped to a more modern and contemporary pack affirming its role in the portfolio***

---

***The core of our business remains the national pride brands like Sportsman and Safari***

### **Distribution Reinforcement**

The consistent availability of our brands to adult consumers remains at the heart of our distribution objectives. In 2013, we embarked on the second phase of the Route to Market (RTM) model to fully optimise the benefits following the successful completion of the first phase in 2012. This entailed replication of best practice across the distribution chain and leveraging the strength of the model to increase market coverage. We continued to reinforce our distribution capability via conducting assessment and training for our people. British American Tobacco Kenya will continue to execute the RTM model by sustainably increasing our reach to retail with the aim of remaining consumer-centric.

### **Portfolio Strategy**

In 2013, key brand portfolio initiatives were embedded. These included the distribution expansion of our latest innovation in the market Dunhill Switch, as well as rejuvenation of the Safari brand. The business made major investments in trade engagement programs and pack dispensing units to maintain product freshness and quality at the point of sale. These were done within the parameters of the Tobacco Control Act.

### **Global Drive Brands**

Dunhill made significant gains in 2013 towards building a long term sustainable future and strengthened its position as the ultimate destination brand in the portfolio. The brand registered a share growth of 0.8% driven by a 33% volume growth over the previous year. The business continued to focus on growing the brand's availability by listing in the right outlets. The business will continue to support innovations and reinforcing The BAT Way strategy, underpinning our vision to be the best at satisfying consumer moments.



### **National Brands**

The core of our business remains the national pride brands. Sportsman, our market leader in the portfolio, delivered an impressive share growth of 2.7%, driving the overall profitability of the business. The growth is attributable to excellent execution of Trade Marketing and Distribution activities and investments to improve its availability to consumers on time and in full. The growth of Sportsman is also due to its strong appeal to Kenyan consumers over the years. The Safari family was revamped to a more modern and contemporary pack, thus affirming its role in the portfolio. This is in line with the strategy of understanding the consumer and building a distinctive brand in the low segment category.

### **Excise and Regulation**

In April 2013 the Kenya Revenue Authority adopted a new tamper-proof tax stamp for tobacco and alcohol in order to curb counterfeit products in the market. However the excise rate remained unchanged and we were able to maintain the recommended consumer prices of our cigarettes.

In the course of the year, we continued to engage and work closely with all stakeholders to build an aligned understanding and balanced enforcement of the Tobacco Control Act to ensure a fair, equitable and level playing field for players in the sector. Furthermore, in order to meet varied stakeholder expectations, BAT adopted its International Marketing Principles to ensure consistency and responsibility in our marketing activities.

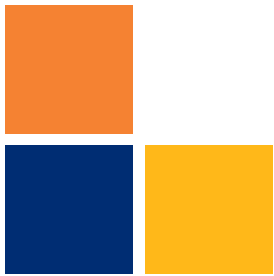
***With sustained efforts to strengthen our distribution capability, we envisage to further strengthen our market leadership position***

The coming into operation of the devolved system of governance presented a new operating environment for the business. BAT Kenya continues to monitor this as the system is set to be fully rolled out by 2015. We also continue to work with the various stakeholders to see the governance system implemented in a manner that creates uniformity and stability in the business environment.

### **Outlook**

In 2014, the operating environment will largely be shaped by improvements of security in the country. It will also be influenced by the successful and uniform implementation of the devolved system of government. With sustained efforts to strengthen our distribution capability, we envisage to further strengthen our market leadership position.

***We remain well poised for further growth in 2014.***



## Operations

### Annual Report

The year 2013 was one of operational excellence, supporting growth and innovation through enhanced collaboration within the business and with our suppliers. The Operations department demonstrated resilience and flexibility in supporting the growth markets while responding to demand decline in countries such as Egypt. We also took a major step forward with regards to our East African leaf strategy by ensuring our footprint is appropriate for future needs. Though total cigarette production volumes remained relatively flat, the on-time delivery of our products to both our domestic and export customers improved by 17%.

### Leaf Growing

The crop season was very successful; volume grew from 5.6mn kgs in 2012 to 7.0mn kgs in 2013 while the quality improved significantly with flavour styles increasing by 10%. Overall gross farmer earnings improved from Ksh 690mn to Ksh1,045mn, driven by the volume increase, quality improvement and a 10% yield increase per unit of land under tobacco.

In our continued support of local economies, we concluded contracts with an additional 1,500 farmers in 2013, bringing the total number to over 5,700. The farmer grouping model (known as farmer cells) introduced in 2012 to enhance our extension services and skills transfer has been a key pillar in this growth and remains core to sustaining these results.

The company has continued to support our farmers in developing balanced and sustainable farming enterprises. In 2013 at least 95% of our farmers received certified maize seed to enable the cultivation of food crops, while 10% received solar lanterns for use in their homes.

### Leaf Processing

As part of the continued drive to optimise the commercial viability of our manufacturing sites, the Green Leaf Threshing plant (GLT) in Thika was selected as the processing centre for all tobacco grown for BAT in East Africa. The closure of the BAT GLT plant in Uganda resulted in the migration of 14.7 million kgs to Thika, increasing the packed volumes by 46% and allowing a capacity utilization of over 90%. This will enhance the benefits of scale as well as enable additional investments in the coming years.

In 2013, we also commissioned a cased burley leaf processing line in Thika. This will allow us to localise 24% of the inputs we require for our tobacco exports to Egypt, while benefiting from both COMESA and EAC preferential tariffs.

### Manufacturing Department

To sustainably meet future demand as well as support the introduction of new products this year we invested over Ksh 1bn in our Nairobi and the Thika plants.

In the Primary Manufacturing Department we completed Phases 2 and 3 of the scheduled upgrade, increasing our installed capacity by 45% from 22 to 32 million kgs per year. This has improved our productivity by 40% from 5 to 7 tons per hour as well as enabling us to produce differentiated products for our export customers.

Efficiency in the Secondary Manufacturing Department was also improved when we installed two more cigarette making lines and a filter making line, increasing capacity by 22% to 23 billion cigarettes per annum.



With regards to infrastructure, we completed the construction of a new cut tobacco store on the Likoni Road site at the cost of Ksh 157mn, which has increased our warehouse space by 2,400 square metres, simultaneously creating space for future factory expansion.

In collaboration with the Kenya Revenue Authority in October we commenced the installation of the Excisable Goods Management System. This system incorporates the use of paper stamps and the digital tracking of tobacco products and is intended to play a key role in the fight against illicit trade.

### **Quality**

The delivery of quality products to our customers continues to be a passionate pursuit. In 2013 we launched the Retail Quality Assessment system which continuously assesses quality parameters that are relevant to consumers. The process is done on a monthly basis at retail level, whereby samples are assessed through the eyes of the consumer by analyzing them for visual, tactile and taste attributes. To ensure continuous improvement on the observed attributes a cross-functional team has been put in place to review the results of each assessment and implement improvements. We ensure that the manufacturing process continues to produce world class quality products as measured by our Manufacturing Quality Index; our rating has remained a high 83, well above the Group benchmark of 80.

### **Supply Chain**

Our Supply Chain focused on delivery of the 'on-time-in-full' promise to customers while unlocking value for investment in the business. By creating a customer focused culture through an integrated supplier network and enhanced

collaboration with our customers, we have managed to achieve a 17% improvement in order delivery on time and drive our service delivery index improvement from 92% to 95%.

Robust contingency plans ensured service continuity during the Kenyan elections period as well as volatility in some of our export markets such as the Democratic Republic of Congo.

To fuel growth and improve shareholder value we have continuously sought smarter, more cost effective and sustainable ways to drive our operations. In 2013 our productivity savings through various initiatives such as sourcing wrapping materials locally, an 11% improvement in container filling, improved local leaf quality and a reduction of waste in our manufacturing process released Ksh 283.6 mn in savings to the business.

### **Sustainability**

Our afforestation programme which has been recognised by stakeholders for several years, continued to contribute to biodiversity and the national forest cover. In 2013 we planted over 2 million new trees, of which 40% are indigenous species.

In addition we have continued with the development of alternative fuels for tobacco curing and are in the final stages of rolling out a sugar cane bagasse briquetting enterprise. This will be in addition to the briquetting of waste paper from our factory which we have been doing for the last two years.

"Closing the gap to zero" is a safety programme that we launched in 2013 to further enhance our exemplary safety record. The focus of the campaign is to proactively eliminate or mitigate risks to ensure safety in all our operations.

## **Realising the value**

---

In 2012 we began implementing a Trade Marketing and Distribution platform. The initial use was restricted to internal Trade Marketing and Distribution staff but we successfully extended the availability and utilisation of the platform to our trade partners. This has delivered efficiencies in the sales processes by providing effective selling tools, improved daily inventory and cash management capabilities and better customer insights for sales representatives and distribution managers.

With the platform in place, we now have near real-time information on trade performance, a shared data and insights platform with our distributors. With these insights available the trade team is in a position to better understand and respond to market movements and consequently the needs of our consumers.

## **Supporting Growth**

---

With the upgrade of our Nairobi factory we have seen a great opportunity to improve on the extraction, sharing and analysis of information from the production floor. New technology on the floor gives us greater capability to automate Management processes and we have begun what will be a long journey to sweat the investments being made across the manufacturing operations.

In 2013 we put in place an upgraded Quality Monitoring system and a Product Integrity and Traceability solution that allow us to have visibility and control of our raw material inputs, and eventually finished products, across the entire value chain and in different physical locations. This is important in ensuring we can offer our consumers a guarantee of quality with our products.

We are also working with the Kenya Revenue Authority to set up an electronic tracking system for finished goods sold in Kenya that will give better transparency of legitimate product to traders and retailers.

On the horizon are plans for an automated extraction of factory performance data to enhance the utilisation of our asset investment by optimising and maximising its production capacity.

## **Keeping the lights on!**

---

This year has seen us continue on our journey to ensure BAT operates on a Contemporary Technology Platform. This has seen us roll out the latest version of our Desktop computing platform providing a safer and more productive experience. We have also laid the foundations of a revamp of our internal Voice Telephony system that will allow us to further exploit cost efficient industry standards such as VOIP.

With all the changes happening in our technology environment, we have still managed to keep the lights on, maintaining our service levels to the highest standards we have seen in the last two years, a testimony to the dedication, teamwork and commitment of the people on the ground.



## **Information Technology**

---

2013 was another exciting year for our IT function. We managed to leverage the investments we have been making over the last three years to deliver bottom line benefits to the business, and at the same time ensure we are laying the foundations to scale our operations to meet the growth requirements of the business across the entire value chain.

***In 2013 we successfully extended the availability and utilisation of the Trade Marketing and Distribution platform to our trade partners***



## Corporate & Regulatory Affairs

During the period under review the focus of the BAT Kenya Corporate and Regulatory Affairs department remained on supporting business growth through operating responsibly, within the confines of the strict regulatory environment in which the Kenyan tobacco industry operates.

Particular attention was paid to the change in governance structures with the coming into force of the devolved system of administration and the new County Governments. We continue to monitor this with the system set to be fully rolled out by 2015. We also continue to work with various stakeholders to see governance systems implemented in a manner that creates uniformity and stability in the business environment. In this regard, we monitor the potential impact of the devolved system on our operating environment, with the key areas being tobacco control, taxation and related regulatory issues. Certain public health and other associated directives such as the introduction of levies have been devolved to the newly created County Assemblies and we maintain a watching brief on this.

We have also adopted a multi-faceted approach which involves proactively engaging relevant stakeholders at both the national and devolved level of Government for clarity on how industry issues will be administered going forward. This includes, but is not limited to engagements with the Commission on the Implementation of the Constitution, Transitional Authority, relevant line ministries and business organisations.

As the world trade environment experiences the proliferation of regional trade agreements, and with BAT Kenya being part of the most international tobacco company, we take a keen interest in the East African Community integration efforts. In addition to our trade with COMESA countries, we support the full implementation of the Common Market and Customs Union Protocols under the EAC framework, and the realisation of the full potential of the Community.

BAT Kenya takes interest in this, and wishes to continue being party to efforts aimed at shaping policy as well as a wider and harmonised taxation and regulatory environment in the region. Relatedly, the fight against trade in illicit tobacco products is a key concern for BAT Kenya as a leading player in the industry, not only in Kenya but also in the larger EAC region. Our efforts in 2013 included working with relevant stakeholders towards ensuring the reduction and eventual elimination of the scourge, particularly through increased awareness and alignment among core institutions and enforcement agencies.

Throughout 2013 the excise and tax environment remained the relatively stable, with the exception of the introduction of a new excise stamp and changes introduced by the Value Added Tax (VAT) Act, 2013. Notable was the standardisation of VAT rates at 16% for applicable goods and services, with the scrapping of the lower rate of 12% previously enjoyed by electricity, furnace and heavy diesel fuels. We continue to engage the relevant government stakeholders, particularly National Treasury in ensuring the achievement of an optimal taxation regime that is easy to administer while at the same time assuring sustainable government and industry revenues.

Our operating environment with regard to tobacco control legislation remained relatively unchanged in 2013; however we are aware of considerations by the Ministry of Health to further implement measures under the Tobacco control Act 2007. As has been our key undertaking, we continue to support and work with our regulators to encourage dialogue that will ensure a balanced, evidence-based and reasonably enforceable set of laws and regulations for the industry.

Our investment in the Kenyan community through Corporate Social Responsibility activities is to a certain extent limited by the Tobacco Control Act. However we continue to support tobacco farmers contracted to grow crops on our behalf with socially responsible and sustainable agricultural best practices and programmes. These include afforestation, rehabilitation of water catchment areas and personal food security.

Our company is excited by, and indeed a committed contributor to the Kenya@50 celebrations that were inaugurated at the end of the year. We have been part of the economic prosperity of Kenya for over a century and as a responsible and enthusiastic corporate citizen we endeavour to see this being the case for many years to come.



## Human Resources

2013 saw the re-articulation of the Group's strategy where we centred our vision around the consumer. Our ambition is still to be number one and if we are the world's best at satisfying consumer moments, we will be the leaders of the industry.

For this strategic direction to succeed a critical component is the talent within the organisation. While we focus on growing the business, we also have a responsibility to develop a legacy of leaders who will ensure sustainability and continued growth. The company aims at developing great leaders who shall inspire our people to deliver outstanding results through stretching targets and support. The Group envisions BAT as a winning organisation where our leaders will deliver exceptional business results annually while focussing on the following:

- Developing a stronger local talent pipeline at all levels
- Building a great place to work as measured by improvement in Your Voice Survey indices
- Improved retention of high performers and high potentials
- Improved representation of females and focus nationalities

Over the year we have ensured that we live up to the expectations of the new strategic direction. Some of the initiatives have included:

- Our Leadership Team succession coverage is 56% local in the short term and 44% in the medium to long term which is on par with the Group average.
- Of the Leadership Team members 30% are female, with 6 different nationalities represented.
- Nine staff members have been seconded for development across the Group
- Continuous effort in integrating people processes to enable the right, quality conversations which contribute to our legacy of leaders framework.
- We are frequently called upon by professional bodies in Kenya to share best practices and contribute to up-skill local talent in these fields. This also contributes to our responsibility and corporate employer brand initiatives.
- Successful Union negotiations culminating in the Collective Bargaining Agreement sign-off in an amicable environment. Our approach to employee relations was recognised by IHRM in 2012.

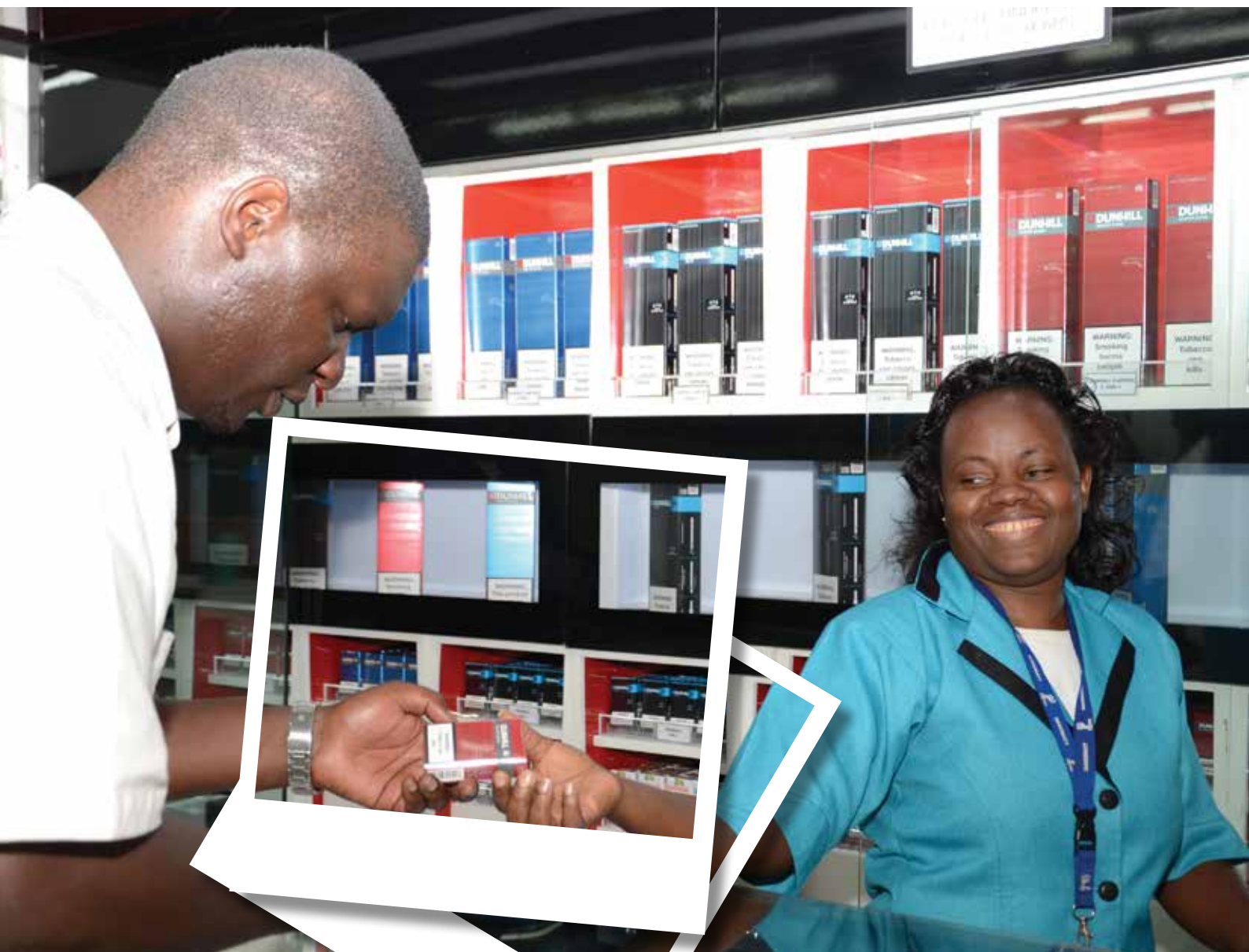
The people agenda remains at the core of our Winning Organisation pillar to ensure that we effectively prepare the next generation of leaders. This agenda is owned and driven by the leadership teams across all levels. A significant amount of time and effort is put into ensuring line managers are adequately equipped to develop and deliver exceptional results through their teams.

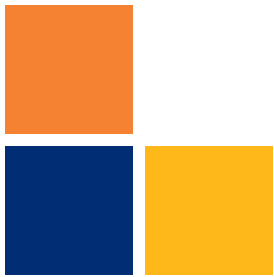
***The people agenda remains  
at the core of our Winning  
Organisation pillar***



***"I love the passion and energy BAT portrays. This is seen through the innovation and ways of working."***

Mr Moses Oduor, Manager, Nakumatt Prestige





## Legal

***“Legal means Business by acting  
as business partners and risk  
managers”***

***Simukai Munjanganja  
– Head of Legal***

Legal is at the heart of the business by providing creative advice to solve business problems and mitigating business risks in order to deliver sustainable business results.

The MUST DO areas of focus for the Legal Team include maintaining good corporate governance and compliance, management of anti-illicit trade issues, acting as the first line of defence for the business, addressing regulatory issues and opportunities and protecting the security of our people, information and assets.

### **Fighting illicit trade – everybody’s business!**

Illicit trade of tobacco products is a crime that continues to negatively affect our brands, our consumers and defrauds the Kenyan taxpayer and government of billions of shillings in much needed revenue.

British American Tobacco continues to collaborate with law enforcement agencies like the Kenya Police, the Kenya Revenue Authority and the Anti-Counterfeiting Agency in fighting illicit trade.

The fight against illicit trade is everyone’s business and we have put in place a cross functional strategy to ensure that all our employees, stakeholders and partners are equipped to win this fight.

We also acknowledge the efforts by the government to fight illicit trade in excisable goods through the Customs and Excise (Excisable Goods Management System) Regulations, 2013. The Regulations are designed to deter counterfeiting of excisable goods, enable accounting for the production of excisable goods and to facilitate tracking of tax stamps and excisable goods along the supply chain.

British American Tobacco was the first company in Kenya to install the new electronic excise management system and we are keen to see the value of this initiative by the Government



### **Business Continuity Management and Security**

After the peaceful general elections in 2013 we have maintained our focus on Risk Management and Business Continuity Management. We are actively building resilience and capacity to respond effectively and safeguard our business against business disruptions.

We continue to engage Government to improve security which is vital to ensure a sustainable business environment. Concurrently we have put in place measures to effectively protect our people, brands and assets

### **Maintaining Good Corporate Governance**

British American Tobacco subscribes to the highest levels of integrity and responsibility despite a challenging business environment. Our Standards of Business Conduct express the high standards of business integrity that we require from our employees and partners

Our good corporate governance has directly contributed to shareholder value and explains why the British American Tobacco Kenya Limited share is amongst the best performing and highly sought after stocks on the Nairobi Securities Exchange.

### **Devolution and the new County Government structure**

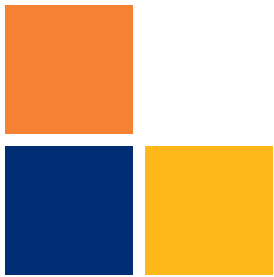
We are concerned about the impact of devolution and the new County Government structure on our business which operates across the country. We continue to engage Government to ensure that devolution does not introduce new barriers to trade given that our business is largely an export business that earns foreign exchange.

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

We continue to ensure that the business receives high quality 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, British American Tobacco 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.



## 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 to which every employee makes a commitment to comply with.

## ***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 24 & 25 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 5 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 pages 14 to 17.

## ***Attendance at Board and Annual General meetings in 2013***

<b><i>Name</i></b>	<b><i>Meetings Attended</i></b>	<b><i>Meetings Eligible to Attend</i></b>
Mr E. Mwaniki <sup>1</sup> (Chairman)	4	4
Mr G. Fagan <sup>2</sup> (Managing Director)	3	3
Mr C. Burrell <sup>3</sup> (Managing Director)	2	2
Mr P. Lopokoiyit (Finance Director)	5	5
Mr A. N. Ngugi <sup>4</sup>	3	3
Mr G. R. May	5	5
Mr G. Maina	4	5
Ms C. Musyoka	5	5
Dr J. Ciano	4	5
Mr M. Janmohamed	4	5
Dr M. Oduor-Otieno <sup>5</sup>	3	3
Ms R. T. Ngobi (Company Secretary)	5	5

<sup>1</sup> Mr E. Mwaniki resigned from the Board on 31 August 2013.

<sup>2</sup> Mr G. Fagan resigned from the Board on 31 May 2013.

<sup>3</sup> Mr C. Burrell joined the Board on 1 June 2013.

<sup>4</sup> Mr A. Ngugi resigned from the Board on 30 April 2013.

<sup>5</sup> Dr M. Oduor-Otieno resigned from the Board on 1 July 2013.

## **Nominations Committee**

The Nominations Committee is responsible for identifying candidates to fill vacancies on the Board. This process includes an evaluation of the skills and experience being sought prior to recruitment. Suitable candidates are interviewed by the Committee and its Chairman and recommended to the Board for appointment. The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment for two years renewable to a maximum period of nine years.

### **Current Members**

Mr G. Maina (Chairman)  
Mr G. R. May  
Dr J. Ciano  
Mr C. Burrell  
Ms R. T. Ngobi (Secretary)

### **Attendance at meetings in 2013**

<b>Name</b>	<b>Meetings Attended</b>	<b>Meetings Eligible to Attend</b>
Mr E. Mwaniki <sup>1</sup> (Chairman)	2	2
Mr G. Maina <sup>2</sup> (Chairman)	0	0
Mr G. R. May	2	2
Mr G. Fagan <sup>3</sup>	1	1
Dr J. Ciano <sup>4</sup>	1	1
Mr A. N. Ngugi <sup>5</sup>	1	1
Mr C. Burrell <sup>6</sup>	1	1
Ms R. T. Ngobi (Company Secretary)	2	2

<sup>1</sup> Mr E. Mwaniki resigned from the Board on 31 August 2013.

<sup>2</sup> Mr G. Maina was appointed as Chairman and Member of the Committee on 1 September 2013.

<sup>3</sup> Mr G. Fagan resigned from the Board on 31 May 2013.

<sup>4</sup> Dr J. Ciano was appointed to the Committee on 2 April 2013.

<sup>5</sup> Mr A. Ngugi resigned from the Board on 30 April 2013.

<sup>6</sup> Mr C. Burrell attends the committee as a permanent invitee.

### **Mandate of the Nominations Committee**

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

### **Commitment**

The Board recognizes that all Directors should allocate sufficient time to the Company to discharge their responsibilities effectively. The Chairman and other Non-Executive Directors ensure they have adequate time to undertake what is expected of them. Other significant commitments are disclosed to the Board upon appointment and subsequent changes highlighted as they arise. The terms of engagement of the Non-Executive Directors are held by the Company Secretary and are available for inspection.

### **Development**

All Directors joining the Board receive induction. Directors are encouraged to continually update their skills and knowledge of the business to enhance the effectiveness of the Board and its constituted committees.

### **Information and Support**

The Board receives high quality, up-to-date information for review in good time ahead of each meeting. The Company Secretary ensures timely information dissemination within the Board and its Committees and between the Non-Executive Directors and senior management as appropriate.

### **Evaluation**

Every year the Board conducts a critical evaluation of its performance for the preceding year. The evaluation is done by each Director completing a Board Effectiveness Evaluation Form. This information is thereafter collated by the Company Secretary and presented to the Nominations Committee with a view to identifying and recommending areas for improvement. The findings from the Board Evaluation exercise are subsequently presented to the full Board and recommendations for improvements discussed and if thought fit, approved. Individual feedback to Directors of the Board is given by the Chairman.

## Re-election

In accordance with the Articles of Association of the Company, all Directors offer themselves for re-election at regular intervals, subject to continued satisfactory performance and commitment. All new appointments to the Board are subject to election by shareholders at the first Annual general Meeting after their appointment.

## Financial and Business Reporting

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Company's position through the Annual Report. It is appropriate to treat this business as a going concern as there is sufficient existing financing available to meet expected requirements in the foreseeable future. The Audit Committee is assigned to review financial, audit and internal control issues in supporting the Board of Directors which is responsible for the financial statements and all information in the annual report.

## Risk Management and Internal Control

The Board is responsible for determining the nature and extent of the significant risks that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. With the support of the Audit Committee, the Board carries out a review of the effectiveness of its risk management and internal control systems annually, covering all material controls including financial, operational and compliance controls and risk management systems.

Risk registers, based on a standardised methodology, are used to identify, assess and monitor the key risks (both financial and non-financial) faced by the business. Information on prevailing trends, for example whether a risk is considered to be increasing or decreasing over time, is provided in relation to each risk and all identified risks are assessed at three levels (high/medium/low) by reference to their impact and likelihood. Mitigation plans are put in place to manage the risks identified and the risk registers and mitigation plans are reviewed on a regular basis.

The Company also completes a checklist of the key controls annually in compliance with the Group best practice, known as the Control Navigator. Its purpose is to enable a self-assessment into the internal control environment, and to assist in identifying any controls which may require strengthening and monitoring action plans to address control weaknesses. The Control Navigator checklist is reviewed annually to ensure that it remains relevant to the business and covers all applicable key controls.

The Board, with advice from its Audit Committee, has completed its annual review of the effectiveness of the system of risk management and internal control for the period since 1 January 2013. No significant failings or weaknesses were identified and the Board is satisfied that, where specific areas for improvement have been identified, processes are in place to ensure that the necessary remedial action is taken and that progress is monitored.

## Audit Committee and Auditors

The Audit Committee is responsible for monitoring compliance with the Company's Standards of Business Conduct, which underpin the Group's commitment to good corporate behaviour. The Standards of Business Conduct require all staff to act with high standards of business integrity, comply with all applicable laws and regulations and ensure that business standards are never compromised for the sake of results. They were updated with effect from 1 September 2011 in order to ensure that they remain at the forefront of best business practice and to ensure alignment with the provisions of the UK Bribery Act 2010 (BAT Plc the parent Company is incorporated in England and Wales), which came into effect on 1 July 2011, and associated guidance.

## Current Members

Mr G. R. May (Chairman)

Mr M. Janmohamed

Ms C. Musyoka

## Attendance at meetings in 2013

Name	Meetings Attended	Meetings Eligible to Attend
Mr G. R. May	3	3
Ms C. Musyoka	2	3
Mr M. Janmohamed <sup>1</sup>	2	2
Mr G. Maina <sup>2</sup>	2	2

<sup>1</sup> Mr M. Janmohamed was appointed a Member of the Committee on 2 April 2013

<sup>2</sup> Mr G. Maina ceased to be a Member of the Committee upon his appointment as Chairman of the Board.

\*Permanent invitees to the Audit Committee meetings are the Managing Director, Finance Director, Head of Audit, Head of Legal, Head of Corporate and Regulatory Affairs and the 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 engagement partner responsible for the audit at least every seven 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 whistleblowing 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 whistleblowing 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](http://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.

## **Current Members**

Dr J. Ciano (Chairman)  
Mr G. Maina  
Mr C. Burrell  
Mr P. Lopokoiyit

## **Attendance at meetings in 2013**

<b>Name</b>	<b>Meetings Attended</b>	<b>Meetings Eligible to Attend</b>
Mr G. Maina	1	1
Mr E. Mwaniki <sup>1</sup>	1	1
Dr J. Ciano <sup>2</sup>	0	0
Mr G. Fagan <sup>3</sup>	1	1
Mr C. Burrell <sup>4</sup>	0	0
Mr P. Lopokoiyit	1	1

<sup>1</sup> Mr E. Mwaniki resigned from the Board on 31 August 2013

<sup>2</sup> Dr J. Ciano was appointed the current Chairman of the Remuneration Committee on 2 April 2013

<sup>3</sup> Mr G. Fagan resigned from the Board on 31 May 2013.

<sup>4</sup> Mr C. Burrell was appointed to the Board on 1 June 2013.

Mr C. Burrell and Mr P. Lopokoiyit attend as Permanent Invitees.



### **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	8
Number of independent Directors	5
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 2013	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 27 February 2014	Total Shares	% Shareholding
Molenssteegh Invest BV	60,000,000	60.00%
Standard Chartered Nominees Non-Resident Account 9866	2,476,985	2.48%
Standard Chartered Kenya Nominees Limited Account KE18993	2,292,700	2.29%
Standard Chartered Nominees Non-Resident Account 9057	1,685,625	1.69%
Standard Chartered Nominees Non- Resident Account KE8723	1,221,300	1.22%
Standard Chartered Nominee Account KE17633	1,201,200	1.20%
Standard Chartered Nominees Account Ke11916	1,103,641	1.10%
Kenya Commercial Bank Nominees Limited Account 915A	955,023	0.96%
Standard Chartered Nominees Resident Account KE11401	950,023	0.95%
Kenya Commercial Bank Nominees Account 915F	950,023	0.95%
Others	27,163,480	27.16%
<b>Total</b>	<b>100,000,000</b>	<b>100.00%</b>

Summary of Shareholders as at 27 February 2014			
Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	57	76,931,697	76.93%
Foreign Individuals	77	222,504	0.22%
Local Companies	515	16,263,811	16.27%
Local Individuals	4,392	6,581,988	6.58%
<b>Total</b>	<b>5,041</b>	<b>100,000,000</b>	<b>100.00%</b>

Distribution of Shareholders as at 27 February 2014			
Shareholding	No. of Shareholders	No. of Shares	% Shareholding
Less than 500	2,551	602,991	0.60%
501 - 5,000	2,007	3,222,591	3.22%
5,001- 10,000	178	1,258,430	1.26%
10,001 - 100,000	238	7,213,146	7.21%
100,001 - 1,000,000	60	17,721,391	17.73%
Above 1,000,000	7	69,981,451	69.98%
<b>Total</b>	<b>5,041</b>	<b>100,000,000</b>	<b>100.00%</b>



# Corporate Information

## Board of Directors

Mr G. Maina*	(Chairman)
Mr C. Burrell	(Managing Director)
Mr P. Lopokoiyit	(Finance Director)
Mr G.R. May*	
Ms C. Musyoka*	
Dr J. Ciano*	
Mr M. Janmohamed*	
Ms R.T. Ngobi	(Company Secretary)

## Audit Committee

Mr G.R. May*	(Chairman)
Mrs. C. Musyoka*	
Mr M. Janmohamed*	
Mr C. Burrell	(Permanent invitee)
Mr P. Lopokoiyit	(Permanent invitee)
Mr G. Maina*	(Permanent invitee)
Mr D. Eloff	(Permanent invitee)
Mr J. Gilbert	(Permanent invitee)
Mr S. Munjanganja	(Permanent invitee)
Ms R. Ruhui	(Secretary)

## Nominations Committee

Mr G. Maina*	(Chairman)
Mr G. May*	
Mr J. Ciano*	
Mr C. Burrell	
Ms R.T. Ngobi	(Secretary)

## Remunerations Committee

Dr J. Ciano*	(Chairman)
Mr G. Maina*	
Mr C. Burrell	
Mr P. Lopokoiyit	
Mr P. Ciucci	
Ms R. Belath	(Secretary)

## Auditor

PricewaterhouseCoopers,  
The PwC Tower, Waiyaki Way,  
P. O. Box 43693 - 00100  
Nairobi

## Transfer Agents

Custody & Registrar Services Limited,  
Bruce House, 6th Floor, Standard Street,  
P. O. Box 8484-00100  
Nairobi

## Advocates

Kaplan & Stratton,  
Williamson House,  
4th Ngong Avenue,  
P.O. Box 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 30000-00100  
Nairobi

\* Non-Executive Directors

**Winning  
Organisation**

*High Performance  
Leadership*



***Great People, Great Teams, Great Place to work***

*Globally  
Aligned and  
Entrepreneurial*

*Passionate  
Ownership*





# Financial Statements for the Year Ended 31 December 2013



# Table of Contents

	Page		Page
Directors' Report	88	3 Critical accounting estimates and judgements	106
Statement Of Directors' Responsibilities	90	4 Financial risk management	107
Report Of The Independent Auditor	91	5 Segment information	112
Financial Statements:		6 Raw materials and manufacturing costs	112
Consolidated Statement Of Comprehensive Income	92	7 Finance costs	112
Consolidated Balance Sheet	93	8 Profit before tax	112
Company Balance Sheet	94	9 Employee benefits expense	113
Consolidated Statement Of Changes In Equity	95	10 Income tax expense	113
Company Statement Of Changes In Equity	96	11 Earnings per share	114
Consolidated Statement Of Cash Flows	97	12 Dividends per share	114
Notes:		13 Share capital	114
1 General information	98	14 Revaluation surplus	114
2 Summary of significant accounting policies:		15 Deferred income tax	115
(a) Basis of preparation	98	16 Property, plant and equipment	118
(b) Consolidation	99	17 Investment in subsidiaries	119
(c) Functional currency and foreign currency translation	100	18 Inventories	119
(d) Segment reporting	100	19 Receivables and prepayments	119
(e) Revenue recognition	101	20 Cash and cash equivalents	120
(f) Property, plant and equipment	101	21 Payables and accrued expenses	120
(g) Impairment of non-financial assets	102	22 Borrowings	120
(h) Accounting for leases	102	23 Provisions for liabilities and charges	121
(i) Inventories	102	24 Cash generated from operations	121
(j) Financial assets	102	25 Related party transactions	122
(k) Derivative financial instruments	104	26 Contingent liabilities	123
(l) Trade receivables	104	27 Capital commitments	123
(m) Trade payables	104		
(n) Share capital	104		
(o) Cash and cash equivalents	104		
(p) Employee benefits	104		
(q) Current and deferred income tax	105		
(r) Borrowings	105		
(s) Dividend distribution	106		
(t) Provisions	106		
(u) Borrowing costs	106		
(v) Comparatives	106		

# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2013, 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 3,723,691,000 (2012: Shs 3,270,852,000) has been added to retained earnings. During the year, an interim dividend of Shs 350,000,000 (2012: Shs 350,000,000) was paid. The Directors recommend the approval of a final dividend of Shs 3,350,000,000 (2012: Shs 2,900,000,000) at the Annual General Meeting.

The results for the year are set out fully on pages 94 to 124 in the attached financial statements.

## BOARD OF DIRECTORS

---

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

Mr G. Fagan and Dr M. Oduor-Otieno resigned from the Board on 31 May 2013 and 1 July 2013 respectively. Mr E. Mwaniki resigned as Chairman and Director of the Board on 31 August 2013.

Mr C. Burrell was appointed as a Director on 1 June 2013.

In accordance with Article 95 Mr C. Burrell retires from the Board and being eligible, offers himself for re-election.

Mr G. Maina and Ms C. Musyoka retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

Mr G. R. May having attained the age of 70 in March 2013 retires in terms of section 186(2) of the Companies Act and being eligible by virtue of a Special Notice given under section 186 (5) offers himself for re-election.

## AUDITOR

---

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

**By order of the Board**  
**R.T. Ngobi (Ms)**  
**Company Secretary**  
**27 February 2014**



# Taarifa ya Wakurugenzi

Wakurugenzi wanawasilisha taarifa yao pamoja na taarifa za ukaguzi wa kifedha kwa kipindi kilichomalizikia tarehe 31 Desemba 2013 kinachoelezea maswala ya kampuni.

## SHUGHULI KUU

---

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

## MATOKEO NA MGAO WA FAIDA

---

Faida ya mwaka ya kampuni ya shilingi 3,723,691,000 (2012:Shs 3,270,852,000) imeongezwa kwa mapato yaliyoko. Katika mwaka huo mgao wa muda wa faida wa shilingi 350,000,000 (2012: Shs 350,000,000) ulilipwa. Wakurugenzi wanapendekeza kuidhinishwa kwa mgao wa mwisho wa faida wa shilingi 3,350,000,000 (2012: Shs 2,900,000,000).

## HALMASHAURI YA WAKURUGENZI

---

Mabadiliko yafuatayo yametokeleza katika Halmashauri ya wakurugenzi tangu mkutano mkuu wa kila mwaka uliopita:

Bw. G. Fagan na Daktari M. Oduor-Otieno walijiuzulu kwenye Halmashauri tarehe 31 Mei 2013 na 1 Julai 2013.  
Mwenyekiti E. Mwaniki alijiuzulu kwenye halmashauri tarehe 31 Agosti 2013.

Bw. C. Burrell aliteuliwa kuwa mkurugenzi tarehe 1 Juni 2013.

Kwa mujibu wa kifungu nambari 95 cha sheria za kampuni, Bw. C. Burrell anastaafu kwenye Halmashauri kwa zamu wakati wa mkutano mkuu wa kila mwaka na kwa vile anastahili anajiwasilisha kuchaguliwa tena.

Kwa mujibu wa kifungu nambari 89 cha sheria za kampuni, Bw. G. Maina na Bi C. Musyoka wanastaafu kwenye Halmashauri kwa zamu wakati wa mkutano mkuu wa kila mwaka na kwa vile wanastahili wanajiwasilisha kuchaguliwa tena.

Bw. G. R. May ambaye alitimiza umri wa miaka 70 mnamo wa mwaka 2013 mwezi wa Machi na anastaafu kuambatana na kifungu 186(2) cha sheria za kampuni na kwa vile anastahili kwa mujibu wa ilani maalum iliyotolewa chini ya kifungu nambari 186(5) anajiwasilisha kuchaguliwa tena.

## WAKAGUZI

---

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

**Kwa amri ya Halmashauri**

**R.T. Ngobi (Ms)**

**Katibu wa Kampuni**

**27 February 2014**

## Statement Of Directors' Responsibilities

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

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

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

**C. Burrell**  
**Managing Director**

**P. Lopokoiyit**  
**Finance Director**

**27 February 2014**



## Report of The Independent Auditor To The Members of British American Tobacco Kenya Limited

### **Report on the financial statements**

We have audited the accompanying consolidated statement of financial position of British American Tobacco Kenya Limited (the "Company") and its subsidiaries (together, the "Group"), set out on pages 94 to 124. These financial statements comprise the consolidated statement of financial position at 31 December 2013 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2013 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 financial affairs of the Group and of the Company at 31 December 2013 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

### **Report on other legal requirements**

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Peter Ngahu - Practising Certificate No. P/1458.

**Certified Public Accountants  
Nairobi**

**27 February 2014**

## Consolidated Statement Of Comprehensive Income

	Notes	Year ended 31 December	
		2013 Shs' 000	2012 Shs' 000
Gross turnover		31,915,663	30,503,560
Excise duty and value added tax		(12,296,947)	(11,094,560)
<b>Net revenue</b>	5	<b>19,618,716</b>	<b>19,409,000</b>
Raw materials and manufacturing costs	6	(10,894,270)	(11,578,589)
Marketing and distribution costs		(1,781,741)	(1,894,730)
Administration and other expenses		(1,425,038)	(1,146,590)
Other income		253,492	315,138
<b>Operating profit</b>		<b>5,771,159</b>	<b>5,104,229</b>
Finance costs	7	(301,204)	(349,927)
<b>Profit before tax</b>	8	<b>5,469,955</b>	<b>4,754,302</b>
Income tax expense	10	(1,746,264)	(1,483,450)
<b>Profit for the year</b>		<b>3,723,691</b>	<b>3,270,852</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Gains from revaluation of land and buildings (net of tax)	14	-	464,998
<b>Items that may be reclassified to profit or loss</b>			
		-	-
<b>Total comprehensive income for the year</b>		<b>3,723,691</b>	<b>3,735,850</b>
<b>Earnings per share:</b>			
Basic and diluted (Shs per share)	11	37.24	32.71

The notes on pages 98 to 123 are an integral part of these consolidated financial statements.

## Consolidated Balance Sheet

	Notes	At 31 December	
		2013	2012
		Shs' 000	Shs' 000
<b>Capital and reserves attributable to the company's equity holders to the company's equity holders</b>			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,488,403	1,528,976
Retained earnings		1,733,182	1,668,918
Proposed dividends	12	3,350,000	2,900,000
<b>Total equity</b>		<b>7,571,608</b>	<b>7,097,917</b>
<b>Non-current liabilities</b>			
Borrowings	22	1,035,600	688,800
Deferred income tax liabilities	15	1,597,613	1,337,098
<b>Total non-current liabilities</b>		<b>2,633,213</b>	<b>2,025,898</b>
<b>Total equity and non-current liabilities</b>		<b>10,204,821</b>	<b>9,123,815</b>
<b>Non-current assets</b>			
Property, plant and equipment	16	8,454,193	8,046,667
Deferred income tax assets	15	13,458	-
		<b>8,467,651</b>	<b>8,046,667</b>
<b>Current assets</b>			
Inventories	18	4,482,067	4,393,589
Receivables and prepayments	19	3,471,351	2,026,948
Current income tax		366,709	514,977
Cash and cash equivalents	20	198,145	194,314
		<b>8,518,272</b>	<b>7,129,828</b>
<b>Current liabilities</b>			
Payables and accrued expenses	21	5,195,876	4,972,998
Borrowings	22	491,654	38,182
Provisions for liabilities and charges	23	959,647	901,437
Current income tax		133,925	140,063
		<b>6,781,102</b>	<b>6,052,680</b>
<b>Net current assets</b>		<b>1,737,170</b>	<b>1,077,148</b>
<b>Total assets</b>		<b>10,204,821</b>	<b>9,123,815</b>

The notes on pages 98 to 123 are an integral part of these consolidated financial statements.

The financial statements on pages 92 to 123 were approved and authorised for issue by the board of directors on 27 February 2014 and signed on its behalf by:

**C. Burrell**  
Managing Director

**P. Lopokoiyit**  
Finance Director

## Company Balance Sheet

	Notes	At 31 December	
		2013	2012
		Shs' 000	Shs' 000
<b>Capital and reserves attributable to the company's equity holders</b>			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,488,403	1,528,976
Retained earnings		1,733,182	1,668,918
Proposed dividends	12	3,350,000	2,900,000
<b>Total equity</b>		<b>7,571,608</b>	<b>7,097,917</b>
<b>Non-current liabilities</b>			
Borrowings	22	1,035,600	688,800
Deferred income tax liabilities	15	1,597,613	1,333,200
<b>Total non-current liabilities</b>		<b>2,633,213</b>	<b>2,022,000</b>
<b>Total equity and non-current liabilities</b>		<b>10,204,821</b>	<b>9,119,917</b>
<b>Non-current assets</b>			
Property, plant and equipment	16	8,454,193	8,046,667
Investment in subsidiaries	17	12,000	12,000
		<b>8,466,193</b>	<b>8,058,667</b>
<b>Current assets</b>			
Inventories	18	4,482,067	4,393,552
Receivables and prepayments	19	3,037,624	1,506,444
Current income tax		366,709	514,977
Cash and cash equivalents	20	41,819	194,314
		<b>7,928,219</b>	<b>6,609,287</b>
<b>Current liabilities</b>			
Payables and accrued expenses	21	4,738,291	4,608,641
Borrowings	22	491,653	37,959
Provisions for liabilities and charges	23	959,647	901,437
		<b>6,189,591</b>	<b>5,548,037</b>
<b>Net current assets</b>		<b>1,738,628</b>	<b>1,061,250</b>
<b>Total assets</b>		<b>10,204,821</b>	<b>9,119,917</b>

The notes on pages 98 to 123 are an integral part of these consolidated financial statements.

The financial statements on pages 92 to 123 were approved and authorised for issue by the board of directors on 27 February 2014 and signed on its behalf by:

**C. Burrell**  
Managing Director

**P. Lopokoiyit**  
Finance Director

## Consolidated Statement of Changes in Equity

Notes	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
<b>Year ended 31 December 2012</b>						
<b>At start of year</b>	<b>1,000,000</b>	<b>23</b>	<b>1,063,978</b>	<b>1,648,066</b>	<b>2,700,000</b>	<b>6,412,067</b>
Comprehensive income for the year						
Profit for the year	-	-	-	3,270,852	-	3,270,852
Gain on revaluation of land and buildings	16	-	664,283	-	-	664,283
Deferred income tax on revaluation	15	-	(199,285)	-	-	(199,285)
Net gains recognised directly in equity		-	464,998	-	-	464,998
<b>Transactions with owners</b>						
Distribution to owners						
Dividends:						
- Final for 2011	12	-	-	-	(2,700,000)	(2,700,000)
- Interim for 2012	12	-	-	(350,000)	-	(350,000)
- Proposed final for 2012	12	-	-	(2,900,000)	2,900,000	-
Total transactions with owners		-	-	(3,250,000)	200,000	(3,050,000)
<b>At end of year</b>	<b>1,000,000</b>	<b>23</b>	<b>1,528,976</b>	<b>1,668,918</b>	<b>2,900,000</b>	<b>7,097,917</b>
<b>Year ended 31 December 2013</b>						
<b>At start of year</b>	<b>1,000,000</b>	<b>23</b>	<b>1,528,976</b>	<b>1,668,918</b>	<b>2,900,000</b>	<b>7,097,917</b>
Profit for the year		-	-	3,723,691	-	3,723,691
Transfer of excess depreciation		-	(57,961)	57,961	-	-
Deferred income tax on transfer	15	-	17,388	17,388	-	-
Net (losses)/gains recognised directly in equity		-	(40,573)	40,573	-	-
<b>Transactions with owners</b>						
Distribution to owners						
Dividends:						
- Final for 2012	12	-	-	-	(2,900,000)	(2,900,000)
- Interim for 2013	12	-	-	(350,000)	-	(350,000)
- Proposed final for 2013	12	-	-	(3,350,000)	3,350,000	-
Total transactions with owners		-	-	(3,700,000)	450,000	(3,250,000)
<b>At end of year</b>	<b>1,000,000</b>	<b>23</b>	<b>1,488,403</b>	<b>1,733,182</b>	<b>3,350,000</b>	<b>7,571,608</b>

The notes on pages 98 to 123 are an integral part of these consolidated financial statements.

## Company Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
<b>Year ended 31 December 2012</b>							
<b>At start of year</b>		<b>1,000,000</b>	<b>23</b>	<b>1,063,978</b>	<b>1,648,066</b>	<b>2,700,000</b>	<b>6,412,067</b>
Comprehensive income for the year							
Profit for the year		-	-	-	3,270,852	-	3,270,852
Gain on revaluation of land and buildings	16	-	-	664,283	-	-	664,283
Deferred income tax on revaluation	15	-	-	(199,285)	-	-	(199,285)
Net gains recognised directly in equity		-	-	464,998	-	-	464,998
<b>Transactions with owners</b>							
Distribution to owners							
Dividends:							
- Final for 2011	12	-	-	-	-	(2,700,000)	(2,700,000)
- Interim for 2012	12	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2012	12	-	-	-	(2,900,000)	2,900,000	-
Total transactions with owners		-	-	-	(3,250,000)	200,000	(3,050,000)
<b>At end of year</b>		<b>1,000,000</b>	<b>23</b>	<b>1,528,976</b>	<b>1,668,918</b>	<b>2,900,000</b>	<b>7,097,917</b>
<b>Year ended 31 December 2013</b>							
<b>At start of year</b>		<b>1,000,000</b>	<b>23</b>	<b>1,528,976</b>	<b>1,668,918</b>	<b>2,900,000</b>	<b>7,097,917</b>
Profit for the year		-	-	-	3,723,691	-	3,723,691
Transfer of excess depreciation		-	-	(57,961)	57,961	-	-
Deferred income tax on transfer	15	-	-	17,388	17,388	-	-
Net (losses)/gains recognised directly in equity		-	-	(40,573)	40,573	-	-
<b>Transactions with owners</b>							
Distribution to owners							
Dividends:							
- Final for 2012	12	-	-	-	-	(2,900,000)	(2,900,000)
- Interim for 2013	12	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2013	12	-	-	-	(3,350,000)	3,350,000	-
Total transactions with owners		-	-	-	(3,700,000)	450,000	(3,250,000)
<b>At end of year</b>		<b>1,000,000</b>	<b>23</b>	<b>1,488,403</b>	<b>1,733,182</b>	<b>3,350,000</b>	<b>7,571,608</b>

The notes on pages 98 to 123 are an integral part of these consolidated financial statements.



## Consolidated Statement of Cash Flows

	Notes	Year ended 31 December	
		2013	2012
		Shs' 000	Shs' 000
<b>Cash flows operating activities</b>			
Cash generated from operations	24	5,040,082	6,041,018
Interest received	7	1,983	787
Interest paid	7	(264,259)	(305,137)
Income tax paid		(1,357,077)	(1,732,218)
<b>Net cash generated from operating activities</b>		<b>3,420,729</b>	<b>4,004,450</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	16	(1,074,791)	(1,235,075)
Proceeds from disposal of property, plant and equipment		107,621	35,027
<b>Net cash used in investing activities</b>		<b>(967,170)</b>	<b>(1,200,048)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to the company shareholders	12	(3,250,000)	(3,050,000)
Borrowings		346,800	(297,344)
<b>Net cash used in financing activities</b>		<b>(2,903,200)</b>	<b>(3,347,344)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(449,641)</b>	<b>(542,942)</b>
Cash and cash equivalents at beginning of year		156,132	699,074
<b>Cash and cash equivalents at end of year</b>	20	<b>(293,509)</b>	<b>156,132</b>

The notes on pages 98 to 123 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  
P.O Box 30000-00100  
Nairobi

The Company is controlled by the British American Tobacco Plc incorporated in England and Wales, which is also the ultimate parent Company.

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

For Kenyan Companies Act reporting purposes, the profit and loss account is represented 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 its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

#### Changes in accounting policy and disclosures

##### *(i) New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 but do not have a material impact on the Group:

Amendment to IAS 1, 'Financial statement presentation' 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).

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.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

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.

## 2. Summary of significant accounting policies (continued)

### a) Basis of preparation (continued)

#### *(ii) New standards and interpretations not yet 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:

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 as at fair value and those measured at amortised cost. The determination is made at initial recognition. 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. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

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 (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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.

## 2. Summary of significant accounting policies (continued)

### b) Consolidation (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement

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.

#### *(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.

## 2. Summary of significant accounting policies (continued)

### 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 base 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 customer's 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.

### f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and land are subsequently shown at fair value, based on periodic, but at least once every five years, valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. 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

## 2. Summary of significant accounting policies (continued)

### f) Property, plant and equipment (continued)

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 lease certain property, plant and equipment. Leases of property, plant and equipment where the Group and Company have 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.

### j) Financial assets

#### (i) Classification

The Group and Company classify their 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.

## 2. Summary of significant accounting policies (continued)

### j) Financial assets (continued)

#### 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 'non-current receivables and prepayments' in the balance sheet.

#### *(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 balance sheet 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 assess 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.

## 2. Summary of significant accounting policies (continued)

### 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.

### 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 balance sheet.

### p) Employee benefits

Pension obligations

The Group and Company operate two defined contribution retirement benefit schemes for all their 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 balance sheet date is recognised as an expense accrual. The Group and all its employees also contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme.



## 2. Summary of significant accounting policies (continued)

### p) Employee benefits (continued)

#### 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. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

#### Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 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 other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the 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.

## 2. Summary of significant accounting policies (continued)

### r) Borrowings (continued)

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 have 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 make 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.

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 them 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 operate internationally and are 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 2013, if the Shilling had weakened by 10% against the US dollar with all other variables held constant, Group and Company post tax profit for the year would have been Shs 122,662,170 (2012: Shs 68,524,235) higher, mainly as a result of US dollar receivables.

At 31 December 2013, if the Shilling had weakened by 10% against the GBP with all other variables held constant, Group and Company post tax profit for the year would have been Shs 12,176,201 higher, mainly as a result of GBP denominated receivables; (2012: Shs 22,992,669) lower, mainly as a result of GBP denominated payables.

At 31 December 2013, if the Shilling had weakened by 10% against the Euro with all other variables held constant, Group and Company post tax profit for the year would have been Shs 4,755,274 (2012: Shs 22,538,803) 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 monitor financing options available to ensure optimum interest rates are obtained. At 31 December 2013, an increase/decrease of 1% would have resulted in a change of Shs 7,657,291 (2012: Shs 9,961,259) in Group 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.

#### 4. Financial risk management (continued)

##### Credit risk (continued)

The amount that best represents the Group and Company's maximum exposure to credit risk at 31 December 2013 is made up as follows:

	Group		Company	
	2013	2012	2013	2012
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Cash and cash equivalents	198,145	194,314	41,819	194,314
Trade and related party receivables	2,670,279	1,550,951	2,202,036	1,033,556
Other receivables	344,274	254,561	342,654	251,453
	<b>3,212,698</b>	<b>1,999,826</b>	<b>2,586,509</b>	<b>1,479,323</b>

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	
	2013	2012	2013	2012
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Past due but not impaired:				
- by up to 3 months	101,519	207,130	101,519	207,130
- by 4 to 6 months	9,794	21,056	9,794	21,056
- by 7 to 12 months	1,942	253,309	1,942	253,309
- beyond 1 year	-	-	-	-
Total past due but not impaired	<b>113,255</b>	<b>481,495</b>	<b>113,255</b>	<b>481,495</b>

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 their 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 do not breach borrowing limits or covenants (where applicable) on any of their borrowing facilities.

#### 4. Financial risk management (continued)

##### Liquidity risk (continued)

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
<b>At 31 December 2013</b>		
<b>Liabilities</b>		
Borrowings	491,654	1,149,237
Trade and other payables	3,662,491	-
Amounts due to related parties	1,533,385	-
Guarantees	4,226,270	-
<b>Total financial liabilities</b>	<b>9,913,800</b>	<b>1,149,237</b>
<b>Assets</b>		
Cash and bank balances	198,145	-
Amounts due from related parties	2,610,240	-
Trade and other receivables	861,111	-
<b>Total financial assets (expected maturity date)</b>	<b>3,669,496</b>	<b>-</b>
<b>At 31 December 2012</b>		
<b>Liabilities</b>		
Borrowings	38,182	759,367
Trade and other payables	3,713,860	-
Amounts due to related parties	1,259,138	-
Guarantees	3,547,050	-
<b>Total financial liabilities</b>	<b>8,558,230</b>	<b>759,367</b>
<b>Assets</b>		
Cash and bank balances	194,314	-
Amounts due from related parties	1,485,962	-
Trade and other receivables	540,986	-
<b>Total financial assets (expected maturity date)</b>	<b>2,221,262</b>	<b>-</b>

#### 4. Financial risk management (continued)

##### Liquidity risk (continued)

b) Company	Less than 1 year	Between 1 & 2 years
	Shs' 000	Shs' 000
<b>At 31 December 2013</b>		
<b>Liabilities</b>		
Borrowings	491,653	1,149,237
Trade and other payables	3,217,203	-
Amounts due to related parties	1,521,088	-
Guarantees	4,226,270	-
<b>Total financial liabilities</b>	<b>9,456,214</b>	<b>1,149,237</b>
<b>Assets</b>		
Cash and bank balances	41,819	-
Amounts due from related parties	2,142,012	-
Trade and other receivables	895,612	-
<b>Total financial assets (expected maturity date)</b>	<b>3,079,443</b>	<b>-</b>
<b>At 31 December 2012</b>		
<b>Liabilities</b>		
Borrowings	37,959	759,367
Trade and other payables	3,353,730	-
Amounts due to related parties	1,254,911	-
Guarantees	3,547,050	-
<b>Total financial liabilities</b>	<b>8,193,650</b>	<b>759,367</b>
<b>Assets</b>		
Cash and bank balances	194,314	-
Amounts due from related parties	989,907	-
Trade and other receivables	516,537	-
<b>Total financial assets (expected maturity date)</b>	<b>1,700,758</b>	<b>-</b>

For both Group and Company, there are no financial assets or liabilities older than 2 years (2012: Nil).

#### 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	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
Total borrowings	1,527,254	726,982	1,527,253	726,759
Less: cash and cash equivalents	(198,145)	(194,314)	(41,819)	(194,314)
Net debt	1,329,109	532,668	1,485,434	532,445
Total equity	7,571,608	7,097,917	7,571,608	7,097,917
Total capital	8,900,717	7,630,585	9,057,042	7,630,362
<b>Gearing ratio</b>	<b>17.6%</b>	<b>7.5%</b>	<b>19.6%</b>	<b>7.5%</b>

##### 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)	3,014,553	1,805,514	2,544,690	1,285,009
Cash and cash equivalents	198,145	194,314	41,819	194,314
	3,212,698	1,999,828	2,586,509	1,479,323

###### Financial liabilities:

All of the Group and Company's financial liabilities are classified as liabilities at amortised cost and comprise

Borrowings	1,527,254	726,982	1,527,253	726,759
Trade and other payables (excluding statutory liabilities)	4,326,371	4,122,924	3,918,152	3,816,797
	5,853,625	4,849,906	5,445,405	4,543,556

## 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 the products are manufactured through the same process and in the same location.

	<b>2013</b>	<b>2012</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>
<b>Analysis of net revenue by geography:</b>		
Local sales	10,914,303	9,703,721
Export sales	8,704,413	9,705,279
	<b>19,618,716</b>	<b>19,409,000</b>
<b>Analysis of net revenue by product:</b>		
Sale of cigarettes	18,235,590	16,366,017
Sale of cut rag	1,383,126	3,042,983
	<b>19,618,716</b>	<b>19,409,000</b>

## 6. Raw materials and manufacturing costs

---

Raw materials, consumables and other manufacturing costs*	10,543,316	11,182,998
Write-down of inventory (leaf & wrapping materials)	(64,648)	1,479
Depreciation of property, plant and equipment	415,602	394,112
	<b>10,894,270</b>	<b>11,578,589</b>

\* Raw materials, consumables and other manufacturing costs include employee expenses of Shs 1,158,733,067 (2012: Shs 1,015,779,752).

## 7. Finance costs

---

Interest income	(1,983)	(787)
Interest expense	264,259	305,137
Net foreign currency exchange losses	38,928	45,577
	<b>301,204</b>	<b>349,927</b>

## 8. Profit before tax

---

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

Employee benefits expense (Note 9)	2,513,216	2,215,065
Auditor's remuneration	9,204	8,258

---



## 9. Employee benefits expense

	<b>2013</b>	<b>2012</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>
Salaries and wages	2,424,224	2,132,257
Retirement benefits costs:		
- Defined contribution scheme	86,454	80,488
- National Social Security Fund	2,538	2,320
	<b>2,513,216</b>	<b>2,215,065</b>

## 10. Income tax expense

	<b>2013</b>	<b>2012</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>
Current income tax		
- Current tax on profits for the year	1,426,617	1,304,881
- Adjustments in respect of prior years	72,590	50
<b>Total current tax</b>	<b>1,499,207</b>	<b>1,304,931</b>
Deferred income tax (Note 15)		
- Deferred income tax	247,047	192,685
- Adjustments in respect of prior years	10	(14,166)
<b>Total deferred income tax</b>	<b>247,057</b>	<b>178,519</b>
<b>Income tax expense</b>	<b>1,746,264</b>	<b>1,483,450</b>

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	5,469,955	4,754,302
Tax calculated at domestic rate applicable to profit : 30% (2011:30%)	1,640,987	1,426,291
Tax effect of:		
Income not subject to tax	-	(958)
Expenses not deductible for tax purposes	32,677	72,283
(Over)/Under-provision of current tax in prior years	72,590	-
Over-provision of deferred tax in prior years	10	(14,166)
<b>Income tax expense</b>	<b>1,746,264</b>	<b>1,483,450</b>

## 10. Income tax expense Income tax expense (continued)

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

	2013			2012		
	Shs' 000			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	57,961	(17,388)	40,573	-	-	-
Effect on equity	57,961	(17,388)	40,573	(664,283)	199,285	(464,998)

## 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.

	2013	2012
	Shs' 000	Shs' 000
Profit attributable to equity holders of the Company (Shs '000)	3,723,691	3,270,852
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	37.24	32.71

## 12. Dividends per share

During the year a final dividend in respect of the 2012 financial results of Shs 29.00 (2011: Shs 27.00) and an interim dividend of Shs 3.50 per share (2012: Shs 3.50) was declared and paid. The total dividend paid in the year is therefore Shs 32.50 per share (2012: Shs 30.50), amounting to a total of Shs 3,250,000,000 (2012: Shs 3,050,000,000).

At the Annual General Meeting to be held on 29 April 2014, a final dividend in respect of the year ended 31 December 2013 of Shs 33.50 per share amounting to a total of Shs 3,350,000,000 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 reserve 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 Group and Company statements of changes in equity. The revaluation was accounted for as at 31 December 2012.

## 15. Deferred income tax

---

	<b>2013</b>	<b>2012</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>
The analysis of deferred tax assets and deferred liabilities is as follows:		
Deferred tax assets	(13,458)	-
Deferred tax liabilities	1,597,613	1,337,098
Deferred tax liabilities (net)	<b>1,584,155</b>	<b>1,337,098</b>

Deferred income tax is calculated using the enacted income tax rate of 30% (2012:30%).

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

<b>At start of year</b>	1,337,098	959,294
Charge for the period (Note 10)		
Charge to income statement	264,445	178,519
Credit to equity	(17,388)	-
Deferred tax on revaluation surplus	-	199,285
<b>At end of year</b>	<b>1,584,155</b>	<b>1,337,098</b>

## 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.

<b>Year ended 31 December 2013</b>	<b>1.1.2013</b>	<b>Charged / credited to P&amp;L</b>	<b>Charged to equity</b>	<b>31.12.2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
<b>Deferred income tax liabilities</b>				
Property, plant and equipment:				
- on historical cost basis	1,181,034	256,461	-	1,437,495
- on revaluation surpluses	543,449	-	(17,388)	526,061
Unrealised exchange gains	56,102	(45,348)	-	10,754
	<b>1,780,585</b>	<b>211,113</b>	<b>(17,388)</b>	<b>1,974,310</b>
<b>Deferred income tax assets</b>				
Provisions	(393,902)	18,942	-	(374,960)
Unrealised exchange losses	(49,585)	34,390	-	(15,195)
	<b>(443,487)</b>	<b>53,332</b>	<b>-</b>	<b>(390,155)</b>
Net deferred income tax liability	<b>1,337,098</b>	<b>264,445</b>	<b>(17,388)</b>	<b>1,584,155</b>
<b>Year ended 31 December 2012</b>	<b>1.1.2012</b>	<b>Charged to P&amp;L</b>	<b>Charged to equity</b>	<b>31.12.2013</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>	<b>Shs' 000</b>	<b>Shs'000</b>
<b>Deferred income tax liabilities</b>				
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
	<b>1,476,562</b>	<b>104,738</b>	<b>199,285</b>	<b>1,780,585</b>
<b>Deferred income tax assets</b>				
Provisions	(463,863)	69,961	-	(393,902)
Unrealised exchange losses	(53,405)	3,820	-	(49,585)
	<b>(517,268)</b>	<b>73,781</b>	<b>-</b>	<b>(443,487)</b>
Net deferred income tax liability	<b>959,294</b>	<b>178,519</b>	<b>199,285</b>	<b>1,337,098</b>

## 15. Deferred income tax (continued)

Deferred income tax of Shs 17,388,000 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. In 2012, deferred income tax of Shs 199,285,000 was charged to equity representing the deferred tax on the revaluation surplus on Property, Plant and Equipment. The revaluation was accounted for as at 31 December 2012.

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

	<b>2013</b>	<b>2012</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>Deferred income tax liabilities</b>		
Property, plant and equipment:		
- on historical cost basis	1,437,495	1,181,034
- on revaluation surpluses	526,061	543,399
Unrealised exchange gains	10,754	42,163
Total deferred income tax liabilities	1,974,310	1,766,596
<b>Deferred income tax assets</b>		
Provisions	(361,531)	(384,695)
Unrealised exchange losses	(15,166)	(48,701)
Total deferred income tax assets	(376,697)	(433,396)
<b>Net deferred income tax liability</b>	<b>1,597,613</b>	<b>1,333,200</b>

## 16. Property, plant and equipment – Group and Company

	<b>Land and Buildings Shs' 000</b>	<b>Plant and Machinery Shs' 000</b>	<b>Vehicles and Equipment Shs' 000</b>	<b>Capital Work in Progress* Shs' 000</b>	<b>Total Shs' 000</b>
<b>At 1 January 2012</b>					
Cost or valuation	3,099,288	6,343,997	820,184	619,660	10,883,129
Accumulated Depreciation	(714,592)	(2,768,112)	(644,085)	-	(4,126,789)
<b>Net book amount</b>	<b>2,384,696</b>	<b>3,575,885</b>	<b>176,099</b>	<b>619,660</b>	<b>6,756,340</b>
<b>Year ended 31 December 2012</b>					
Opening net book amount	2,384,696	3,575,885	176,099	619,660	6,756,340
Revaluation surplus	664,283	-	-	-	664,283
Transfers	15,460	317,112	(6,653)	(325,919)	-
Additions	95,996	366,046	178,371	594,662	1,235,075
Disposals					
Cost	(9,427)	(315,741)	(109,367)	-	(434,535)
Accumulated depreciation	2,832	272,790	103,033	-	378,655
Depreciation charge	(82,555)	(379,608)	(90,988)	-	(553,151)
<b>Closing net book amount</b>	<b>3,071,285</b>	<b>3,836,484</b>	<b>250,495</b>	<b>888,403</b>	<b>8,046,667</b>
<b>At 31 December 2012</b>					
Cost or valuation	3,865,600	6,711,414	882,535	888,403	12,347,952
Accumulated depreciation	(794,315)	(2,874,930)	(632,040)	-	(4,301,285)
<b>Net book amount</b>	<b>3,071,285</b>	<b>3,836,484</b>	<b>250,495</b>	<b>888,403</b>	<b>8,046,667</b>
<b>Year ended 31 December 2013</b>					
Opening net book amount	3,071,285	3,836,484	250,495	888,403	8,046,667
Transfers	24,034	787,493	2,647	(814,174)	-
Additions	46,163	436,622	69,267	522,739	1,074,791
Disposals					
- Cost	-	(125,327)	(18,412)	-	(143,739)
- Accumulated depreciation	-	55,685	18,380	-	74,065
Depreciation charge	(94,334)	(408,750)	(94,507)	-	(597,591)
<b>Closing net book amount</b>	<b>3,047,148</b>	<b>4,582,207</b>	<b>227,870</b>	<b>596,968</b>	<b>8,454,193</b>
<b>At 31 December 2013</b>					
Cost or valuation	3,935,797	7,810,202	936,037	596,968	13,279,004
Accumulated depreciation	(888,649)	(3,227,995)	(708,167)	-	(4,824,811)
<b>Net book amount</b>	<b>3,047,148</b>	<b>4,582,207</b>	<b>227,870</b>	<b>596,968</b>	<b>8,454,193</b>

\*Capital work in progress relates to factory buildings under construction and plant and machinery under installation at the year end.

## 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:

	<b>2013</b>	<b>2012</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>
Cost	1,291,571	1,221,374
Accumulated depreciation	(317,716)	(281,343)
<b>Net book amount</b>	<b>973,855</b>	<b>940,031</b>

## 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:

	<b>Principal activity</b>
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

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>	<b>Shs' 000</b>	<b>Shs' 000</b>
Raw materials and consumables	3,525,782	3,478,980	3,525,782	3,478,980
Finished goods	582,352	731,632	582,352	731,595
Work in progress	373,933	182,977	373,933	182,977
	<b>4,482,067</b>	<b>4,393,589</b>	<b>4,482,067</b>	<b>4,393,552</b>

## 19. Receivables and prepayments

Trade Receivables	60,039	64,989	60,024	43,649
Prepayments and other receivables	801,072	475,997	835,588	472,888
Due from related parties	2,610,240	1,485,962	2,142,012	989,907
	<b>3,471,351</b>	<b>2,026,948</b>	<b>3,037,624</b>	<b>1,506,444</b>

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

## 20. Cash and cash equivalents

	Group		Company	
	2013	2012	2013	2012
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Cash at bank and in hand	198,145	194,314	41,819	194,314

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

	2013	2012
	Shs' 000	Shs' 000
	Cash at bank and in hand	198,145
Bank overdrafts (Note 22)	(491,654)	(38,182)
	<b>(293,509)</b>	<b>156,132</b>

## 21. Payables and accrued expenses

	Group		Company	
	2013	2012	2013	2012
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Trade payables	1,399,685	1,464,784	1,464,784	1,391,069
Due to related companies	1,533,385	1,259,138	1,521,088	1,254,911
Other payables and accrued expenses	2,262,806	2,249,076	1,752,419	1,962,661
	<b>5,195,876</b>	<b>4,972,998</b>	<b>4,738,291</b>	<b>4,608,641</b>

## 22. Borrowings

### Non-current

Loan from BAT Investments	1,035,600	688,800	1,035,600	688,800
---------------------------	-----------	---------	-----------	---------

### Current

Bank overdrafts	491,654	38,182	491,653	37,959
	<b>1,527,254</b>	<b>726,982</b>	<b>1,527,253</b>	<b>726,759</b>

The loan from BAT Investments is an unsecured US Dollar denominated floating rate loan repayable by 30 July 2015 at an interest rate of LIBOR plus 2.5% up to 30 June 2014 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 balance sheet date. None of the borrowings were in default at any time during the year.

The Group and Company has the following undrawn borrowing facilities:

	2013	2012
	Shs' 000	Shs' 000
	Overdraft Facilities	3,269,038
Bond Guarantees	1,366,730	1,751,614
	<b>4,635,768</b>	<b>4,911,972</b>

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 and excise payable for all imported goods that are utilised to manufacture cigarettes for the export market.



## 23. Provisions for liabilities and charges

	<b>Group</b> <b>Shs' 000</b>	<b>Company</b> <b>Shs' 000</b>
<b>Year ended 31 December 2012</b>		
At start of year	1,005,589	1,005,89
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 the year	(54,879)	(54,879)
At end of year	<b>901,437</b>	<b>901,437</b>
<b>Year ended 31 December 2013</b>		
At start of year	901,437	901,437
Additional provisions	77,631	77,631
Unused amounts reversed	-	-
Charge to statement of comprehensive income	77,631	77,631
Utilised during year	(19,421)	(19,421)
At end of year	<b>959,647</b>	<b>959,647</b>

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

	<b>2013</b> <b>Shs' 000</b>	<b>2012</b> <b>Shs' 000</b>
Profit before taxation	5,469,955	4,754,302
Adjustments for:		
Depreciation	597,591	553,151
Profit on sale of property, plant and equipment	(37,947)	(18,166)
Interest received (Note 7)	(1,983)	(787)
Interest expense (Note 7)	264,259	305,137
Changes in working capital:		
-receivables and prepayments	(1,444,403)	(378,298)
-inventories	(88,478)	(18,812)
-payables and accrued expenses	222,878	948,643
-provisions for liabilities and charges	58,210	(104,152)
<b>Cash generated from operations</b>	<b>5,040,082</b>	<b>6,041,018</b>

## 25. Related party transactions

The Group is controlled by British American Tobacco Plc incorporated in England and Wales, 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	
	2013	2012	2013	2012
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
<b>i) Sale of goods and services</b>				
Subsidiary	-	-	3,447,932	3,153,015
Other related parties	7,030,630	8,303,940	7,030,630	8,303,940
	<b>7,030,630</b>	<b>8,303,940</b>	<b>10,478,562</b>	<b>11,456,955</b>
<b>ii) Purchase of goods and services</b>				
Parent company	418,037	641,707	418,037	641,707
Other related parties	776,998	586,780	776,998	586,780
	<b>1,195,035</b>	<b>1,228,487</b>	<b>1,195,035</b>	<b>1,228,487</b>
<b>iii) Outstanding balances arising from sale and purchase of goods/services</b>				
Receivables from other related parties	<b>2,610,240</b>	1,485,962	<b>2,142,012</b>	989,907
Payables to the parent company	12,233	8,398	12,233	8,398
Payables to other related parties	1,521,152	1,250,740	1,508,855	1,246,513
	<b>1,533,385</b>	<b>1,259,138</b>	<b>1,521,088</b>	<b>1,254,911</b>
<b>iv) Loans from related parties</b>				
Loan from related party (BAT Investments)	<b>1,035,600</b>	688,800	<b>1,035,600</b>	688,800
<b>v) Key management compensation</b>				
			<b>2013</b>	<b>2012</b>
			<b>Shs' 000</b>	<b>Shs' 000</b>
Salaries and other short-term employment benefits			195,360	179,925
Other long-term benefits			85,547	86,898
			<b>280,907</b>	<b>266,823</b>
<b>vi) Directors' remuneration</b>				
Fees for services as a director			17,274	15,752
Other emoluments (included in key management compensation above)			92,797	81,027
<b>Total remuneration of directors of the Company</b>			<b>110,071</b>	<b>96,779</b>

## 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 2013 and 2012, 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:

	<b>2013</b>	<b>2012</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Property, plant and equipment	152,136	89,178

---



## FORM OF PROXY

To: .....

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

I/We .....

.....of P.O. Box .....

member/members of British American Tobacco Kenya Limited appoint

.....

.....

or failing him, the Chairman of the Meeting as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 29 April 2014 at the Kenyatta International Conventional Centre Nairobi, or at any adjournment thereof.

As witness my/our hand/s this .....

day of.....2014

.....

(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 2.30pm on 28 April 2014.
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.









**BRITISH AMERICAN  
TOBACCO**  
KENYA

P.O. Box 30000 – 00100  
Nairobi Kenya  
t. +254 (0) 20 6942000 f. +254 (0) 20 6942230  
e. [info\\_ke@bat.com](mailto:info_ke@bat.com)  
[www.bat.com](http://www.bat.com)