2014 Annual Report

Delivering today.
Investing in tomorrow.

British American Tobacco
Kenya

Delivering today.
Investing in tomorrow.

"In 2015 we will remain committed and focused on our strategy to continue delivering growth to our shareholders."

Chris Burrell

Managing Director

+ Chris Burrell's overview of our 2014 performance and outlook on page 11

What you will find in this report

Strategic Report

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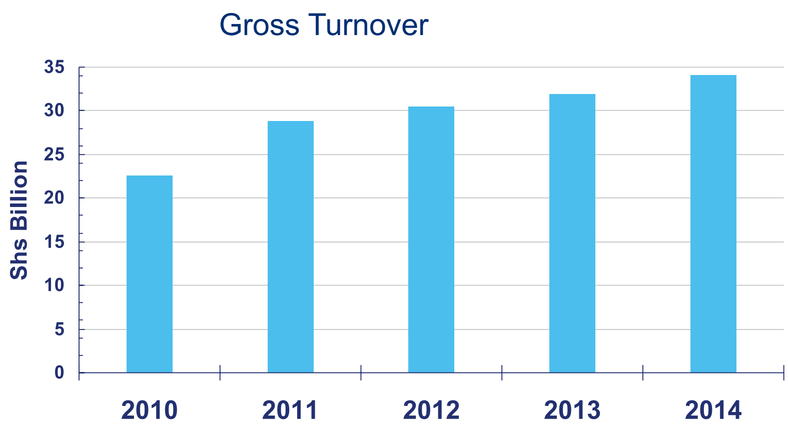
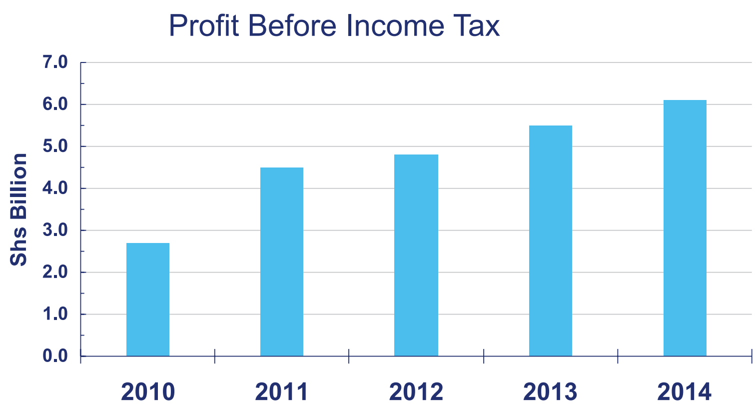
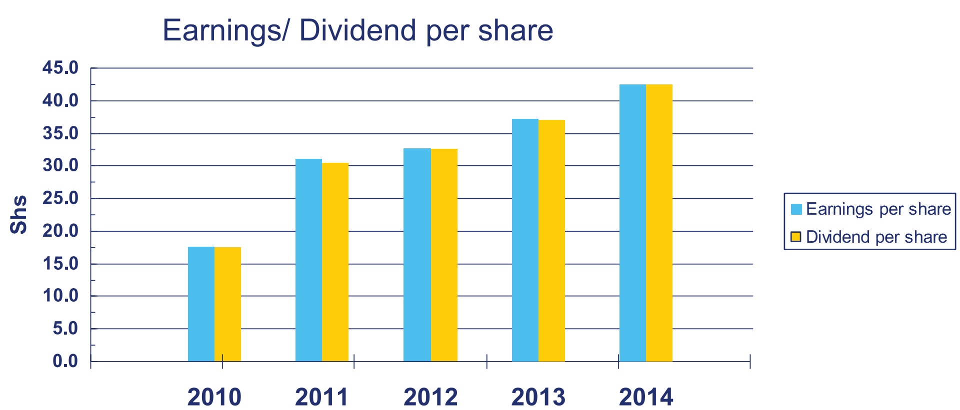
Our year in numbers



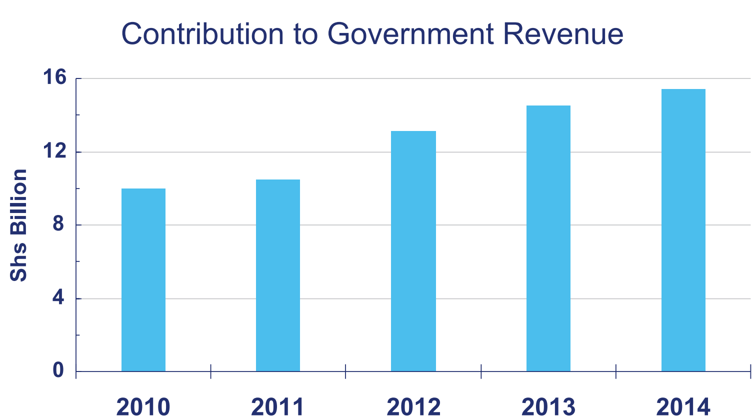
Gross Turnover was Shs 34.1 billion, an increase of 7% compared to 2013



Profit Before Income Tax was Shs 6.1 billion, an increase of 11% compared to 2013



Dividend per share increased by 15% compared to 2013



Contribution to Goverment Revenue was Shs 15.4 billion, an increase of 6% compared to 2013

Notice of the 2015 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty-Third Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Intercontinental, Nairobi, on 5 May 2015, at 11:00 a.m. for the following purposes:-

Ordinary Business

1. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31 December 2014, together with the reports of the Chairman, Directors and Auditors thereon.

2. To declare a dividend.

3. To elect Directors:

(i) Mrs T. Mapunda retires and being eligible, offers herself for re-election in accordance with Article 95 of the Articles of Association.

(ii) Mr P. Mwangi retires and being eligible, offers himself for re-election in accordance with Article 95 of the Articles of Association.

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

(iv) Mr G. 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 appoint Auditors and to authorise the Directors to fix the remuneration of the Auditors, so appointed.

By Order of the Board

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

26 February 2015

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 Custody & Registrar Services Limited, Bruce House, 6th Floor, Standard Street, P. O. Box 8484-00100, Nairobi or alternatively to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 4 May 2015.

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*	
Mrs T. Mapunda*	
Mr P. Mwangi*	
Ms R.T. Ngobi	(Company Secretary)

Audit Committee

Mr G.R. May*	(Chairman)
Mrs C. Musyoka*	
Mr M. Janmohamed*	
Mr G. Maina*	(By Invitation)
Mr C. Burrell	(Permanent invitee)
Mr P. Lopokoiyit	(Permanent invitee)
Mr D. Eloff	(Permanent invitee)
Ms C. Anyika	(Permanent invitee)
Mr S. Munjanganja	(Permanent invitee)
Mrs R. Ruhiu	(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*	
Mrs T. Mapunda*	
Mr C. Burrell	(Permanent invitee)
Mr P. Lopokoiyit	(Permanent invitee)
Mr P. Ciucci	(Permanent invitee)
Ms R. Belath	(Secretary)

* Non-Executive Directors

Auditor

PricewaterhouseCoopers

PwC Tower, Waiyaki Way/Chiromo Road, Westlands

P.O. Box 43693-00100

NAIROBI

Transfer Agents

Custody & Registrar Services Limited,

Bruce House, 6th Floor, Standard Street

P.O. Box 8484-00100,

NAIROBI

Advocates

Kaplan & Stratton

Williamson House

4th Ngong Avenue

P.O. Box 40111- 00100

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

“The growth witnessed has been enabled by our strategy which combines our strong brands with a robust distribution model underpinned by the solid execution capabilities of our people…”

George Maina
Chairman

Chairman's Introduction

Dear Shareholder,

On behalf of the Board of Directors of British American Tobacco Kenya, I am pleased to present to you the Annual Report and Financial Statements for the year ended 31 December 2014. Our 2014 results are driven by volume, revenue and market share growth as well as an improved operating margin.

The Business Environment

Macro-Economic Environment

The economic climate in 2014 continued its sustained recovery. Gross Domestic Product grew by 5.5% in 2014 (2013: 4.6%) on the back of a stable macroeconomic and political environment, favorable weather conditions and increased investment in infrastructure. Agriculture, wholesale and retail trade, transport and communication and manufacturing led the growth. Inflation was higher during the first half of the year and declined towards the end of 2014 mainly driven by lower oil prices. Average annual inflation in 2014 was 6.9% (2013 Average: 5.6%).

Socio-Political Environment

The devolution of Government, now in its second year, has seen the County Governments benefit from an allocation of one-fifth of the total national expenditure, or an equivalent of 4% of the Gross National Product.
The spending by the counties is considered an important catalyst for stimulating growth at the grassroots level across the country. While there are challenges in the devolved system of governance, we are seeing some of the positive aspects of devolution emerging.

Regulatory Environment

In December 2014, the Cabinet Secretary of Health gazetted the Tobacco Control Regulations 2014. The regulations are meant to operationalize the Tobacco Control Act, 2007 which has been in force since 2008. BAT Kenya continues to maintain diligent dialogue with the Government and all relevant stakeholders on regulatory matters affecting our operating environment.

Company Performance

Your Company delivered strong profit growth in 2014. Domestic cigarette volumes grew by 6% in 2014 fuelled by growth in Sportsman and the Dunhill family volumes. Sportsman continues its ride as our flagship brand and accounts for one of every two cigarettes smoked in Kenya. The Dunhill family continues to grow since the launch of Dunhill Switch in 2012 which marked a major innovation milestone in our brand portfolio. In 2014, we introduced Vogue to the Kenyan market.
Exports and contract manufacture cigarette volumes grew by 26% over the previous year reflecting underlying growth in the export markets as well as strong incremental contract manufacture volumes during the year. Shipments of semi-processed leaf (cut rag) declined in 2014 due to lower demand levels. Gross revenues were up 7% in the year and profit before tax rose by 11%, to Shs 6.1bn, up from Shs 5.5bn in 2013. The growth witnessed above has been enabled by our strategy which combines our strong brands with a robust distribution model underpinned by the solid execution capabilities of our people.

Dividends

The Board of Directors recommended a final dividend of Shs 39 per ordinary share which when added to the interim dividend of Shs 3.50 paid out during the year, brings total dividends to Shs 42.50 per share. The dividend, which is subject to withholding tax, will be paid on 5 May 2015 to the shareholders on the register at the close of business on 27 March 2015.

Board of Directors

I am pleased to welcome to the board Mrs Teddy Mapunda who was appointed as a Director on 1 October 2014 and Mr Peter Mwangi who was appointed as a Director on 9 February 2015.
I am also very proud to announce that your Company was recognized by the Nairobi Securities Exchange for having the overall best diversity practices, with respect to Board members' age, gender and nationality, of all listed companies in Kenya.

Outlook for 2015

On behalf of the Board of Directors, I would like to convey my appreciation to our Managing Director, Chris Burrell, management, our business partners and all staff at BAT Kenya for their dedicated service. I also wish to record my great appreciation for the guidance and contribution of my fellow Board members. 2014 was a successful year for your Company. With our proven strategy, strong brands, talented people and continued focus on efficiency, we will continue the momentum to deliver value to our shareholders in the short and long term.

George Maina
Chairman

“Kuongezeka huku kwa mapato na faida kumewezeshwa na mikakati yetu inayohusisha bidhaa maarufu, muundo madhubuti wa kusambaza bidhaa, na ujuzi na maarifa ya juu ya wafanyikazi wetu...”

George Maina
Mwenyekiti

Taarifa ya Mwenyekiti

Ndugu Mwenye Hisa,

Kwa niaba ya Bodi ya Wakurugenzi wa British American Tobacco Kenya, nina furaha kukuletea Ripoti na Taarifa Za Mapato na Matumizi, ya mwaka uliokamilika Disemba 31, 2014. Matokeo yetu ya 2014 yalichangiwa na wingi wa uzalishaji (bidhaa), kuongezeka kwa mapato na mgao wa soko, pamoja na kuongezeka kwa mapato yanayosalia baada ya kuondoa gharama.

Mtizamo wa Mazingira Mapana ya Biashara

Mazingira ya uchumi

Hali ya kiuchumi katika mwaka wa 2014 ilikuwa endelevu na yenye kuleta ahueni kibiashara. Jumla ya pato ghafi kutokana na bidhaa na huduma zilizotolewa nchini, iliongezeka kwa asilimia tano nukta tano (5.5%) katikamwaka wa 2014; hii ikilinganishwa na asilimia nne nukta sita (4.6 %) katika mwaka wa 2013. Hii ilichangiwa na mazingira imara ya kiuchumi na kisiasa, hali nzuri ya hewa, na uwekezaji zaidi katika miundo msingi. Vichochezi vikuu vya kukua huku vilikuwa kilimo, biashara ya jumla na rejareja, usafiri na mawasiliano, na uzalishaji bidhaa.
Gharama ya maisha ilikuwa ya juu katika nusu ya kwanza ya mwaka, na kupungua kuelekea mwakani, hasa kufuatia kupungua kwa bei ya mafuta. Kijumla, mfumuko wa bei katika mwaka wa 2014 ulikuwa asilimia sita nukta tisa (6.9%), ikilinganishwa na asilimia tano nukta sita (5.6%) katika mwaka wa 2013.

Mazingira ya Jamii na Siasa

Huku tukiwa katika mwaka wa pili wa serikali za ugatuzi, Kaunti zimefaidika kwa kupata thuluthi tano za mgao wa matumizi ya serikali, sawa na asilimia nne (4%) ya Jumla ya Pato la Taifa. Matumizi ya serikali za Kaunti yalichochea uchumi kukua katika sehemu za nyanjani kote nchini. Huku kukingali na changamoto katika ugatuzi wa serikali, tumeanza kushuhudia baadhi ya manufaa ya ugatuzi yakichipuza.

Mazingira Yenye Udhibiti

Katika mwezi wa Desemba 2014, Waziri wa Afya alichapisha katika gazeti rasmi la serikali Kanuni za Kudhibiti Tumbaku za 2014. Kanuni hizi zinakusudiwa kuwezesha utekelezwaji wa sheria ya Tumbaku ya 2007, ambayo imekuwepo tangu mwaka wa 2008. BAT Kenya inaendelea kushiriki mazungumzo kwa uangalifu na Serikali na washikadau wote katika maswala ya udhibiti ambayo yanaathiri mazingira tunayofanyia biashara.

Matokeo Bora ya Kampuni

Faida ya kampuni yako iliongezeka kwa kiwango cha kufurahisha katika mwaka wa 2014. Mauzo ya sigara humu nchini yaliongezeka kwa asilimia sita (6%) kwa jumla, hasa kutokana na kuzalishwa kwa wingi sigara za Sportsman na zile za Dunhill. Sportsman inaendelea kuwa nembo maarufu inayoongoza huku kila moja kati ya sigara mbili zinazovutwa nchini ikiwa Sportsman. Umaarufu wa sigara za Dunhill unaendelea kuongezeka, hasa baada ya kuzindua nembo ya Dunhill Switch katika mwaka wa 2012, ambayo ulikuwa ishara nzuri ya ujuzi wa hali ya juu na uvumbuzi kati ya nembo zetu mbalimbali. Katika mwaka wa 2014,tulianzisha sigara ya Vogue katika soko la Kenya.Sigara za soko la nje na zile zinazotengenezwa chini ya kandarasi ziliongezeka kwa asilimia ishirini na sita (26%) hapo mwaka jana, na kuashiria kukua kwa soko la nje na kuongezeka kwa sigara zinazotengenezwa kwa kandarasi.

Soko la tumbaku iliyokatwakatwa lilipungua katika mwaka wa 2014kutokana na kupungua kwa utashi wa wateja. Kwa jumla, mapato yetu yaliongezeka kwa asilimia saba (7%) katika mwaka wa 2014, huku faida kabla ya kutozwa ushuru ikiongezeka kwa alisilimia kumi na moja (11%) na kufikia shilingi bilioni sita nukta moja (6.1bn), hii ikilinganishwa na shilingi bilioni tano nuka tano (5.5bn) katika mwaka wa 2013. Kuongezeka huku kwa mapato na faida kumewezeshwa na mikakati yetu inayohusisha bidhaa maarufu, muundo madhubuti wa kusambaza bidhaa, na ujuzi na maarifa ya juu ya wafanyikazi wetu.

Mgao wa Faida.

Bodi ya wakurugenzi imependekeza mgao wa faida wa shilingi thelathini na tisa (Shs 39) kwa kila hisa ya kawaida. Hii ikiongezewa mgao wa faida wa shilingi tatu na senti hamsini (Shs 3.50) uliolipwa awali mwakani, wenye hisa watapata jumla ya shilingi arobaini na mbili na senti hamsini (Shs 42.50) kwa kila hisa. Mgao huu wa faida utatozwa kodi ya mapato, na kulipwa tarahe 5/05/2015 kwa wenye hisa wote watakaokuwa katika orodha ya kampuni kufikia mwisho wa siku, tarehe 27/03/2015.

Bodi ya Wakurugenzi

Ninamkaribisha Bi. Teddy Mapunda aliyeteuliwa kuwa Mkurugenzi tarehe mosi Oktoba, 2014 na Bwana Peter Mwangi aliyeteuliwa kuwa Mkurugenzi tarehe tisa Februari, 2015.
Pia ninajivunia kutangaza kwamba Kampuni yako ilitambuliwa na Soko la Hisa la Nairobi kwa kuwa na mikakati bora zaidi kati ya kampuni zote nchini Kenya, kwa kuhusisha na kufanya kazi na watu mbalimbali, hasa ikizingatiwa umri wa wanachama wa Bodi, jinsia, na urai wao.

Mtizamo wa 2015

Kwa niaba ya Bodi ya Wakurugenzi, natoa shukrani zangu kwa Mkurugenzi Mtendaji, Bwana Chris Burrell, wasimamizi, washirika wetu katika biashara, na wafanyikazi wetu wote wa BAT Kenya kwa kuhudumu wakiwa wamejitolea.

Pia, natoa shukrani zangu za dhati kwa wanachama wenzangu katika Bodi kwa kutoa mwelekeo na mchango wao. Mwaka wa 2014 ulikuwa wenye mafanikio kwa kampuni yetu. Kupitia mikakati yetu mufti, bidhaa maarufu, wafanyikazi wenye vipaji, na mbinu bora za kuzalisha bidhaa, tutaendelea vivyo hivyo kuwaletea wenye hisa wetu faida katika kipindi kifupi cha sasa na katika kipindi kirefu kijacho.

George Maina
Mwenyekiti

"As a result of the higher volumes, we realized 6% growth in the Kenya domestic revenues..."

Chris Burrell
Managing Director

Managing Director's Message

2014 was another successful year for your Company, despite a challenging trading environment with increased pressure on disposable incomes and continuing insecurity.

Growth

The continued strength of our brands including the innovation of the Dunhill brand, keen focus on distribution excellence coupled with the strong execution capabilities of our people delivered good results. British American Tobacco Kenya grew market share by 0.3% in 2014 as total domestic volumes grew 6%. Sportsman, our national pride brand, delivered 8% volume growth in 2014 while the Dunhill brand family grew by an impressive 44% in volume terms. In 2014, we launched Vogue in Kenya to meet changing consumer needs. As a result of the higher volumes, we realized 6% growth in the Kenya domestic revenues.

The combined volume of cigarettes (exports and contract manufacture) destined for markets outside Kenya grew 26% whilst cut rag exports declined in 2014 due to lower demands. Consequently, gross revenue grew by 7% to Shs 34.1bn.

Government levies paid in the form of Excise Duty, VAT, PAYE and Corporation tax increased by 6% to a record Shs 15.4bn in 2014. Profit before tax improved by 11% during the year to Shs 6.1bn (2013: Shs 5.5bn), reflecting the remarkable revenue growth and reduced operating costs.

Productivity

Our commitment to improve productivity continued into 2014 with an investment of over Shs 1.5bn to further enhance the Nairobi factory capacity and capability. Following the migration of Uganda's leaf processing to our Thika Green Leaf Threshing plant (GLT) in 2013, the green leaf processing revenues improved by 17% in 2014.

We instituted various cost saving initiatives that further addressed our cost base and delivered an increased operating margin of 30.3% in 2014, up from 29.4% in 2013.

Sustainability

We continue our focus on running a sustainable business.

In 2014, our Company was recognized as the top exporter by the Kenya Revenue Authority.

At the 2014 Excellence in Financial Reporting (FiRe) Awards, an initiative of the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (Kenya) and the Nairobi Securities Exchange (NSE), our Company won the excellence in Environmental & Social Reporting award.

BAT Kenya was also awarded the Total Eco Challenge Outstanding Award for our sustained commitment to tree planting and transforming the Kenyan landscape. At the Energy Management Awards, BAT Kenya was recognized in the Sustained Performance category.

Sustainable Regulation

In December 2014, the Cabinet Secretary of Health gazetted the Tobacco Control Regulations 2014 which are intended to operationalize the Tobacco Control Act which has been in force since 2008.

BAT Kenya supports sound tobacco regulation that balances the preferences of informed adult consumers with the interests of society, and is backed by robust evidence and thorough research that shows it will help achieve the objective of reducing harm resulting from tobacco use. Regulation that does not meet this criteria, or which could have unintended consequences such as stimulating illicit trade, we question.

We are committed to engaging with the relevant stakeholders on regulatory issues while also working with the Government to fight the illegal tobacco trade. We have a long and proven track record of complying with laws and regulations while delivering on our performance objectives.

Winning Teams

We value our employees' diverse backgrounds and pride ourselves on recruiting, developing, retaining and rewarding great talent at all levels within our multi-cultural Company. We are proud of local Kenyan talent currently lending their expertise to other British American Tobacco entities across the Group in senior management roles.

The Future

In 2015 we will remain committed and focused on our strategy to continue delivering growth to our shareholders. We continue to monitor the evolving regulatory environment, and will maintain our engagements with all relevant stakeholders. We expect the trading environment to remain difficult in 2015.

However, we are poised to reap the full benefits of the business model changes in DRC and Uganda. The investment in the Nairobi factory will continue to pay off and we shall continue to drive efficiency and cost saving initiatives.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 2014. I also extend my gratitude to our shareholders, consumers and our business partners.

Chris Burrell
Managing Director

“Kutokana uzalishaji wa bidhaa zaidi, mapato yetu ya humu nchini yalikua kwa asilimia sita (6%)...”

Chris Burrell
Mkurugenzi Mkuu

Taarifa ya Mkurugenzi

2014 ulikuwa mwaka wenye mafanikio kwa kampuni yetu, licha ya mazingira yenye changamoto nyingi za kibiashara, kuongezeka kwa gharama ya matumizi, na kuzorota kwa usalama.

Tumekua Kwa Viwango Vya Kufurahisha

Umaarufu wa bidhaa zetu, pakiwemo kuboreshwa kwa bidhaa ya Dunhill, kuboreshwa kwa usambazaji na uwasilishaji wa bidhaa, pamoja na ujuzi wa wafanyakazi wetu, ulizaa matokeo mazuri.

Soko la British American Tobacco Kenya lilikua kwa asilimia sufuri nukta tatu (0.3%) katika mwaka wa 2014, huku mauzo ya humu nchini yakiongezeka kwa asilimia sita (6%) kijumla. Sportsman, fahari ya taifa letu, ilikua kwa asilimia nane (8%) kijumla katika mwaka wa 2014, huku nembo za Dunhill zikikua kwa kiwango cha kuridhisha cha asilimia arobaini na nne (44%) kijumla. Katika mwaka wa 2014, tulizindua bidhaa ya Vogue humu nchini, ili kutosheleza utashi na mahitaji yanayobadilika ya wateja.

Kutokana uzalishaji wa bidhaa zaidi, mapato yetu ya humu nchini yalikua kwa asilimia sita (6%). Viwango vya jumla vya sigara (za soko la nje na watengenezaji wa kandarasi) zinazouzwa nje ya nchi, viliongezeka kwa asilimia ishirini na sita (26%), huku viwango vya tumbaku iliyosagwa vikipungua kutokana na kupungua kwa utashi wa wateja. Kwa hivyo, mapato yetu yaliongezeka kwa asilimia saba (7%), na kufikia shilingi bilioni thelathini na nne nukta moja (34.1bn).

Kodi za serikali tulizolipa za kutengenezea bidhaa humu nchini, almaarufu Excise Duty, kodi ya dhamana VAT, na kodi ya mapato PAYE, pamoja na kodi ya mashirika, ziliongezeka kwa asilimia sita (6%), na kwa mara ya kwanza kufikia shilingi bilioni kumi na tano nukta nne (15.4bn) katika mwaka wa 2014. Faida kabla yakutozwa ushuru iliongezeka kwa asilimia kumi na moja (11%) hadishilingi bilioni sita nukta moja (6.1bn), hii ikilinganishwa na shilingi bilioni tano nukta tano (5.5bn) katika mwaka wa 2013. Hii inaashiria kuongezeka kwa mapato na kupungua kwa gharama za kuendesha biashara.

Uzalishaji Bidhaa

Kujitoa kwetu kuboresha uzalishaji bidhaa kuliendelea katika mwaka wa 2014, huku tukiwekeza shilingi bilioni moja nukta tano (1.5bn) kupanua viwango na uwezo wa kiwanda chetu cha Nairobi. Kufuatia kuhamishwa kwa kiwanda cha Uganda Leaf Processing hadi Thika Green Leaf Threshing plant (GLT) katika mwaka wa 2013, mapato ya kutayarisha matawi ya kijani ya tumbaku, yaliongezeka kwa asilimia kumi na saba (17%) katika mwaka wa 2014.

Tulianzisha mikakati ya kupunguza gharama iliyotuwezesha kupunguza matumizi na kuongeza mapato (yanayosalia baada ya kuondoa gharama) kwa asilimia thelathini (30.3%); hii ikilinganishwa na asilimia ishirini na tisa (29.4%) katika mwaka wa 2013.

Biashara Endelevu

Tunazingatia kuendesha biashara imara na endelevu. Mwaka jana, tulitambuliwa na Mamlaka ya Ushuru nchini (KRA) kama kampuni iliyolipa ushuru wa juuzaidi kwa bidhaa za kuuzwa soko la nje.

Katika tuzo za 2014 za Ubora wa Mikakati ya Kifedha (FiRe), ambao ni mpango wa Taasisi ya Wahasibu Nchini (ICPAK), Mamlaka ya soko la Mtaji Nchini (Kenya), na Soko la Hisa la Nairobi, kampuni yetu ilishinda tuzo la kuweka mikakati bora ya utunzi wa mazingira na jamii.

Kanuni Endelevu

Desemba mwaka jana, Waziri wa Afya alichapisha katika gazeti rasmi la serikali, kanuni za kudhibiti Tumbaku za 2014, zinazokusudiwa kuwezesha utekelezwaji wa sheria ya Tumbaku ambayo imekuwepo tangu mwaka wa 2008.

BAT Kenya inaunga mkono udhibiti mufti wa tumbaku, unaozingatia uamuzi wa wateja waliokomaa na wenye ufahamu, matakwa ya jamii, na yenye kutiwa nguvu na idhibati na utafiti wa kina, unaoonyesha kwamba udhibiti huu utaweza kuafikia malengo ya kupunguza athari za matumizi ya tumbaku.

Udhibiti ambao hauafikii matarajio haya, ama unaoweza kuleta madhara mengine yasiyokusudiwa, kama vile biashara haramu, sisi tunautilia shaka. Tumejitoa kujadiliana na washikadau wote kuhusu maswala ya udhibiti, huku tukifanya kazi na serikali kupambana na biashara haramu ya tumbaku. Kwa miaka mingi, tumekuwa na sifa nzuri ya kufuata sheria na kanuni zilizopo, huku tukiendelea kuafikia malengo yetu ya utendaji kazi.

Wafanyakazi Wenye Vipaji

Tunajivunia wafanyikazi wetu wanaotokea sehemu na mazingira mbalimbali, pamoja na kuajiri, kufunza, kudumisha, na kutuza vipaji katika ngazi zote katika kampuni yetu yenye watu aina mbali mbali. Tunajivunia wafanyikazi wetu Wakenya wenye vipaji, ambao kwa sasa wanatoa maarifa na ujuzi wao kwa kampuni zingine za British American Tobacco, hasa katika usimamizi wa ngazi za juu.

Siku Za Usoni

Katika mwaka wa 2015, tumejitolea kuzingatia mikakati yetu kuendelea kutoa matokeo bora zaidi kwa wanahisa wetu. Tunaendelea kufuatilia kwa makini, mazingira yanayobadilika ya udhibiti, na tutadumisha uhusiano wetu na washikadau wote wanaotufaa. Tunataraji kwamba mazingira ya biashara yatasalia magumu katika mwaka wa 2015. Hata hivyo, tuko katika hali nzuri kupata faida zaidi kutokana na kubadilisha muundo wetu wa biashara katika nchi za DRC na Uganda. Bila shaka, uwekezaji tuliofanya katika kiwanda cha Nairobi utaendelea kuzaa matunda na tutaendelea kuzingatia mbinu za uzalishaji bora huku tukipunguza gharama za kuendesha biashara.

Kwa niaba ya wasimamizi na wafanyikazi wa British American Tobacco Kenya, natoa shukrani zangu za dhati kwa bodi ya wakurugenzi kwa kutuelekeza na kutuunga mkono katika mwaka wa 2014. Pia, nawashukuru wanahisa, wateja, na washirika wetu katika biashara.

Chris Burrell
Mkurugenzi Mkuu

Financial Review

"BAT Kenya continues to be a major contributor to Government revenue. In 2014, contribution to Government revenues in the form of Excise Duty, VAT, PAYE and Corporation tax increased by 6% to a record Shs 15.4 billion."

Philip Lopokoiyit
Finance Director

BAT Kenya delivered yet another strong performance in 2014. Key highlights in 2014 compared to 2013 include:

Revenue

Gross turnover increased by 7% driven by incremental contract manufacturing volumes from the Democratic Republic of Congo (DRC), the benefit of foreign exchange movements arising from export sales, as well as improved performance in the domestic market. The improvement in gross turnover was partially offset by lower cut rag export volumes during the year. Net revenue increased by 7% reflecting the improvement in gross turnover, offset by higher Excise Duty and VAT.

Government revenues

BAT Kenya continues to be a major contributor to Government revenue. In 2014, contribution to Government revenues in the form of Excise Duty, VAT, PAYE and Corporation tax increased by 6% to a record Shs 15.4 billion. This increase was driven by higher Excise Duty and VAT from the domestic business as well as higher Corporation tax.

Profit and operating margin

Profit before tax grew by 11% indicating the impact of revenue growth and productivity savings on operating profit. In addition, financing costs decreased by 8% further benefiting profits. BAT Kenya continues to improve its operating margin through pricing benefits, economies of scale benefits and productivity savings initiatives. In 2014, operating margin improved by 90 basis points.

Cash flow

Cash generated from operations increased significantly by 31% to Shs 6.6 billion reflecting enhanced working capital management during the year as well as improved profitability.

Capital expenditure

We continue to invest in the Nairobi manufacturing hub in line with our long term strategy to enhance the capabilities and drive cost competitiveness of the factory. In 2014, we invested over Shs 1.5 billion (a 57% increase over 2013) to enhance factory capacity and support the incremental contract manufacturing volumes coming primarily from the DRC.

Earnings per share (EPS) and Dividend

EPS for 2014 were Shs 42.55, a 14% increase as a result of improved profitability. The Company's policy is to pay 100% of profit after tax as dividend. The recommended final dividend of Shs 39 per share, when added to the interim dividend already paid, gives a total dividend of Shs 42.50 per share.

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 Finance employees receiving the Environmental & Social Reporting Award at the 2014 Financial Reporting (FiRe) Awards.

+ **Delivering shared value on page 34**

Our vision and strategy
Delivering shareholder value

We adopted a new vision in 2013 and enhanced our strategy to better reflect the evolving needs of consumers. These have been embedded across our business and they help us create long-term value for our shareholders and a wide group of stakeholders.

Our strategy

Our strategy enables our business to deliver growth today, while ensuring we generate the funds to invest in our future. Tobacco remains at the core of our business and will continue to provide us with opportunities for growth.

Our vision lies at the heart of our strategy and underlines the importance of grasping new opportunities in tobacco and beyond.

Our strategy defines our mission and, through our Guiding Principles, it also guides our behaviours and activities, helping us to maintain a sustainable approach that will guarantee our future as a 21st century tobacco business.

Our vision

World's best at satisfying consumer moments in tobacco and beyond.

Satisfying consumer moments

We believe that by being the world's best at satisfying consumer moments, we'll become the leader in our industry. Consumers are at the core of everything we do and our success depends on addressing their evolving concerns, needs and behaviours.

In tobacco and beyond

The second part of our vision – tobacco and beyond – recognises the strength of our traditional tobacco business and addresses the emerging opportunities we see in next-generation products. There is a great potential business opportunity here with emerging product categories in which we are uniquely placed to succeed.

Our mission

Delivering our commitments to society, while championing informed consumer choice.

Champion informed consumer choice

We need to continue to ensure that our consumers are fully informed about the choices they are making when they purchase our tobacco products. We recognise that we have a responsibility to offer a choice of products across the risk spectrum, but we will also defend their rights to choose and provide them with the products they want.

Deliver our commitments to society

As society changes, and people's priorities and needs shift, we need to be ready to meet new challenges and take advantage of new opportunities. We are a major business and with this status comes responsibilities, from being open about the risks of our products, to supporting our communities.

Strategic focus areas

The foundations upon which our strategy is built have been in place for many years, but we continue to refocus our activities in all four areas and constantly review our ways of working.

See Delivering Our Strategy Pages 18 to 29

Growth
Understanding and delivering enjoyable consumer moments.

Productivity
Effectively deploying resources to increase profits and generate funds.

Winning organisation
Great people, great teams, great place to work.

Sustainability
Ensuring a sustainable business that meets stakeholders' expectations.

Guiding Principles

Our Guiding Principles provide clarity about what we stand for. They form the core of our culture and guide the delivery of our strategy.

Enterprising spirit

We value enterprise from all of our employees, giving us a great breadth of ideas and viewpoints to enhance the way we do business. We have the confidence to passionately pursue growth and new opportunities while accepting the considered entrepreneurial risk that comes with it. We are bold and strive to overcome challenges. This is the cornerstone of our success.

Freedom through responsibility

We give our people the freedom to operate in their environment. We always strive to do the right thing, exercising our responsibility to society and other stakeholders. We use our freedom to take decisions and act in the best interest of consumers.

Open minded

Our corporate culture is a great strength of the business and one of the reasons we have been and will continue to be successful. We are forward looking and anticipate consumer needs, winning with innovative, high-quality products. We listen to and genuinely consider other perspectives and changing social expectations. We are open to new ways of doing things.

Strength from diversity

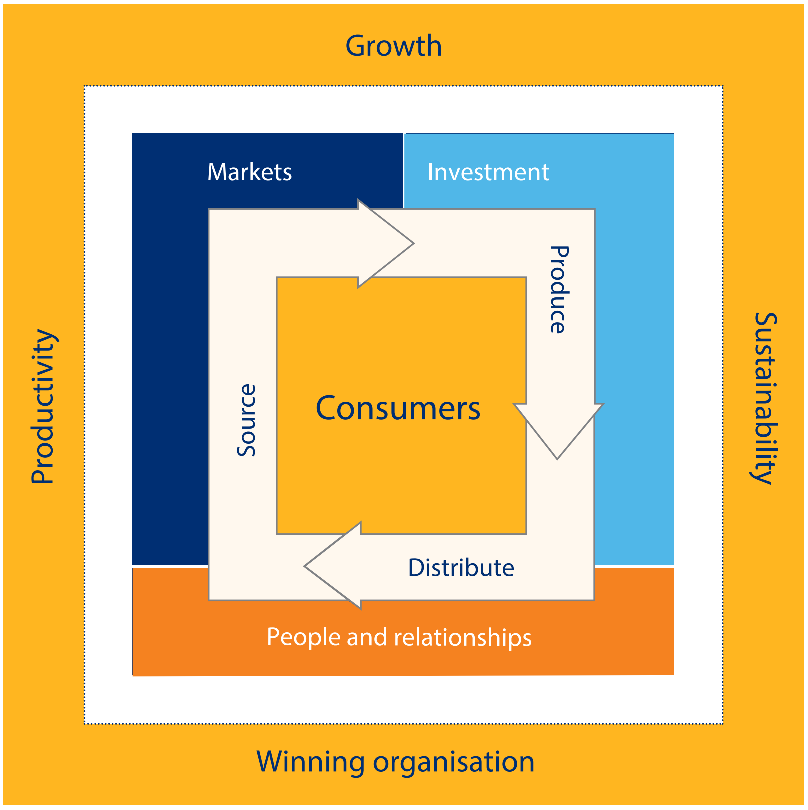
We employ people from different nations, giving us unique insights into local markets and enhancing our ability to compete across the region. We respect and celebrate each other's differences and enjoy working together. We harness diversity – of our people, cultures, viewpoints, brands, markets and ideas – to strengthen our business. We value what makes each of us unique.

Our business model
Creating value over the long term

Our business model describes what we do and, more importantly, how we use our unique strengths and employ our resources and relationships to deliver sustainable growth in earnings for our shareholders. It is built around meeting our consumers' evolving needs and is driven by our strategy to ensure that we are delivering great results today and investing in our long-term future.

What we do

Essentially, we make and market cigarettes , but there's a lot more to it than that. Our sustainable approach to sourcing, production and distribution helps us to create value for a wide group of stakeholders from crop to consumer. These include farmers and their communities, other suppliers, retail and wholesale trade partners, NGOs, governments and regulators.



Source

We have a significant interest in tobacco growing and we have expert technicians out in the field who support over 5,900 directly contracted farmers. We manage our whole supply chain responsibly, including the sourcing of leaf and other materials, and work with suppliers to create a long-term shared understanding of our social, environmental and economic impacts.

See Helping farmers to thrive Pages 31

Without tobacco leaf and other raw materials we would have no products. We aim to secure our long-term supply chain and bring real benefits to local communities, from promoting good agricultural practices to investing in sustainability projects.

Produce

Manufacturing tobacco products is a large-scale operation and we have state-of-the-art manufacturing facilities. We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible. Our production facilities are designed to meet the needs of an agile and flexible supply chain – providing a world-class operational base that is fit for the future.

See Investing to deliver more Pages 22 to 23

Ensuring leaf and products are in the right place at the right time in our manufacturing process is a formidable logistical exercise. The nature of our business allows us to pool resources and maximise efficiency.

Distribute

Our well-developed distribution channels are critical enablers of our growth strategy. We continuously review our route to market, including our relationships with wholesalers, distributors and logistics providers. Most of our volume is sold by retailers supplied through our exclusive distributors.

We are helping to raise standards by supporting regulation of conventional cigarettes. That means fighting the illegal tobacco market and supporting legitimate retailers and wholesalers.

Consumers

We place consumers at the heart of our business. We invest in world-class research to understand changing consumer needs and buying behaviour. This drives our supply chain, product development, innovations, brands and trade activities. We aim to satisfy consumers while addressing stakeholder expectations about how we should market our products.

See We are investing in our brand portfolio Pages 20

We are constantly evolving our brand portfolio and create more differentiated products. This supports our aim to champion consumer choice.

"Retailers large and small are our vital business partners. Our efforts are directed at supporting retailers on the front line with various proof-of-age schemes and retailer training."

Delivering our strategy

Growth

We provide high quality tobacco products that meet consumer needs. We do this by being brand focused and excelling at bringing superior, differentiated offers to market.

What we do

Understanding consumers is at the core of strategy and our success depends on delivering high-quality tobacco products that meet their evolving needs. We aim to achieve responsible leadership in consumer and trade partner engagement, including through new retail channels.

We delivered in 2014

Our well balanced brand portfolio delivered volume growth of 6% while market share was up 0.3 percentage points over the previous year. This exceptional performance was driven by the continued strength of our national brand Sportsman, and international premium offer, Dunhill.

Our National Pride and innovations are delivering growth

Sportsman volume growth was fuelled by consumer movement from other offers drawn to its product quality consistency and heritage. Introduction of relevant consumer innovations in our premium offer Dunhill has seen it's share more than double since its launch in 2005. The brand's volume grew by 44% in 2014.

Operating business environment

While the business environment remained relatively stable, we were faced with some environmental challenges. The key negative factors were increased insecurity (resulting from both terror related incidences and domestic crime), as well as the increased cost of basic commodities leading to reduced consumer disposable income.

Expanded distribution foot print and capabilities

The volume growth was primarily driven by distribution expansion in remote and rural markets and investments in new distribution tools to support redistribution efforts at wholesale. In addition our distribution partners improved their coverage frequency to ensure sustained availability of our products.

We invested in building the capabilities of both our field force team and distribution partners, through our flagship POSITIVE training programme. The programme provides training for our people, better equipping them to meet the needs of their trade customers and our consumers.

We are investing in our brand portfolio

Sportsman Pack Upgrade

Since 1932, Sportsman has consitently delivered great, consistent taste and quality to our adult consumers. The brand has grown to become the number one tobacco brand in Kenya. Sportsman has entrenched its roots in the market as the brand of choice for adult consumers looking for a trustworthy offer. Looking into the future, the opportunity for Sportsman is to ensure sustainable growth. On the back of this, we launched the new look Sportsman in a modern pack. We continue to see growing loyalty scores on the brand.

Embassy Stick Upgrade

Embassy is our well-known local heritage premium brand that has been in Kenya since 1970. It is manufactured from fine quality local tobacco made to international standards. As consumers evolve, it is important for the brand to evolve with them. In March 2014, we executed the Embassy stick upgrade. This bold step was part of efforts to ensure that the brand- whilst still maintaining its strong heritage-had a more modern, premium look.

Vogue

We build distinctive brands through powerful innovations. In keeping with our innovative culture, in December 2014, we launched our pioneer premium super slim brand; Vogue. To date, Vogue is now available in all leading retail stores countrywide, driving the new super slim innovation and offering our consumers a new signature.

We're investing in our future

We are committed to investing further in our brands and capabilities. Our well-balanced brand portfolio, clear consumer understanding and strong trade marketing capabilities have provided us with a firm foundation for growth for many years. It is also our intention to continue supporting our brands and optimising our distribution capabilities in a rapidly changing retail environment.

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU

ONYO: UVUTAJI WA SIGARA UNADHURU WATU WALIO KARIBU NAWE

Productivity

By effectively deploying our resources we can increase profits, improve our operating margin and generate funds to invest in our business, helping us to grow market share and achieve higher returns for shareholders.

What we do

We rely on a highly integrated supply chain and use our expertise in leaf to secure supply, improve product quality and differentiate our products. Our environmental management systems and business controls help us and our suppliers to increase effectiveness and efficiency. We are also implementing a new global operating model with common systems, processes and ways of working.

Investing to deliver more

2014 was a transformational year with regards to our manufacturing operations. We invested Shs 1.5 billion in the Nairobi and Thika plants to increase the capacity and efficiencies of operations to support the multiple markets we serve and produced wider ranges of products across our brand portfolio.

Nairobi Factory

With the additional 3 billion sticks exports volume mainly from the Democratic Republic of Congo (DRC), the total sales volume increased to 17.5 billion which translated to 18% growth versus 2013.

A number of key projects were successfully completed to support this growth, these included additional filter making and transfer capacity, a state of the art tobacco feeding system, installation of an additional 1500 KVA generator and the commissioning of two King Size Soft Cup lines bringing the total installed capacity of the Nairobi factory to 25 billion. Training programmes were also implemented to upskill our staff to operate these new technologies.

Green Leaf Threshing, Thika

The GLT in Thika has been established as the plant for processing all tobacco grown for BAT in East Africa following the closure of the plant in Uganda. The 2014 packed volume was 35 million kilos which is a 26% increase versus the previous year and is the highest ever packed volume in the history of the plant. The volumes migrated from Uganda were 16 million kilos representing 46% of the total volume. To support this growth while enhancing productivity, quality and yields, we successfully commissioned a new lamina dryer and upgraded the carton filling station. With these enhancements the line throughput increased from 5000kgs/hr to 7000 kgs/hr (+40%).

We're delivering operating margin improvements

Better cost management helped to deliver an improved operating margin of 30.3% in 2014. We continue to improve our marketing efficiency and capital effectiveness, including reducing unnecessary complexity to save costs and using our cash and assets more effectively. The additional volume played a key role in improving manufacturing costs and enabled full utilization of the Cut Tobacco Store and PMD upgrade projects which were also completed in 2014.

Customer satisfaction

During the year, BAT Kenya's Supply Chain recorded the highest ever customer satisfaction index of 96% and a reduction of 7% in manufacturing costs.

We work as partners with over 5,900 farmers countrywide to create a long-term shared understanding of our social, environmental and economic impacts.

Working with farmers to prosper

We don't own tobacco farms or directly employ farmers, instead we work as partners with over 5,900 farmers countrywide to secure supply. The 2014 crop season was one of great success for Leaf growing. Tobacco leaf volume purchases increased by 15% from 7,000 tonnes in 2013 to 8,100 tonnes in 2014. The drive for quality delivered an improvement from 38% to 45% in flavor and semi flavor tobacco styles. The key contributor to this success was the continued maturation of the farmer cell model as the prime method of engagement and delivery of extension services.

The farmer to farmer peer engagement coupled with more contact time with the extension service resulted in both efficient delivery and faster uptake of improved agronomic practices. As a result, 2014 saw a 10% improvement in overall yield and a 16% increase in per hectare farmer earnings.

Transforming to be better, faster and more effective

In 2013, an ambitious programme to implement a new operating model commenced. The programme code named TaO includes revised organisational structures, standardised processes and shared back office services, underpinned by an SAP system.
TaO, an acronym for Target Operating model and OneSAP is a business transformation project with a planned Go-Live date of May 2015.

The project's primary objective is standardization of ways of working in all BAT subsidiaries and upgrade of SAP, our Enterprise Resource Planning (ERP) platform in keeping with current business requirements.
The ERP in use prior to TaO was deployed over eight years ago and required refresh so as to support automation, simplification andstandardization of business processes.Under TaO, a number of bespoke systems will be interconnected to allow for automated transfer of data into and out of SAP.

Benefits of TaO

Automation, simplification and standardization of processes enhances efficiency of executing business transactions.
The following are some of the principal benefits that would result from a successful TaO deployment:

- Business information for decision making: A single source of standard, accurate, real-time business information across BAT Kenya will drive cross-functional working and enable faster and better informed decisions. This automation will reduce manual intervention for better control and governance.

- Delivering products on time and in full: Real time visibility of our inventory base in SAP will enhance efficiencies in the end to end supply chain. This will in turn enable BAT Kenya to deliver high quality products on time and in full. Additionally, a more efficient supply chain will enhance our capabilities to launch innovations faster.

Winning organisation

Our reputation as a leading business helps us stand out in an increasingly competitive international employment market. We value the diversity of our employees and encourage enterprising behaviour.

Our winning organisation

Having a winning organisation enables us to position BAT Kenya as an employer of choice both to existing and future talent. Over the years, we have continuously leveraged on our organizational culture to create a platform where employees can deliver their contribution to our business agenda, are free to explore innovative ideas and challenge the status quo. This vibe is what external talent is eager to discover when being considered for opportunities in BAT.

British American Tobacco Kenya prides itself on having great people and great teams. Our aim is to maintain a high performing organisation that can attract, develop and retain the next generation of leaders.

We do this by encouraging an entrepreneurial mindset and by creating a culture of personal ownership. We strongly believe that our business growth and continued success is fueled by our people. A winning organisation delivers winning results and as such, we are committed to creating the right environment that can nurture a Winning Organisation. Our reputation as a leading business helps us stand out in an increasingly competitive employment market. We value the diversity of our employees and encourage enterprising behaviour.

We're committed to diversity

For us, progress on diversity starts from the top and is driven by our Leadership Team. We are committed to fostering diversity and have developed specific diversity plans, aligned to our business priorities and talent succession plans.

We are committed to provide equal opportunities. We do not discriminate when making decisions on hiring, promotion or retirement and we provide training and development to enable employees to perform their roles optimally and for future growth.

Our diversity policies and approach are built around the following key principles:

- We make merit-based decisions – our aim is to narrow the gap between the current situation and our diversity aspirations, without compromising on talent and capabilities.

- We aim to build a diverse workforce, including but not limited to gender and nationality diversity.

- We are committed to an inclusive culture that will tackle prejudice and promote understanding.

- We ensure that there is a level playing field – so that our people have equal opportunities to succeed and to advance their careers.

Local staff (East Africa Community) account for around 90% of employees on functional leadership teams and diverse nationalities are widely represented across the company.

Our approach to diversity is important to our reputation as a business, too. Societal and regulatory expectations are increasing – especially around gender diversity.

Our progress on diversity

In 2014, the proportion of women in all management roles in British American Tobacco Kenya has grown by 4% compared to 2% in 2013. The table below sets out the gender breakdown within British American Tobacco Kenya as at 31 December 2014, comparing numbers for all employees, our managers and the Area Leadership Team:

	Total	Male	Female	% Male	% Female
Leadership Team	7	4	3	57%	43%
Managers	91	65	26	71%	29%
Total Employees	471	387	84	82%	18%

Managing diversity successfully means developing an inclusive environment, which values and harnesses the contributions of people with different backgrounds, experiences and perspectives. We are committed to providing our employees with a wide range of experiences and skills to develop to their full potential.

We're attracting and retaining the best talent

British American Tobacco Kenya is known for attracting and developing great talent, as we believe our people are the core of our business success. In 2014, various channels and strategies were implemented to meet our internal talent demand.

Reduced attraction lead time, simplified but stringent recruitment processes and constant contact with candidates were key areas of improvement in meeting these demands.

As a result, we hired 25 management employees, 3 management trainees, 24 trade marketing representatives and 2 technical trainees.

E-recruitment on jobs@bat

The single global platform now provides our employees a transparent view of career opportunities across all markets. Also, given the full visibility of job postings around other British American Tobacco operating centres, it has expanded the employees' view of potential roles for their future career developments. This portal also serves to attract talent from outside the Group.

Juliana Kanini receives recognition for 20 years of dedicated service at the Long Service Award ceremony. Presenting the award is George Maina, BAT Kenya Chairman.

"In 2014, the proportion of women in all management roles in British American Tobacco Kenya grew by 4%. 3 out of 7 heads of department are female."

Understanding and responding to effective trends.

As it gets harder to attract great talent, we have also extended our talent sourcing network to include various social media channels to attract high potential talent and to also increase our visibility with the current workforce. During the year, we took part in a number of external engagements, including participating in University career fairs and other professional fora, seeking to showcase some of our processes and practices we've implemented. In November 2014, we had great success in conducting our very own Open Day, with approximately 200 guests with family affiliation to our staff were taken through a factory visit and short presentations to understand our employer brand.

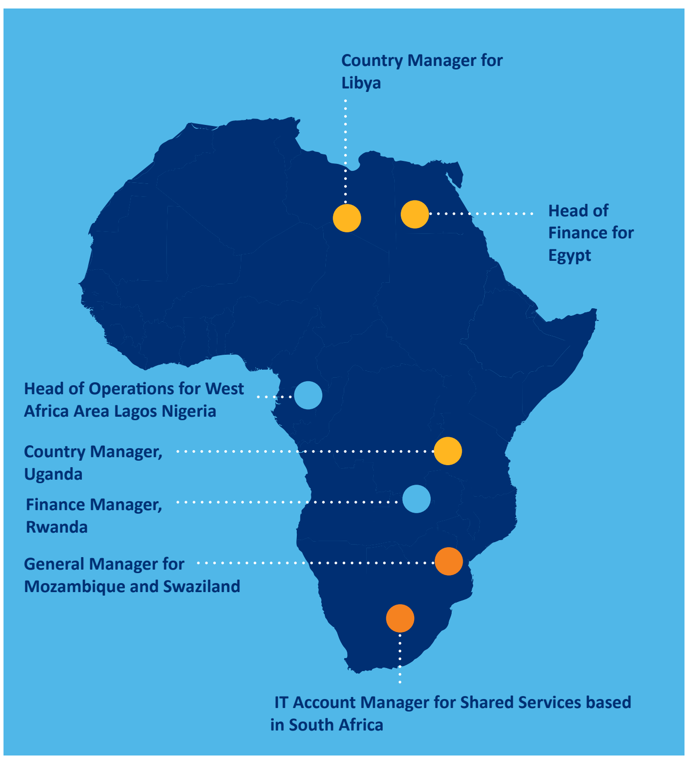
Likeminds initiative

We believe that our employees make the best ambassadors and know how to spot the best talent for this organisation. In 2014, the Employee Referral Program (ERP) was revamped to further encourage our current employees to refer potential talent to join the Company. In Kenya, around 40% of recruitment in 2014 has been through this channel. This initiative helped to reduce cost and our dependency on recruitment agencies to fill roles and improved our employer brand.

We're exporting our talent across the East Africa Community

We are extremely proud of our East African Talent who are currently lending their expertise to other British American Tobacco entities across the East African Community and the rest of Africa.

- Country Manager, Uganda
- Finance Manager, Rwanda
- Head of Operations for West Africa Area based in Lagos Nigeria
- Head of Finance for Egypt
- General Manager for Mozambique and Swaziland
- Country Manager for Libya
- IT Account Manager for Shared Services based in South Africa



Employee engagement

British American Tobacco Kenya is committed to employee engagement throughout the business. Employees are kept well informed of the strategy, performance and objectives of the business through communication cascades at key points in the year, which involve video broadcasts from the Managing Director, face-to-face presentations and open discussions.

We carry out an employee opinion survey every two years to measure employee satisfaction and engagement. The latest survey, in 2014, was completed by 400 employees. Our functions will use feedback from the survey to address areas for improvement in 2015.

The survey also allows us to determine our overall employee engagement index score. Broadly, this score combines employee satisfaction with our employees' attitudes towards recommending British American Tobacco as a place to work, their desire to stay with the organisation and their pride in working for us. Our current employee engagement index score of 72% is ahead of the FMCG norm (69%).

Employee Engagement Index 72%

BAT : 72%

FMCG COMPARATOR GROUP : 69%

Definition: Results from our biennial "Your Voice'' employee opinion survey, last carried out in 2014, enable us to calculate our employee satisfaction,advocacy and pride in the organisation.

Objective: To achieve a more positive score than the norm for the fast moving consumer goods companies in our comparator benchmark group.

We're committed to health and safety

We're a diverse company, operating across a huge range of different environments, from city offices to remote farms. Our goal of zero accidents reflects our commitment to providing a safe place to work for all employees and contractors. We achieved zero accidents in all sites in 2014.

We achieved no incidents in the number of injuries in our factory operations as a result of an ongoing focus on safer working conditions and behaviour. We conducted mandatory machinery assessments, a zero entrapment campaign and ensured consistent inspection by the various factory teams to eliminate unsafe conditions.

Embassy is BAT's well known brand that has been in Kenya since 1970. It is a blend of fine quality tobacco made locally to international standards. In line with global trends in the premium segment, the Embassy Stick was upgraded in May 2014.

Not for sale to persons under the age of 18

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ONYO: UVUTAJI WA SIGARA UNADHURU WATU WALIO KARIBU NAWE

Sustainability

Creating shared value is a priority for us. We do this by acting with integrity throughout our supply chain and wherever our products are sold, as well as through our investment in harm reduction.

What we do

Our commitment to sustainability underpins our strategy and our operations. Our priority continues to be working towards reducing the health risks posed by tobacco products and making available a range of less risky tobacco and nicotine-based alternatives. We work to ensure our supply chain is sustainable and we uphold the highest standards of corporate conduct and integrity in everything we do.
See Sustainability Statement on pages 31 - 34

Creating shared value in 2014

In our industry it is particularly important that we act responsibly, demonstrate openness and build trust. We do this by managing the impact of our operations and products responsibly. This is backed up by transparent and independently assured reporting, regular stakeholder engagement and sound governance procedures.

We focused on engagements to prevent youth smoking

We take careful measure to ensure that we conduct our business in a socially responsible manner, to ensure that our products are only available to adults who choose to smoke. We fully support laws and regulations prohibiting the sale of tobacco products to anyone under the legal minimum age in their country.

Working closely with our retail partners in the prevention of youth smoking, we rolled out a refreshed nationwide Youth Smoking Prevention campaign. We focused on raising retailers' awareness of the minimum-age laws, providing tips to help shop staff spot underage buyers and handle queries from consumers. In addition, there was placement of eye-catching communications clearly stating sales will not be made to the underaged.
The exercise activated over 3,000 outlets across Nairobi and Mombasa counties. To assess the effectiveness of the campaign, an independent agency conducted a research to measure the impact of the campaign on the trade with much success.
This also provided a benchmark on which we developed an improved strategy for the 2015 Youth Smoking Prevention campaign.

We're addressing our environmental impacts

Reducing our environmental impacts is a key priority We monitor and reduce our direct impacts by making our operations more efficient.
We also seek to address our indirect impacts by choosing suppliers with strong environmental credentials and encouraging our existing suppliers to improve their environmental performance. We put particular effort into minimising our energy and water consumption and generation of waste.
We are proud that a number of our initiatives have enabled us meet our yearly targets.

We are serious about sustainable agriculture

We continually seek to differentiate ourselves by being a respectable and responsible player. Our Social Responsibility in Tobacco Production (SRTP) programme sets out the minimum standards we expect of our leaf suppliers. It covers good agricultural practices, occupational health and other social issues such as human rights, labour standards and eliminating child labour, as well as the protection of biodiversity.

In 2014, the Social Responsibility in Tobacco Production (SRTP) index improved from 84% to 88%. This was achieved by having fruitful engagements with stakeholders in the industry and implementing actions as per the roadmap.

Working with the devolved governments

We are committed to leading our industry and providing a template for others by engaging openly both at the National and devolved levels of government. Our aim has been to foster lasting and mutually beneficial relationships within and beyond the industry so as to protect the present and future existence of the business within the country and the region.

The devolved system of administration is still at its infancy, challenges are anticipated that could risk disrupting the operating environment. Several concerns such as increased taxation, introduction of levies and business regulations are shared across the manufacturing sector. We continue to work with various stakeholders to see governance systems implemented in a manner that creates uniformity and stability in the business environment.

In 2014 in collaboration with the Kenya National Chamber of Commerce and Industry, we organised study tours of our GLT plant in Thika and Cigarette Manufacturing Factory in Nairobi plant to raise awareness of the value creation process and strengthen the partnerships with key tobacco growing counties.

We invest in our community

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.

Regulatory developments in 2014

For the last seven years, the Industry has adhered to the Tobacco Control Act (TCA) 2007 which has been the primary enforceable law on tobacco control. On December 5, 2014, the Cabinet Secretary of Health gazetted the Kenya Tobacco Control Regulations to further implement the TCA. The Regulations came into force on December 5, 2014 with a prescribed implementation date of June 5, 2015 except the implementation of Pictorial Health Warnings which is set for September 5, 2015.

However, the Regulations are still subject to parliamentary scrutiny in 2015 and are currently pending before the Parliamentary Committee on Delegated Legislation. Parliament may recommend that the Regulations are approved, annulled or amended.

We support sound regulation based on robust evidence

We support sound regulation backed by robust evidence and thorough research that shows it will help achieve the objective of reducing the harm resulting from tobacco use. However, measures such as excessive taxation increases on tobacco products and extreme restrictions on interactions between the tobacco industry and Governent do more to disrupt orderly markets and little to further any legitimate tobacco control objective.

In fact, they create ideal conditions for counterfeiters and smugglers to thrive.

Throughout the year we have sought to continuously engage the regulators to ensure that all proposals contained in the regulations are well grounded and are constitutional so as to avoid the realization of unintended negative consequences to the numerous stakeholders within the industry.

These engagements have taken the form of direct and indirect advocacy in partnership with key partners and third parties with aligned interests. We continue to emphasize our willingness to cooperate with the government to ensure that the benefits of the tobacco industry are not lost due to punitive measures that foster a hostile business environment.

Towards a sustainable future

When we updated our strategy in 2013, we put a much greater emphasis on sustainability. It's about creating shared value and making sure that what we do benefits not only our shareholders but also a wide group of stakeholders.

We continue to tighten and refine our policies. In 2014 our revised Standards of Business Conduct were published and now include clearer statements on human rights and anti-child labour. Ultimately, we will strive to position British American Tobacco as a forward-thinking and solution driven organization in the eyes of Kenyans, committed to partnering with the government and other stakeholders to formulate effective tobacco regulation as part of our new deal with society.

The choice between the legal tobacco industry and the illegal market

Our world –responsible, open and transparent, environmental and economic impacts.	Responsible marketing aimed only at existing adult smokers and a active approach to youth smoking prevention.	Products highly regulated and we have strict quality and safety standards.	We paid more than Shs 15.4 billion to the government in excise and other taxes in 2014.	Fair treatment of farmers, suppliers and employees.We also provide direct agronomy support to over 5,900 farmers.

The world of the illegal tobacco market	Active marketing and selling of tobacco products to children.	Poor quality products with no regulation or standards and potentially higher health risks than legal cigarettes.	Large-scale tax evasion.	Poor working standards,financial security and negotiating powers for farmers and workers throughout the supply chain.

Through involvement of local community based afforestation programmes, we ensured the distribution of over two million tree seedlings countrywide.

Sustainability Statement

Sustainability is integral to everything we do. Our sustainability agenda aims to build value for our shareholders and other stakeholders by addressing our social, environmental and economic impacts. It's about creating shared value and making sure that what we do as a business doesn't just benefit our shareholders, but can also have a much wider positive impact for society.
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.

As our Company is evolving so are societal priorities and needs shifting. We need to be ready to meet new challenges and take advantage of opportunities. To this end, we sharpened our business strategy, putting a much greater emphasis on sustainability.

Helping farmers to thrive

At BAT Kenya, we have a long and proud history in agriculture, working directly with farmers advancing agricultural practices. Today, we continue to provide on-the-ground advice and support to our contracted farmers.

The farmers we work with are valued business partners. We want them to feel confident about their future and to be self-sufficient and prosperous. This is especially important today when we are facing more and more challenges in agriculture. These include increasing demand for land and natural resources, food security, and child labour.

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 15 leaf managers and technicians working with over 5,900 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.

Tobacco is a profitable choice

Maintaining a stable income in agriculture can be challenging in the face of an unpredictable climate and changing market forces. Across 14 counties in Kenya farmers choose to grow tobacco because it's hardy and can generate very competitive returns.

We guarantee to buy a certain amount of tobacco from them each year. This gives them a regular income, enabling them to invest in their farms and build successful businesses. In 2014, we paid out over Ksh 1.3 billion to farmers.

Contribution to Farmer Livelihoods		
	2014	2013
Farmer Payments	Shs 1.3bn	Shs 1.0 bn

For our farmers, tobacco isn't the only crop they grow. It's part of a diverse crop portfolio, grown alongside or in rotation with other food crops such as maize and vegetables.

We distributed over 27 tonnes of certified maize seeds to support food security and self-sufficiency for our farmers – which, in turn, makes them less vulnerable and more resilient to market forces and other challenges they may face.

Towards sustainable agriculture practices

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, and conservation.

You say you're helping farmers, but should they even be growing tobacco?

A lot has been said about the negative environmental impacts of growing tobacco but our research has shown that it has no more impact on the environment than any other crop.

That's not to say we can't improve the way it's grown.
For example, our specialist leaf technicians have shown that over-using pesticides and fertilisers is expensive and can harm the environment, so we're actively encouraging our farmers to use fewer chemicals on their land.

We're also showing them that they don't have to plant just tobacco. In fact, they can enjoy good yields even from small tobacco plots and use the rest of their land to grow food.

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 2014, we set ourselves targets for our key environmental issues, including energy consumption, water usage, waste and recycling.

Going Green

The year 2014 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 6% compared to last year, reflecting a saving of Shs 36mn. This was mainly driven by the energy saving projects conducted for both electricity usage and steam generation.

Key activities included improving on equipment efficiency of steam pipe laggings, commissioning of new passenger lift, motor resizing for the conveyors and rationalising on use of the air conditioning units and the completion of various LED lighting projects.

In 2014, the Kenya Association of Manufacturers awarded us the 1st runners up in the Sustained Performance category during the Energy Management Awards in recognition of our sustainable efforts to reduce energy consumption in Kenya.

Water used per unit production

Water consumption per unit of production was also on a positive trend with a reduction of 12% over the previous year. This was mainly contributed by continuous water leakage elimination from the underground pipe network as well as pilot runs for the waterless urinals. In addition, we reviewed and adopted a cleaning regime in the factory with use of less water.

Waste Management

Performance was the same as the previous year, with solid waste re-cycling levels being maintained above 94%, with new initiatives on waste usage which involved use of material previously sent to landfill.

BAT Nairobi Factory	Total Energy [GJ/mln]	Water [m^3/mln]	Waste to landfill [t/mln]	Recycling %
YE 2013	5.95	2.97	0.002	96.06
2014 target	6.00	3.00	0.003	95.18
YE 2014	5.62	2.60	0.002	96.81

Afforestation

BAT Kenya has run an afforestation programme since 1976 with the objective of promoting tree growing for use in tobacco curing, other domestic uses and environmental conservation.

In 2014, our afforestation programme ensured the distribution of over two million tree seedlings, with the involvement of local community based afforestation programmes as well as institutions such as Egerton University, to whom we donated 100,000 seedlings.

Acting with integrity

While the tobacco industry is often not trusted, we take our responsibilities seriously within a well-regulated industry.

Responsible adult marketing to consumers

We apply a responsible approach to marketing by following our International Marketing Principles and the Kenya Tobacco Control Act 2007. Our Principles state that ourmarketing should be targeted at adult tobacco consumers and not undermine their understanding of the health risks.

We continuously educate the trade partners 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. Our adherence to these principles is monitored through self-assessments and internal company audits.

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 2014.

BAT employees receive an award from Kenya Association of Manufacturers chairman during the Energy Management Awards 2014.

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.

Employees in 2014	Hired	Exits	Total Employees
	43	29	471

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.

Non Management	2014	2013	2012
Male	318	315	298
Female	55	60	54
Total	**373**	**375**	**352**

Management	2014	2013	2012
Male	69	72	73
Female	29	28	24
Total	**98**	**100**	**97**

Labour and Management Relations

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 collective bargaining agreement 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.

+ www.bat.com/aboutus

Developing Talent

Continuous development of our employees is the cornerstone in building high performing individuals and teams in a high performing organisation. Talent development in the Company is built on the Agile Learning Model, whereby employees' development are driven through on the job training, learning from others, and off the job learning, following a 70:20:10 time and resource allocation approach. All employees are encouraged to take ownership for their development with their line managers providing coaching, feedback and ongoing performance and development evaluations.

In 2014, the Company invested considerably on leadership development of its senior managers by organising a series of leadership development modules. These modules were geared at developing the participants' awareness of their leadership behaviours and its impact on others. British American Tobacco Kenya also provides local, regional and international training to its employees. Listed here are a few of the training programs that employees attended throughout 2014:

Programme	Course Objectives
Leading Self	To develop individual leadership capabilities via self-assessment tools, knowledge transfer, and exchange of experiences.
Leading Teams & Leading Managers	Equip all team leaders, particularly those in the manage others passage, with some simple, practical and highly effective tools to lead their teams in line with internal and external best practices.
Licence to Hire	To enhance effectiveness at hiring high potential talent.
Positive program	Fundamental Trade Marketing and Distribution Program to equip Field Force employees with the required competencies in carrying out their role.
Product Knowledge Foundation Course	A run through British American Tobacco products from crop to consumer
Defensive Driving	Identifying defensive driving concepts, driving behaviours, vehicle control, and perform emergency accident avoidance.

Meeting society expectations

Delivering shared value

The Company was recognised as the top exporter at the 2014 Kenya Revenue Authority Awards. The Company continues to contribute significantly to Government revenue. In the year ended 31 December 2014, BAT Kenya contributed a record Shs 15.4bn in Excise, VAT and Corporate taxes, an increase of 6% over 2013. The record contribution 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.

Contribution to government revenues		
	2014	2013
Government revenues	Shs 15.4 bn	Shs 14.5bn

BAT Kenya's sustained commitment to tree planting and transforming the Kenyan landscape was awarded the Total Eco Challenge Outstanding Award. The Total Eco Challenge, an initiative of Total Kenya strives to help sustain the environment by bringing people and organisations together to plant trees.

The Company also emerged the winner of the Environmental & Social Reporting at the 2014 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.

Philip Lopokoiyit, Finance Director BAT Kenya receives an award from the H.E. President Uhuru Kenyatta for being recognized as the top exporter at the 2014 Kenya Revenue Authority Awards.

Since 1932, Sportsman has been delivering consistent taste and quality to adult consumers in Kenya. The brand has grown to become the number one brand in the Kenyan tobacco category. In March 2014, the pack was upgraded.

Not for sale to persons under the age of 18

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU

ONYO: UVUTAJI WA SIGARA UNADHURU WATU WALIO KARIBU NAWE

Governance
Board of Directors

Mr G. Maina (age 62)
Non-Executive Chairman

Kenyan

Appointed to the Board as 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 Limited 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 (age 55)
Managing Director

British

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 2000 to 2005 he worked as Area Director for the then BAT Equitorial 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 (age 48)
Finance Director

Kenyan

Appointed to the Board in November 2010. He has extensive experience in financial management and served in senior management over the last 15 years as Head of Finance in various British American Tobacco business units. He was the BAT West Africa Area Finance Director based in Lagos, Nigeria prior to this appointment. Philip is a member of ICPAK, a Fellow Member of the Institute of Chartered Accountants of England and Wales and holds an MBA from Warwick Business School. He is currently also the Finance Director for BAT East and Central Africa Area based in Nairobi.

Governance
Board of Directors

Mrs C. Musyoka (age 42)
Non-Executive Director

Kenyan

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 and SOS Childrens' Villages.

Mr G.R. May (age 71)
Non-Executive Director

British

Appointed to the Board in September 2005. He has a rich accounting background having worked for PricewaterhouseCoopers in various countries for 37 years, is a Fellow of The Institute of Chartered Accountants in England and Wales (FCA), a member of The Institute of Certified Public Accountants of Kenya (CPA) and a member of The Institute of Certified Public Secretaries of Kenya (CPS). He holds directorships in Swissport Kenya Limited, Liberty Life Assurance Company Limited, Heritage Insurance Company Limited, Liberty Kenya Limited, and the CfC Stanbic Holdings Group.He is currently the Regional Representative of the Eastern Africa Association, a business information service based in Nairobi, but active throughout East Africa.

Mr P. Mwangi (age 45)
Non-Executive Director

Kenyan

Appointed to the Board in February 2015. He is currently the Group Chief Executive Officer of Old Mutual Kenya. Prior to this he served as the Chief Executive Officer of the Nairobi Securities Exchange Limited for a period of 6 years. He has over twenty years of proven business and leadership experience. Peter holds a Bachelor of Science degree in Electrical Engineering from the University of Nairobi and is also a Chartered Financial Analyst. He is a member of ICPAK, ICPSK and KIM. He holds directorships in Old Mutual Holdings Limited, Old Mutual Life Assurance Company Limited and Funguo Investments Limited.

Governance
Board of Directors

Mrs T. Mapunda (age 40)
Non-Executive Director

Tanzanian

Appointed to the Board in October 2014. Mrs Mapunda is the founder of Montage Limited, a multi-dimensional consultancy and creative agency based in Dar-es-Salaam, Tanzania. She has over twenty years of leadership experience in public relations, customer service, administration and sales. Mrs Mapunda is a graduate of the Swedish Institute of Public Administration and the Ghana Institute of Management and Public Administration. She holds Board positions at Why Africa Now of USA, Mpingo Conservation, TPS Eastern Africa (Serena Hotels) and the Tanzania Tourist Board.

Mr M. Janmohamed (age 61)
Non-Executive Director

Kenyan

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

Governance
Board of Directors

Dr J. Ciano (age 64)
Non- Executive Director

Kenyan

Appointed to the Board in July 2012. He is the Group CEO of Uchumi Supermarkets and well known for his efforts in restructuring Uchumi Supermarkets from a company under liquidation to a profit making company. Dr Ciano holds a Bachelor of Commerce degree in Finance, an MBA in Strategy and Finance and a honorary doctorate in humanities. He is a Fellow of ICPAK and a Fellow of KIM. He is the Chair of ICPAK Disciplinary Board and is a Board member of the Nairobi Securities Exchange Limited and Investeq Capital Limited.

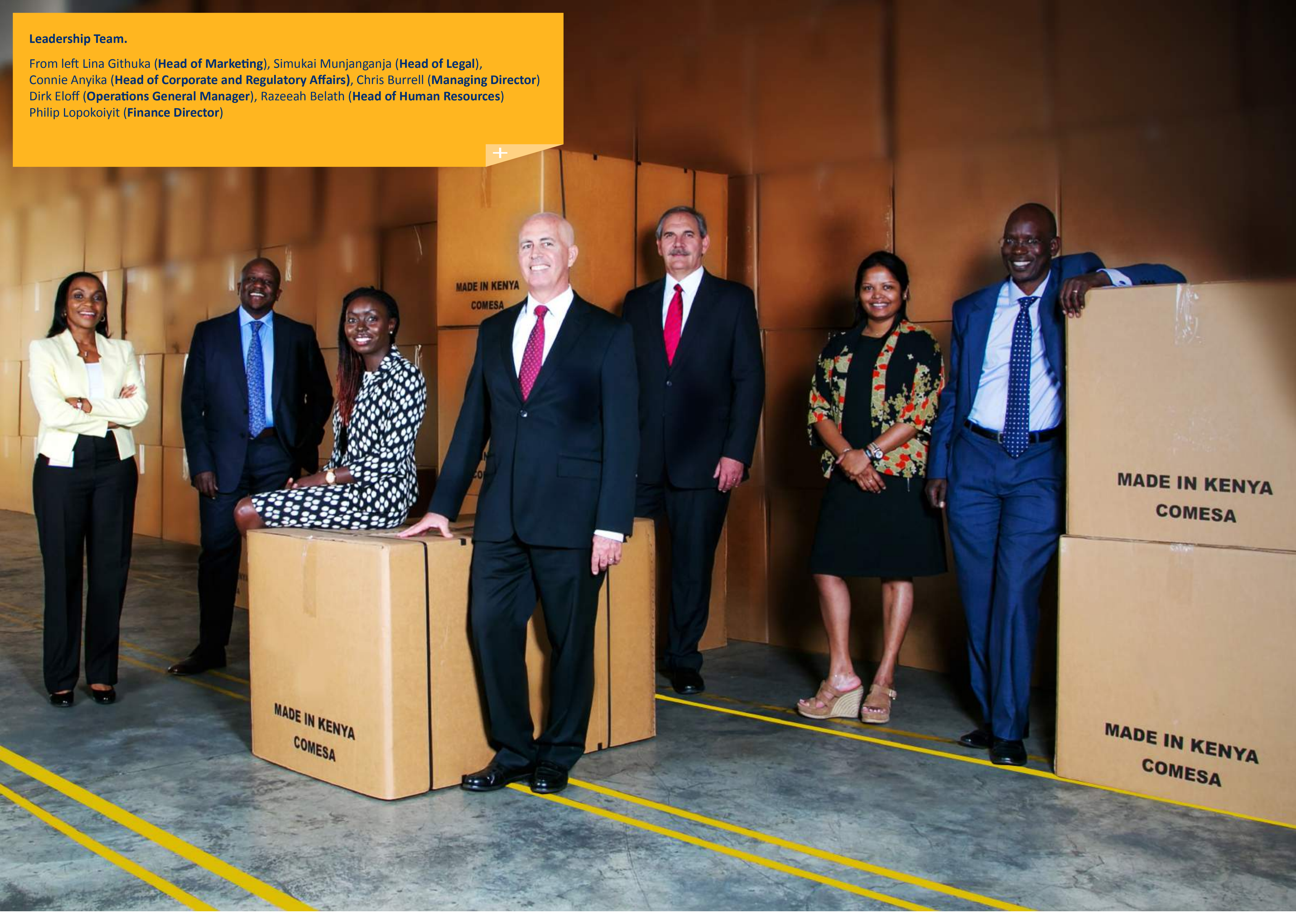
Ms R. T. Ngobi (age 54)
Company Secretary

Kenyan

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

From left Lina Githuka (**Head of Marketing**), Simukai Munjanganja (**Head of Legal**),
Connie Anyika (**Head of Corporate and Regulatory Affairs)**, Chris Burrell (**Managing Director**)
Dirk Eloff (**Operations General Manager**), Razeeah Belath (**Head of Human Resources**)
Philip Lopokoiyit (**Finance Director**)



Governance
Corporate Governance Statement

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. This is also keeping 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.

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 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 7 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 36 to 39.

Attendance at Board and Annual General meetings in 2014

Name	Meetings Attended	Meetings Eligible to Attend
Mr G. Maina (Chairman)	5	5
Mr C. Burrell (Managing Director)	5	5
Mr P. Lopokoiyit (Finance Director)	5	5
Mr G. R. May	5	5
Ms C. Musyoka	4	5
Dr J. Ciano	3	5
Mr J. Mohamed	4	5
Mrs T. Mapunda[1]	1	1
Mr P. Mwangi[2]	0	0
Ms R. T. Ngobi (Company Secretary)	5	5

[1]Mrs T. Mapunda was appointed to the Board on 1 October 2014.
[2]Mr P. Mwangi was appointed to the Board on 9 February 2015.

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
Ms R. T. Ngobi (Secretary)

Attendance at meetings in 2014

Name	Meetings Attended	Meetings Eligible to Attend
Mr G. Maina (Chairman)	2	2
Mr G. R. May	2	2
Dr J. Ciano	2	2
Mr C. Burrell[1]	2	2
Ms R. T. Ngobi (Secretary)	2	2

[1]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 2014. 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.

Governance

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 2014 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 the UK), 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 2014

Name	Meetings Attended	Meetings Eligible to Attend
Mr G. R. May	3	3
Ms C. Musyoka	3	3
Mr M. Janmohamed	2	3
Mr G. Maina[1]	3	3
Mr C. Burrell[2]	3	3
Mr P. Lopokoiyit[2]	3	3

[1]Mr G.Maina attends by invitation
[2]Mr C. Burrell and Mr P. Lopokoiyit attend as Permanent Invitees.

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 current Company's auditors. The Audit Committee considers that its relationship with the auditors worked well during the period and was satisfied with their effectiveness.

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.**

Governance

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
Mrs T. Mapunda

Attendance at meetings in 2014

Name	Meetings Attended	Meetings Eligible to Attend
Mr J. Ciano	0	0
Mr G. Maina	1	1
Mrs T. Mapunda[1]	0	0
Mr C. Burrell[2]	1	1
Mr P. Lopokoiyit[2]	1	1

[1]Mrs T. Mapunda was appointed as a Member of the Committee on 14 November 2014
[2]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 Securities 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	10
Number of independent Directors	7
Number of women on the Board	3
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	3
Number of Independent Nominations Committee members	3
Number of Board and Annual General Meetings Held in Full Year 2014	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

Principal shareholders and share distribution

Major Shareholders as at 26 February 2015	Total Shares	% Shareholding
Molensteegh Invest BV	60,000,000	60.00%
CO-OP Bank Custody A/C 4003A	4,442,574	4.44%
Standard Chartered Kenya Nominees LTD,A/C KE18993	3,461,064	3.46%
Standard Chartered Nominees NON-RESD. A/C 9866	2,452,585	2.45%
Standard Chartered NOM A/C KE11916	1,341,941	1.34%
Standard Chartered Nominees Non-Resd. A/C KE8723	1,318,200	1.32%
Kenya Commercial Bank Nominees Limited A/C 915B	1,250,045	1.25%
Standard Chartered Nominee Account KE17605	962,800	0.96%
Kenya Commercial Bank Nominees Limited A/C 915A	955,023	0.96%
Kenya Reinsurance Corporation Limited	700,000	0.70%
Shares Selected	**76,884,232**	**76.88%**
Others	**23,115,768**	**23.12%**
Total	**100,000,000**	**100.00%**

Summary of Shareholders as at 26 February 2015

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	60	76,301,270	76.30%
Foreign Individuals	80	215,563	0.22%
Local Companies	512	1 7,217,011	17.22%
Local Individuals	4,269	6,266,156	6.27%
Total	**4,921**	**100,000,000**	**100.00%**

Distribution of Shareholders as at 26 February 2015

Shareholding	No. of Shareholders	No. of Shares	% Shareholding
Less than 500	2,483	580,969	0.58%
501 - 5,000	1,973	3 ,173,833	3.17%
5,001- 10,000	171	1 ,211,190	1.21%
10,001 - 100,000	235	7 ,005,468	7.01%
100,001 - 1,000,000	52	13,762,131	13.76%
Above 1,000,000	7	74,266,409	74.27%
Total	**4 ,921**	**100,000,000**	**100.00%**

"A winning organisation delivers winning results and as such, we are committed to creating the right environment that can nurture a Winning Organisation."

Financial Statements

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Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2014 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 4,255,314,000 (2013: Shs 3,723,691,000) has been added to retained earnings. During the year, an interim dividend of Shs 350,000,000 (2013: Shs 350,000,000) was paid. The directors recommend the approval of a final dividend of Shs 3,900,000,000 (2013: Shs 3,350,000,000) at the Annual General Meeting.

The results for the year are set out fully on pages 55 to 77 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:

Mrs T. Mapunda was appointed as a Director on 1 October 2014.
Mr P. Mwangi was appointed as a Director on 9 February 2015.

In accordance with Article 95 Mrs T. Mapunda and Mr P. Mwangi both retire from the Board and being eligible, offer themselves for re-election.

Dr J. Ciano and Mr M. Janmohamed retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

Mr G. 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 at the date of this report is PricewaterhouseCoopers.

By Order of the Board

R.T. Ngobi (Ms)
Company Secretary

26 February 2015

Taarifa ya Wakurugenzi

Wakurungenzi wanawasilisha taarifa yao pamoja na taarifa za ukaguzi wa kifedha kwa kipindi kilichomalizikia tarehe 31 Desemba 2014 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 4,255,314,000 (2013: 3,723,691,000) imeongezwa kwa mapato yaliyoko. Katika mwaka huo mgao wa muda wa faida wa shilingi 350,000,000 (2013: 350,000,000) ulilipwa. Wakurugenzi wanaopendekeza kuidhinishwa kwa mgao wa mwisho wa faida wa shilingi 3,900,000,000 (2013: 3,350,000,000).

Matokeo ya mwaka yapatikana kwenye ukurasa 55 hadi 77 ya ukaguzi wa kifedha

Halmashauri ya Wakurugenzi

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

Bi T. Mapunda alikuwa mkurugenzi tarehe 1 Oktoba 2014.
Bwana P. Mwangi alikuwa mkurugenxi tarehe 9 Februari 2015.

Kwa mujibu wa kifungu nambari 95 cha sheria za kampuni, Bi T. Mapunda na Bwana P. Mwangi wanastaafu kwenye Halmashauri kwa zamu wakati wa mkutano mkuu wa kila mwaka na kwa vile wanastahili wanajiwasilisha kuchaguliwa tena.

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

Bwana G. R. May ambaye alitimiza umri wa miaka 70 Machi 2013 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 wakati huu ni PriceWaterhouseCoopers.

Kwa amri ya Halmashauri

R.T. Ngobi (Bi)
Katibu wa Kampuni

26 February 2015

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

26 February 2015

Report of the Independent Auditor
To the members of British American Tobacco Kenya limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of British American Tobacco Kenya Limited (the Company) and its subsidiaries (together, the Group), as set out on pages 55 to 77. These financial statements comprise the consolidated balance sheet at 31 December 2014 and the consolidated statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, together with the balance sheet of the Company standing alone as at 31 December 2014 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Group and Company's financial affairs at 31 December 2014 and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

As required by the Kenya Companies Act we report to you based on our audit that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;

iii) the Company's balance sheet and statement of comprehensive income are in agreement with the books of account.

The engagement leader responsible for the audit resulting in this independent auditor's report is CPA Peter Ngahu – P/No 1458.

Certified Public Accountants
Nairobi

26 February 2015

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2014

	Notes	2014 Shs' 000	2013 Shs' 000
Gross turnover		34,124,565	31,915,663
Excise duty and value added tax		(13,092,232)	(12,296,947)
Net revenue	5	**21,032,333**	**19,618,716**
Raw materials and manufacturing costs	6	(11,818,577)	(10,894,270)
Marketing and distribution costs		(1,650,364)	(1,781,741)
Administration and other expenses		(1,462,728)	(1,425,038)
Other income		271,030	253,492
Operating profit		**6,371,694**	**5,771,159**
Finance costs	7	(276,275)	(301,204)
Profit before tax	8	**6,095,419**	**5,469,955**
Income tax expense	10	(1,840,105)	(1,746,264)
Profit for the year		**4,255, 314**	**3,723,691**
Other comprehensive income			
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified to profit or loss		-	-
Total comprehensive income for the year		**4,255,314**	**3,723,691**
Earnings per share:			
Basic and diluted (Shs per share)	11	42.55	37.24

The notes on pages 61 to 77 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet
As at 31 December 2014

	Notes	2014 Shs' 000	2013 Shs' 000
Capital and reserves attributable to the company's equity holders			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,446,433	1,488,403
Retained earnings		1,780,466	1,733,182
Proposed dividends	12	3,900,000	3,350,000
Total equity		**8,126,922**	**7,571,608**
Non-current liabilities			
Borrowings	22	1,086,600	1,035,600
Deferred income tax liabilities	15	1,857,083	1,597,613
Total non-current liabilities		**2,943,683**	**2,633,213**
Total equity and non-current liabilities		**11,070,605**	**10,204,821**
Non-current assets			
Property, plant and equipment	16	9,273,858	8,454,193
Deferred income tax assets	15	7,156	13,458
		9,281,014	**8,467,651**
Current assets			
Inventories	18	5,956,933	4,482,067
Receivables and prepayments	19	2,625,373	3,471,351
Current income tax		277,961	366,709
Cash and cash equivalents	20	112,229	198,145
		8,972,496	**8,518,272**
Current liabilities			
Payables and accrued expenses	21	5,548,105	5,195,876
Borrowings	22	845,084	491,654
Provisions for liabilities and charges	23	789,716	959,647
Current income tax		-	133,925
		7,182,905	**6,781,102**
Net current assets		**1,789,591**	**1,737,170**
Total assets		**11,070,605**	**10,204,821**

The notes on pages 61 to 77 are an integral part of these consolidated financial statements.
The financial statements on pages 55 to 77 were approved and authorised for issue by the Board of Directors on 26 February 2015 and signed on its behalf by:

C. Burrell
Managing Director

P. Lopokoiyit
Finance Director

Company Balance Sheet
As at 31 December 2014

	Notes	2014 Shs' 000	2013 Shs' 000
Capital and reserves attributable to the company's equity holders			
Share capital	13	1,000,000	1,000,000
Share premium	13	23	23
Revaluation surplus	14	1,446,433	1,488,403
Retained earnings		1,780,466	1,733,182
Proposed dividends	12	3,900,000	3,350,000
Total equity		**8,126,922**	**7,571,608**
Non-current liabilities			
Borrowings	22	1,086,600	1,035,600
Deferred income tax liabilities	15	1,857,083	1,597,613
Total non-current liabilities		**2,943,683**	**2,633,213**
Total equity and non-current liabilities		**11,070,605**	**10,204,821**
Non-current assets			
Property, plant and equipment	16	9,273,858	8,454,193
Investment in subsidiaries	17	12,000	12,000
		9,285,858	**8,466,193**
Current assets			
Inventories	18	5,956,933	4,482,067
Receivables and prepayments	19	2,495,520	3,037,624
Current income tax		140,920	366,709
Cash and cash equivalents	20	109,754	41,819
		8,703,127	**7,928,219**
Current liabilities			
Payables and accrued expenses	21	5,283,581	4,738,291
Borrowings	22	845,083	491,653
Provisions for liabilities and charges	23	789,716	959,647
		6,918,380	**6,189,591**
Net current assets		**1,784,747**	**1,738,628**
Total assets		**11,070,605**	**10,204,821**

The notes on pages 61 to 77 are an integral part of these consolidated financial statements.
The financial statements on pages 55 to 77 were approved and authorised for issue by the Board of Directors on 26 February 2015 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
Year ended 31 December 2013							
At start of year		1,000,000	23	1,528,976	1,668,918	2,900,000	7,097,917
Comprehensive income for the year							
Profit for the year		-	-	-	3,723,691	-	3,723,691
Transfer of excess depreciation	10	-	-	(57,961)	57,961	-	-
Deferred income tax on transfer	15	-	-	17,388	(17,388)	-	-
Net gains recognised directly in equity		-	-	(40,573)	40,573	-	-
Transactions with owners							
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)
At end of year		1,000,000	23	1,488,403	1,733,182	3,350,000	7,571,608
Year ended 31 December 2014							
At start of year		1,000,000	23	1,488,403	1,733,182	3,350,000	7,571,608
Profit for the year		-	-	-	4,255,314	-	4,255,314
Transfer of excess depreciation	10	-	-	(59,958)	59,958	-	-
Deferred income tax on transfer	15	-	-	17,988	(17,988)	-	-
Net (losses)/gains recognised directly in equity		-	-	(41,970)	41,970	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2013	12	-	-	-	-	(3,350,000)	(3,350,000)
- Interim for 2014	12	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2014	12	-	-	-	(3,900,000)	3,900,000	-
Total transactions with owners		-	-	-	(4,250,000)	550,000	(3,700,000)
At end of year		1,000,000	23	1,446,433	1,780,466	3,900,000	8,126,922

The notes on pages 61 to 77 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2013							
At start of year		1,000,000	23	1,528,976	1,668,918	2,900,000	7,097,917
Comprehensive income for the year							
Profit for the year		-	-	-	3,723,691	-	3,723,691
Gain on revaluation of land and buildings	10	-	-	57,961	57,961	-	-
Deferred income tax on revaluation	15	-	-	(17,388)	(17,388)	-	-
Net gains recognised directly in equity		-	-	40,573	40,573	-	-
Transactions with owners							
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)
At end of year		1,000,000	23	1,488,403	1,733,182	3,350,000	7,571,608
Year ended 31 December 2014							
At start of year		1,000,000	23	1,488,403	1,733,182	3,350,000	7,571,608
Profit for the year		-	-	-	4,255,314	-	4,255,314
Transfer of excess depreciation	10	-	-	(59,958)	59,958	-	-
Deferred income tax on transfer	15	-	-	17,988	(17,988)	-	-
Net (losses)/gains recognised directly in equity		-	-	(41,970)	41,970	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2013	12	-	-	-	-	(3,350,000)	(3,350,000)
- Interim for 2014	12	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2014	12	-	-	-	(3,900,000)	3,900,000	-
Total transactions with owners		-	-	-	(4,250,000)	550,000	(3,700,000)
At end of year		1,000,000	23	1,446,433	1,780,466	3,900,000	8,126,922

The notes on pages 61 to 77 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December

	Notes	2014 Shs' 000	2013 Shs' 000
Cash flows from operating activities			
Cash generated from operations	24	6,617,154	5,040,082
Interest received	7	2,250	1,983
Interest paid	7	(269,784)	(264,259)
Income tax paid		(1,619,510)	(1,357,077)
Net cash generated from operating activities		**4,730,110**	**3,420,729**
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(1,528,790)	(1,074,791)
Proceeds from disposal of property, plant and equipment		8,334	107,621
Net cash used in investing activities		**(1,520,456)**	**(967,170)**
Cash flows from financing activities			
Dividends paid to the Company shareholders	12	(3,700,000)	(3,250,000)
Borrowings		51,000	346,800
Net cash used in financing activities		**(3,649,000)**	**(2,903,200)**
Net decrease in cash and cash equivalents		**(439,346)**	**(449,641)**
Cash and cash equivalents at beginning of year		(293,509)	156,132
Cash and cash equivalents at end of year	20	**(732,855)**	**(293,509)**

The notes on pages 61 to 77 are an integral part of these consolidated financial statements.

Notes

1 General Information

British american Tobacco Kenya Limited (the Company) 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:

British American Tobacco Limited,

08 Likoni Road, Industrial Area,

P.O Box 30000-00100,

Nairobi

60% of 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 company for the first time for the financial year beginning on or after 1 January 2014 and do not have a material impact on the company:
Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default,insolvency or bankruptcy. The amendment also considers settlement mechanisms.

The amendment did not have a significant effect on the company financial statements. Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting.

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties.Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The company has applied the amendment and there has been no significant impact on the company financial statements as a result.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the company.

(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 2014, 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. The complete version of IFRS 9 was issued in July 2014.

It replaces the guidance in IAS 39 that relates to the classification and measurement model and establishes three primary measurement categories for financial assets: amortised cost, faire value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Investment in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedge ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The company is yet to assess IFRS 9's full impact. IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The company is assessing the impact of IFRS 15.There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

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.

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.

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% per annum
- Plant and machinery	7% per annum
- Vehicles and computers	25% per annum
- Furniture, fittings and equipment	10% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

The carrying amount of the Group's non-current assets is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are included in the profit or loss. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

g) Impairment of non-financial assets

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

h) Accounting for leases

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

j) Financial assets (continued)

(i) Classification (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.

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 a mortised 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.

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.

p) Employee benefits (continued)

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.

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.

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.

i) Provisions and contingent liabilities

The group has provisions which are set up in the ordinary course of business and are related to general liabilities to various stakeholders. The group follows the guidance of IAS 37 to determine whether a provision is required.

ii) Useful lives of property plant and equipment

Property plant and equipment are depreciated over their useful lives. The actual lives of the assets are assessed annually and may vary depending on a number of factors. Management applies judgement in determining useful lives.

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.

a) 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 2014, if the Shilling had weakened/ strengthened 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 29,786,804 (2013: Shs 122,662,170) higher/lower, mainly as a result of US dollar receivables. At 31 December 2014, if the Shilling had weakened/ strengthened by 10% against the GBP with all other variables held constant, Group and Company post tax profit for the year would have been Shs 2,270,138 (2013: Shs 12,176,201) higher/lower, mainly as a result of GBP receivables.

At 31 December 2014, if the Shilling had weakened/ strengthened by 10% against the Euro with all other variables held constant, Group and Company post tax profit for the year would have been Shs 17,409,779 (2013: Shs 4,755,274) higher/lower, 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 2014, an increase/decrease of 1% would have resulted in a change of Shs 10,780,140 (2013: Shs 7,657,291) in Group and Company post tax profit.

b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from deposits with banks, as well as trade and other receivables. Neither the Group nor the Company has any significant concentrations of credit risk. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and Company.

For banks and financial institutions, only reputable well established financial institutions are accepted. For trade receivables, Group management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.The amount that best represents the Group and Company's maximum exposure to credit risk at 31 December 2014 and 31 December 2013 is made up as follows:

	Group		Company	
	2014 Shs' 000	2013 Shs' 000	2014 Shs' 000	2013 Shs' 000
Cash and cash equivalents	112,229	198,145	109,754	41,819
Trade and related party receivables	1,940,042	2,670,279	1,811,756	2,202,036
Other receivables	346,158	344,274	344,591	342,654
	2,398,429	**3,212,698**	**2,266,101**	**2,586,509**

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	
	2014 Shs' 000	2013 Shs' 000	2014 Shs' 000	2013 Shs' 000
Past due but not impaired:				
- by up to 3 months	-	101,519	-	101,519
- by 4 to 6 months	-	9,794	-	9,794
- by 7 to 12 months	-	1,942	-	1,942
- beyond 1 year	-	-	-	-
Total past due but not impaired	**-**	**113,255**	**-**	**113,255**

Past due amounts mainly relate to related party balances.

4 Financial risk management (continued)

c) 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.

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 balance sheet 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 Shs' 000	Between 1 & 2 years Shs' 000
At 31 December 2014		
Liabilities		
Borrowings	845,084	1,177,786
Trade and other payables	1,832,093	-
Amounts due to related parties	2,070,314	-
Total financial liabilities	**4,747,491**	**1,177,786**
Assets		
Cash and bank balances	112,229	-
Amounts due from related parties	1,799,724	-
Trade and other receivables	486,476	-
Total financial assets (expected maturity date)	**2,398,429**	-
At 31 December 2013		
Liabilities		
Borrowings	491,654	1,149,237
Trade and other payables	2,184,964	-
Amounts due to related parties	1,533,385	-
Total financial liabilities	**4,210,003**	**1,149,237**
Assets		
Cash and bank balances	198,145	-
Amounts due from related parties	2,610,240	-
Trade and other receivables	404,609	-
Total financial assets (expected maturity date)	**3,212,994**	-

b) Company	Less than 1 year Shs' 000	Between 1 & 2 years Shs' 000
At 31 December 2014		
Liabilities		
Borrowings	845,083	1,177,486
Trade and other payables	1,444,600	-
Amounts due to related parties	2,059,425	-
Total financial liabilities	**4,349,108**	**1,177,486**
Assets		
Cash and bank balances	109,754	-
Amounts due from related parties	1,751,765	-
Trade and other receivables	404,582	-
Total financial assets (expected maturity date)	**2,266,101**	-
At 31 December 2013		
Liabilities		
Borrowings	491,653	1,149,237
Trade and other payables	1,941,669	-
Amounts due to related parties	1,521,088	-
Total financial liabilities	**3,954,410**	**1,149,237**
Assets		
Cash and bank balances	41,819	-
Amounts due from related parties	2,142,012	-
Trade and other receivables	439,108	-
Total financial assets (expected maturity date)	**2,622,939**	-

For both Group and Company, there are no financial assets or liabilities older than 2 years.

d) Capital risk management

Capital comprises all components of equity as shown in the statement 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	
	2014 Shs' 000	2013 Shs' 000	2014 Shs' 000	2013 Shs' 000
Total borrowings	1,931,684	1,527,254	1,931,683	1,527,253
Less: cash and cash equivalents	(112,229)	(198,145)	(109,754)	(41,819)
Net debt	1,819,455	1,329,109	1,821,929	1,485,434
Total equity	8,126,922	7,571,608	8,126,922	7,571,608
Total capital	9,946,377	8,900,717	9,948,851	9,057,042
Gearing ratio	18.3%	14.9%	18.3%	16.4%
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)	2,286,200	3,014,553	2,156,346	2,544,690
Cash and cash equivalents	112,229	198,145	109,754	41,819
	2,398,429	3,212,698	2,266,100	2,586,509
Financial liabilities:				
All of the Group and Company's financial liabilities are classified as liabilities at amortised cost and comprise:				
Borrowings	1,931,684	1,527,254	1,931,683	1,527,253
Trade and other payables (excluding statutory liabilities)	4,363,668	4,326,371	4,182,609	3,918,152
	6,295,352	5,853,625	6,114,292	5,445,405

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. The group is considered as one reportable operating segment.

	2014 Shs' 000	2013 Shs' 000
Analysis of net revenue by geography:		
Local sales	11,654,293	10,914,303
Export sales	9,378,040	8,704,413
	21,032,333	**19,618,716**
Analysis of net revenue by product:		
Sale of cigarettes	20,210,685	18,235,590
Sale of cut rag	821,648	1,383,126
	21,032,333	**19,618,716**

6 Raw materials and manufacturing costs

	2014 Shs' 000	2013 Shs' 000
Raw materials, consumables and other manufacturing costs*	11,385,337	10,478,668
Depreciation of property, plant and equipment	433,240	415,602
	11,818,577	**10,894,270**

*Raw materials, consumables and other manufacturing costs include employee expenses of Shs 1,123,445,593 (2013: Shs 1,158,733,067).

7 Finance costs

	2014 Shs' 000	2013 Shs' 000
Interest income	(2,250)	(1,983)
Interest expense	269,784	264,259
Net foreign currency exchange losses	8,741	38,928
	276,275	**301,204**

8 Profit before tax

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

	2014 Shs' 000	2013 Shs' 000
Employee benefits expense (Note 9)	2,373,811	2,513,216
Auditor's remuneration	**9,517**	**9,204**

9 Employee benefits expense

	2014 Shs' 000	2013 Shs' 000
Salaries and wages	**2,276,704**	**2,424,224**
Retirement benefits costs:		
- Defined contribution scheme	**94,717**	**86,454**
- National Social Security Fund	**2,390**	**2,538**
	2,373,811	**2,513,216**

10 Income tax expense

	2014 Shs' 000	2013 Shs' 000
Current income tax		
- Current tax on profits for the year	1,572,897	1,426,617
- Adjustments in respect of prior years	1,436	72,590
Total current tax	1,574,333	1,499,207
Deferred income tax (Note 15)		
-Deferred income tax	265,772	247,047
- Adjustments in respect of prior years	-	10
Total deferred income tax	265,772	247,057
Income tax expense	**1,840,105**	**1,746,264**
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	6,095,419	5,469,955
Tax calculated at domestic rate applicable to profit - 30% (2013:30%)	1,828,626	1,640,987
Tax effect of:		
Income not subject to tax	(63,187)	-
Expenses not deductible for tax purposes	73,230	32,677
Under-provision of current tax in prior years	1,436	72,590
Under/(Over)-provision of deferred tax in prior years	-	10
Income tax expense	**1,840,105**	**1,746,264**

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

	2014 Shs' 000			2013 Shs' 000		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Transfer of excess depreciation	**59,958**	**(17,988)**	**41,970**	**57,961**	**(17,388)**	**40,573**

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.

	2014 Shs' 000	2013 Shs' 000
Profit attributable to equity holders of the Company (Shs '000)	4,255,314	3,723,691
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	42.55	37.24

12 Dividends per share

During the year a final dividend in respect of the 2013 financial results of Shs 33.50 (2012: Shs 29.00) and an interim dividend of Shs 3.50 per share (2013: Shs 3.50) was declared and paid. The total dividend paid in the year is therefore Shs 37 per share (2013: Shs 33.50), amounting to a total of Shs 3,700,000,000 (2012: Shs 3,250,000,000). At the annual general meeting to be held on 05 May 2015, a final dividend in respect of the year ended 31 December 2014 of Shs 39.00 per share amounting to a total of Shs 3,900,000,000 is to be proposed. These financial statements do not reflect this dividend as a liability. Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

13 Share capital

	Number of shares (Thousands)	Ordinary shares Shs' 000	Share premium Shs' 000
Issued			
Balance at beginning and end of year	100,000	1,000,000	23

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

14 Revaluation surplus

The revaluation 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.

15 Deferred income tax

	2014 Shs' 000	2013 Shs' 000
The analysis of Group deferred tax assets and deferred liabilities is as follows		
Deferred tax assets	(7,156)	(13,458)
Deferred tax liabilities	1,857,083	1,597,613
Deferred tax liabilities (net)	**1,849,927**	**1,584,155**
Deferred income tax is calculated using the enacted income tax rate of 30% (2013:30%).		
The movement on the Group deferred income tax account is as follows:		
At start of year	1,584,155	1,337,098
Charge for the period (Note 10)		
Charge to income statement	283,760	264,445
Credit to equity	(17,988)	(17,388)
At end of year	**1,849,927**	**1,584,155**

15 Deferred income tax (continued)

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

Year ended 31 December 2014	1.1.2014	Charged /credited to P&L	Credited to equity	31.12.2014
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	1,437,495	344,525	-	1,782,020
- on revaluation surpluses	526,061	-	(17,988)	508,073
Unrealised exchange gains	10,754	(3,767)	-	6,987
	1,974,310	340,758	(17,988)	2,297,080
Deferred income tax assets				
Provisions for liabilities & charges	(374,960)	(53,534)	-	(428,494)
Unrealised exchange losses	(15,195)	(3,464)	-	(18,659)
	(390,155)	(56,998)	-	(447,153)
Net deferred income tax liability	1,584,155	283,760	(17,988)	1,849,927

Year ended 31 December 2013	1.1.2013	Charged/ to P&L	Credited to equity	31.12.2013
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Deferred income tax liabilities				
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
	1,780,585	211,113	(17,388)	1,974,310
Deferred income tax assets				
Provisions for liabilities & charges	(393,902)	18,942	-	(374,960)
Unrealised exchange losses	(49,585)	34,390	-	(15,195)
	(443,487)	53,332	-	(390,155)
Net deferred income tax liability	1,337,098	264,445	(17,388)	1,584,155

Deferred income tax of Shs 17,988,000, (2013: 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.

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

	2014 Shs' 000	2013 Shs' 000
Deferred income tax liabilities		
Property, plant and equipment:		
- on historical cost basis	1,764,032	1,437,495
- on revaluation surpluses	525,351	526,061
Unrealised exchange gains	7,657	10,754
Total deferred income tax liabilities	2,297,040	1,974,310
Deferred income tax assets		
Provisions for liabilities & charges	(421,298)	(361,531)
Unrealised exchange losses	(18,659)	(15,166)
Total deferred income tax assets	(439,957)	(376,697)
Net deferred income tax liability	1,857,083	1,597,613

16 Property, plant and equipment – Group and Company

	Land and Buildings	Plant and Machinery	Vehicles and Equipment	Capital Work in Progress*	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
At 1 January 2013					
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)
Net book amount	**3,071,285**	**3,836,484**	**250,495**	**888,403**	**8,046,667**
Year ended 31 December 2013					
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)
Closing net book amount	**3,047,148**	**4,582,207**	**227,870**	**596,968**	**8,454,193**
At 31 December 2013					
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)
Net book amount	**3,047,148**	**4,582,207**	**227,870**	**596,968**	**8,454,193**
Year ended 31 December 2014					
Opening net book amount	3,047,148	4,582,207	227,870	596,968	8,454,193
Transfers	203,745	368,152	-	(571,897)	-
Additions	75,435	1,174,649	171,155	107,551	1,528,790
Disposals					
- Cost	-	(89,815)	(25,332)	-	(115,147)
- Accumulated depreciation	-	68,529	22,736	-	91,265
Depreciation charge	(103,453)	(485,242)	(96,548)	-	(685,243)
Closing net book amount	**3,222,875**	**5,618,480**	**299,881**	**132,622**	**9,273,858**
At 31 December 2014					
Cost or valuation	4,214,977	9,263,188	1,081,860	132,622	14,692,647
Accumulated depreciation	(992,102)	(3,644,708)	(781,979)	-	(5,418,789)
Net book amount	**3,222,875**	**5,618,480**	**299,881**	**132,622**	**9,273,858**

*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 an independent valuer.
If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2014	2013
	Shs' 000	Shs' 000
Cost	1,570,912	1,291,732
Accumulated depreciation	(359,271)	(315,774)
Net book amount	1,211,641	975,958

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:

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

The investment in BAT Kenya Tobacco Company Limited is Shs 12,000,000.

18 Inventories

	Group		Company	
	2014 Shs' 000	2013 Shs' 000	2014 Shs' 000	2013 Shs' 000
Raw materials and consumables	5,033,072	3,525,782	5,033,072	3,525,782
Finished goods	672,422	582,352	672,422	582,352
Work in progress	251,439	373,933	251,439	373,933
	5,956,933	4,482,067	5,956,933	4,482,067

19 Receivables and prepayments

	Group 2014	Group 2013	Company 2014	Company 2013
Trade Receivables	140,318	60,039	59,991	60,024
Prepayments and other receivables	685,331	801,072	683,764	835,588
Due from related parties	1,799,724	2,610,240	1,751,765	2,142,012
	2,625,373	3,471,351	2,495,520	3,037,624

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

20 Cash and cash equivalents

	Group		Company	
	2014	2013	2014	2013
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Cash at bank	**112,229**	**198,145**	**109,754**	**41,819**

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

	Group	
	2014	2013
	Shs' 000	Shs' 000
Cash at bank	112,229	198,145
Bank Overdrafts (Note 22)	(845,084)	(491,654)
	(732,855)	**(293,509)**

21 Payables and accrued expenses

	Group		Company	
	2014	2013	2014	2013
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Trade payables	1,262,191	1,399,685	1,194,987	1,464,784
Due to related companies	2,070,314	1,533,385	2,059,425	1,521,088
Other payables and accrued expenses	2,215,600	2,262,806	2,029,169	1,752,419
	5,548,105	**5,195,876**	**5,283,581**	**4,738,291**

22 Borrowings

Non-current				
Loan from BATIF$	1,086,600	1,035,600	1,086,600	1,035,600
Current				
Bank overdrafts	845,084	491,654	845,083	491,653
	1,931,684	**1,527,254**	**1,931,683**	**1,527,253**

The loan from BATIF$ is an unsecured US Dollar denominated floating rate loan repayable by 30 July 2016 at an interest rate of USD LIBOR plus 4.25% up to 30 July 2016. The carrying amounts of short-term borrowings approximate to their fair value. None of the borrowings were in default at any time during the year.

22 Borrowings (continued)

The Group and Company have the following undrawn borrowing facilities:

	2014	2013
	Shs' 000	Shs' 000
Overdraft Facilities	3,396,533	3,269,038
Bond Guarantees	1,125,252	1,366,730
	4,521,785	4,635,768

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 utilised to manufacture cigarettes for the export market.

23 Provisions for liabilities and charges

	Group Shs' 000	Company Shs' 000
Year ended 31 December 2013		
At start of year	901,437	901,437
Additional provisions	77,631	77,631
Unused amounts reversed	-	-
Charged to statement of comprehensive income	77,631	77,631
Utilised during the year	(19,421)	(19,421)
At end of year	**959,647**	**959,647**
Year ended 31 December 2014		
At start of year	959,647	959,647
Additional provisions	120,437	120,437
Unused amounts reversed	(290,368)	(290,368)
Credit to statement of comprehensive income	(169,931)	(169,931)
Utilised during year	-	-
At end of year	**789,716**	**789,716**

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

	2014	2013
	Shs' 000	Shs' 000
Profit before taxation	6,095,419	5,469,955
Adjustments for:		
Depreciation	685,243	597,591
Profit on sale of property, plant and equipment	15,548	(37,947)
Interest received (Note 7)	(2,250)	(1,983)
Interest expense (Note 7)	269,784	264,259
Changes in working capital:		
-receivables and prepayments	845,978	(1,444,403)
-ínventories	(1,474,866)	(88,478)
-payables and accrued expenses	352,229	222,878
-provisions for liabilities and charges	(169,931)	58,210
Cash generated from operations	**6,617,154**	**5,040,082**

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	
	2014	2013	2014	2013
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
i) Sale of goods and services				
Subsidiary	-	-	3,153,831	3,447,932
Other related parties	8,490,429	7,030,630	8,490,429	7,030,630
	8,490,429	7,030,630	11,644,260	10,478,562
ii) Purchase of goods and services				
Parent company	518,328	418,037	518,328	418,037
Other related parties	761,798	776,998	761,798	776,998
	1,280,126	1,195,035	1,280,126	1,195,035
iii) Outstanding balances arising from sale and purchase of goods/services				
Receivables from other related parties	1,799,724	2,610,240	1,751,765	2,142,012
Payables to the parent company	7,174	12,233	7,174	12,233
Payables to other related parties	2,063,140	1,521,152	2,052,251	1,508,855
	2,070,314	1,533,385	2,059,425	1,521,088
iv) Loans from related parties Loan from related party (BAT Investments)	1,086,600	1,035,600	1,086,600	1,035,600

v) Key management compensation	2014	2013
	Shs' 000	Shs' 000
Salaries and other short-term employment benefits	204,392	195,360
Other long-term benefits	74,929	85,547
	279,321	280,907

vi) Directors' remuneration

	2014	2013
	Shs' 000	Shs' 000
Fees for services as a director	11,822	17,274
Other emoluments (included in key management compensation above)	95,898	92,797
Total remuneration of directors of the Company	107,720	110,071

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 on the financial statements.

The Group has guarantees amounting to Shs 3,910,248,000 (2013: Shs 4,226,270,000), issued on its behalf in the normal course of business from which it is anticipated that no material liabilities will arise.

27 Capital commitments

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

	2014	**2013**
	Shs' 000	Shs' 000
Property, plant and equipment	13,842	152,136

Form Of Proxy

To: ....

The Secretary,

British American Tobacco Kenya Limited,
08 Likoni Road, Industrial Area,
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 5 May 2015 in the Ball Room, Hotel Intercontinental Nairobi, or at any adjournment there of.

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

day of..2015

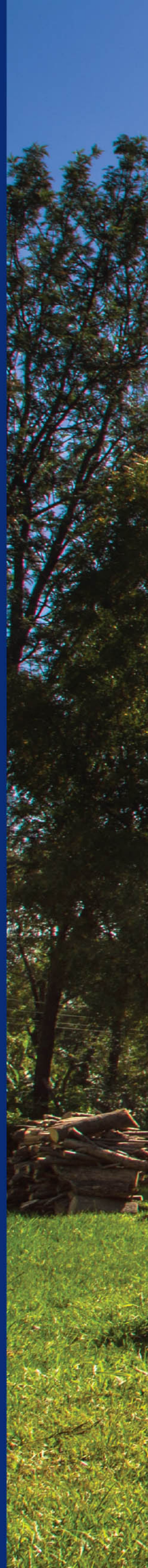
....(Signature)

NOTES:

1. If a member is unable to attend this meeting personally this Form of Proxy should be completed and returned to reach Custody & Registrar Services Limited, Bruce House, 6th Floor, Standard Street, P. O. Box 8484-00100, Nairobi or alternatively the Registered Office of the Company not later than 2:30 p.m. on 4 May 2015.

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.



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