

Abridged Audited Financial Results for the Year Ended 31 December 2019



BRITISH AMERICAN
TOBACCO
ZIMBABWE

Chairman's Statement

Introduction

2019 was a challenging year for the business mainly driven by significant changes to the macroeconomic policies and in particular, the introduction of the Zimbabwe dollar that was floated against the United States dollar. The official exchange rate had very little significance to the productive sector because of the inaccessibility of foreign currency on the interbank market. The local currency devalued against major trading currencies further impacting consumer disposable incomes. Inflation increased to 521% by the end of December 2019 against 42.1% in December 2018. This increase depicted the worst annual outturn in eleven years and triggered a return to hyperinflation in the Zimbabwean economy. Power shortages persisted resulting in heavy reliance on generators which largely contributed to decreased productivity and increased operating costs for the Company. It is in this context that the Company presents its Audited Financial Results for the year ended to 31 December 2019.

Volumes

The Company's total sales volumes for the year under review decreased by 17% compared to the previous financial year. In the Aspirational Premium segment, Newbury, grew by 12% driven by consumers switching from Dunhill due to our inability to import the product as duties were required to be paid in United States dollars. Consequently, Dunhill sales declined by 94%. The Value for Money segment, (Madison and Everest) and Low Value for Money brand, Ascot, recorded a 17% and 18% decline respectively driven by shrinking consumer disposable incomes. However the Company preserved margins over the reporting period through a balanced pricing strategy.

Hyperinflationary Financial Results

Revenue decreased by ZW\$16 million (5%) on an inflation adjusted basis when compared to 2018, driven by declining sales offset by numerous price increases. Gross profit decreased by ZW\$16.4 million (7%) compared to 2018, driven by an increase in raw material costs and costs associated with the use of generators due to power interruptions during the year in our manufacturing activities.

Selling and marketing costs decreased by ZW\$10.5 million (27%) compared to 2018 driven by route to market initiatives to manage the Company's distribution costs.

Administrative expenses were ZW\$23.3 million (44%) lower than the previous year, driven by the business's ongoing cost saving initiatives.

Other losses increased by ZW\$62.1 million (11 353%) compared to 2018 due to foreign exchange losses on liabilities driven by the devaluation in the Zimbabwe dollar against the United States dollar.

Due to hyperinflation accounting, there was a ZW\$90.8 million (348%) increase on net monetary movements mainly driven by the restatement of opening retained earnings.

As a result of the above, operating profit decreased by ZW\$162.1 million (104%) versus the same period in prior year, to close at a loss of ZW\$5.8 million. Net loss attributable to shareholders for the period under review was ZW\$27.7 million compared to a profit of ZW\$95.3 million in the previous year, representing a 129% decline. Headline Earnings per share were ZW\$4.32 per share compared to ZW\$5.89 per share the previous period.

Total current assets were ZW\$189.4 million representing a ZW\$93.7 million decrease (33%) compared to ZW\$283.0 million in 2018, driven by a decrease in cash balances. Total current liabilities of ZW\$142.8 million were ZW\$60.8 million lower (30%) against ZW\$203.6 million driven by a reduction in trade payables. Cash generated from operations was a negative ZW\$17.9 million representing a ZW\$242.6 million (108%) decrease from the ZW\$224.7 million generated in 2018. This was due to a decrease in profit, increase in inventories (due to tobacco purchases for the cutrag export business that commenced in March 2020) and a decrease in payables.

Blocked funds registration

Subsequent to 31 December 2019, the Reserve Bank of Zimbabwe ("RBZ") registered blocked funds amounting to US\$15.2 million in respect of outstanding dividends, consistent with the blocked funds guidelines provided in the Exchange Control Directive RU28 dated 21 February 2019 and Exchange Control Circular No. 8 of 24 July 2019. Following the registration of the blocked funds, an amount of ZWL\$15.2 million was transferred to the RBZ to allow settlement of the registered blocked funds. In line with the provisions of the February 2019 Monetary Policy Statement on the settlement arrangements for these blocked funds, RBZ is now working on an appropriate Instrument(s) to facilitate settlement of the registered blocked funds. As a result of the registration, management has continued to account for the outstanding blocked funds at a rate of US\$1: ZWL\$1.

Dividend

As a result of the economic turbulence and loss incurred for the period, the Board has not declared a dividend for the period ended 31 December 2019.

Contribution to the Government Treasury

The Company contributes to the Government treasury through various taxes, including Excise duty, Corporate Tax, Value Added Tax, Customs Duties, Pay as You Earn and Withholding Tax. The Company's contribution to the Zimbabwe Revenue Authority (ZIMRA) in taxes increased by 138% from ZW\$42.5 million in 2018 to ZW\$101.3 million in 2019. The key driver of the increase in the tax contribution was Excise Duty, spurred by the increase in change from specific to mixed system (specific plus ad valorem). The specific rate moved during the year from ZW\$25/1000 sticks (specific excise) to ZW\$50/1000 sticks plus 20% ad valorem on the ex-factory price in August and closed the year at ZW\$100/1000 sticks plus 20% ad valorem on the ex-factory price in December. The increased Corporate Tax paid was driven by the increase in the profit before tax on a historical cost basis.

Corporate Governance

In terms of Article 88 of the Company's Articles of Association, the Board appointed Mr. Kimesh Naidoo as Managing Director of the Company with effect from 18 October 2019.

Further, Mr. Alejandro Riomajor resigned on 30 April 2020 and Mr Darryn Bassa and Mr. Constantine F. Chikosi were both appointed as Non-Executive Directors with effect from 30 April 2020.

The appointments will be confirmed at the next Annual General Meeting of the Company.

Outlook

Although the economic environment is likely to remain challenging in 2020 mainly driven by macro-economic movements and the effects of the Corona Virus disease (COVID-19), we are confident that through our effective business strategies, the equity of our brands and the quality of our people, the Company will deliver value growth for its shareholders.

Lovemore T. Manatsa
Chairman
10 June 2020

ABRIDGED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

| Notes | INFLATION ADJUSTED | | UNAUDITED HISTORICAL COST | |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
| | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 |
| Revenue | 329 446 | 345 536 | 152 759 | 42 704 |
| Cost of sales | (94 628) | (94 309) | (37 295) | (11 273) |
| Gross profit | 234 818 | 251 227 | 115 464 | 31 431 |
| Selling and marketing costs | (28 223) | (38 680) | (14 074) | (4 990) |
| Administrative expenses | (29 210) | (52 464) | (22 516) | (6 949) |
| Impairment (loss)/gain on trade receivables | (6 519) | 646 | (6 519) | 104 |
| Re-measurement of share-based payment liability | (22) | 112 | (22) | 13 |
| Other income | 1 721 | 20 968 | 1 324 | 2 941 |
| Other (losses)/gains- net | 5 (61 555) | 547 | (41 677) | 88 |
| Monetary loss on hyperinflation adjustment | (116 856) | (26 089) | - | - |
| (Loss)/profit before income tax | (5 846) | 156 267 | 31 980 | 22 638 |
| Income tax expense | (21 854) | (60 895) | (9 240) | (7 830) |
| Total comprehensive (loss) /income for the period | (27 700) | 95 372 | 22 740 | 14 808 |
| Attributable to: Owners of the parent | (27 700) | 95 372 | 22 740 | 14 808 |
| Basic earnings per share (ZW\$) | (1.34) | 4.62 | 1.10 | 0.72 |
| Diluted earnings per share (ZW\$) | (1.34) | 4.62 | 1.10 | 0.72 |
| Headline earnings per share (ZW\$) | 4.32 | 5.89 | 1.10 | 0.72 |

ABRIDGED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

| Notes | INFLATION ADJUSTED | | UNAUDITED HISTORICAL COST | |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
| | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 52 883 | 59 594 | 6 402 | 6 941 |
| Intangible assets | 97 | 144 | 11 | 18 |
| Investment property | 1 374 | 1 432 | 160 | 164 |
| Financial assets at fair value through profit or loss | 531 | 1 376 | 531 | 221 |
| Deferred tax asset | 7 137 | - | 12 922 | - |
| | 62 022 | 62 546 | 20 026 | 7 344 |
| Current assets | | | | |
| Inventories | 113 943 | 45 188 | 88 175 | 5 805 |
| Trade and other receivables | 33 047 | 29 361 | 33 047 | 4 727 |
| Cash and cash equivalents | 42 377 | 208 462 | 42 377 | 33 561 |
| | 189 367 | 283 011 | 163 599 | 44 093 |
| Total assets | 251 389 | 345 557 | 183 625 | 51 437 |
| EQUITY AND LIABILITIES | | | | |
| Equity attributable to the owners of the parent | | | | |
| Share capital | 44 903 | 44 903 | 5 214 | 5 214 |
| Non-distributable reserve | 2 898 | 2 898 | 337 | 337 |
| Retained earnings | 60 746 | 88 446 | 35 232 | 12 492 |
| Total equity | 108 547 | 136 247 | 40 783 | 18 043 |
| Non-current liabilities | | | | |
| Deferred income tax liabilities | - | 5 690 | - | 613 |
| Current liabilities | | | | |
| Trade and other payables | 7 129 828 | 189 482 | 129 828 | 30 505 |
| Staff benefits liability | 6 107 | 9 386 | 6 107 | 1 511 |
| Share-based payment liability | 136 | 1 379 | 136 | 222 |
| Current tax liability | 6 771 | 3 373 | 6 771 | 543 |
| | 142 842 | 203 620 | 142 842 | 32 781 |
| Total equity and liabilities | 251 389 | 345 557 | 183 625 | 51 437 |

The notes are an integral part of these consolidated financial statements. These financial statements were authorised for use by the board of directors on 10 June 2020 and signed on its behalf by:

Kimesh Naidoo
Managing Director

Leslie Malunga
Finance Director

Abridged Audited Financial Results for the Year Ended 31 December 2019



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ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

| | INFLATION ADJUSTED | | | |
|--|--------------------------------------|---------------------------|-------------------|-----------------|
| | ATTRIBUTABLE TO OWNERS OF THE PARENT | | | Total |
| | Share capital | Non-distributable reserve | Retained earnings | |
| ZWS000 | ZWS000 | ZWS000 | ZWS000 | |
| Balance at 1 January 2018 | 44 903 | 2 898 | 69 159 | 116 960 |
| Total comprehensive income for the year | - | - | 95 372 | 95 372 |
| Dividends | - | - | (76 085) | (76 085) |
| Balance at 31 December 2018 | 44 903 | 2 898 | 88 446 | 136 247 |
| Balance at 1 January 2019 | 44 903 | 2 898 | 88 446 | 136 247 |
| Total comprehensive (loss)/income for the year | - | - | (27 700) | (27 700) |
| Dividends | - | - | - | - |
| Balance at 31 December 2019 | 44 903 | 2 898 | 60 746 | 108 547 |

Non-distributable reserve

This reserve arose as a result of the change in the Company's functional currency from the Zimbabwe dollar to the United States dollar. It represents the residual equity that existed as at 1 February 2009, the date of the changeover.

ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

| | UNAUDITED HISTORICAL COST | | | |
|---|--------------------------------------|----------------------------|-------------------|-----------------|
| | ATTRIBUTABLE TO OWNERS OF THE PARENT | | | Total |
| | Share capital | Non-distributable reserves | Retained earnings | |
| ZWS000 | ZWS000 | ZWS000 | ZWS000 | |
| Balance at 1 January 2018 | 5 214 | 337 | 8 035 | 13 586 |
| Total comprehensive income for the year | - | - | 14 808 | 14 808 |
| Dividends | - | - | (10 351) | (10 351) |
| Balance at 31 December 2018 | 5 214 | 337 | 12 492 | 18 043 |
| Balance at 1 January 2019 | 5 214 | 337 | 12 492 | 18 043 |
| Total comprehensive income for the year | - | - | 22 740 | 22 740 |
| Dividends | - | - | - | - |
| Balance at 31 December 2019 | 5 214 | 337 | 35 232 | 40 783 |

ABRIDGED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

| | INFLATION ADJUSTED | | UNAUDITED HISTORICAL COST | |
|---|--------------------|--------------------|---------------------------|--------------------|
| | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 |
| Cash flows from operating activities | | | | |
| Cash (utilised in)/generated from operations | (17 966) | 224 711 | 25 904 | 24 844 |
| Income tax paid | (31 283) | (60 761) | (16 711) | (7 783) |
| Net cash (utilised in)/generated from operating activities | (49 249) | 163 950 | 9 193 | 17 061 |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | (1 237) | (2 394) | (391) | (278) |
| Proceeds on disposal of property, plant and equipment | 102 | 175 | 19 | 20 |
| Net cash from investing activities | (1 135) | (2 219) | (372) | (258) |
| Cash flows from financing activities | | | | |
| Dividends paid to owners of the parent | (28) | (41 059) | (5) | (4 712) |
| Dividends paid to non-controlling interests | - | - | - | - |
| Net cash used in financing activities | (28) | (41 059) | (5) | (4 712) |
| Effect of inflation on cash and cash equivalents | (115 673) | (45 571) | - | - |
| (Decrease)/increase in cash and cash equivalents | (166 085) | 75 101 | 8 816 | 12 091 |
| Cash and cash equivalents at the beginning of the period | 208 462 | 133 361 | 33 561 | 21 470 |
| Cash and cash equivalents at end of the period | 42 377 | 208 462 | 42 377 | 33 561 |

NOTES TO THE ABRIDGED AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General Information

British American Tobacco Zimbabwe (Holdings) Limited ("the Company") manufactures, distributes and markets cigarettes to a network of independent distributors, wholesalers and retailers. The Company has a cigarette manufacturing plant in Zimbabwe and sells cigarettes solely on the Zimbabwe market.

2. Accounting policies and reporting currency

There has been no change in the Company's accounting policies since the date of the last audited financial statements, however, these financial statements are presented in Zimbabwe dollars (ZW\$), being the currency of the primary economic environment in which the Company operates. Comparator periods have been translated at the rate of 1:1 between ZW\$ and US\$. Additionally, legacy debt has been translated at a rate of 1:1 between ZW\$ and US\$.

3. Basis of preparation

The Company's financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and are based on statutory records that are maintained under the historical cost convention, except for financial assets at fair value through profit or loss, which are carried at fair value. Appropriate adjustments for changes in the general purchasing power of the Zimbabwe dollar for the purposes of fair presentation in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*, have been made in these financial statements to the historical cost financial information of the Company.

IAS 29 *Financial Reporting in Hyperinflationary Economies*, requires that the financial statements be prepared in the currency of a hyperinflationary economy and be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. The restatement was calculated by means of conversion factors derived from the Zimbabwe Consumer Price Index (CPI) issued by the Zimbabwe Central Statistical Office. The indices and conversion factors used to restate the accompanying financial statements at 31 December 2019, are as follows:

| Dates | Indices | Conversion factor |
|----------------------------|---------|-------------------|
| CPI as at 31 December 2019 | 551.6 | 1.000 |
| CPI as at 31 December 2018 | 88.8 | 6.211 |
| Average CPI 2019 | 240.27 | |
| Average CPI 2018 | 67.63 | |

Supplementary information

4. Depreciation

| | INFLATION ADJUSTED | | UNAUDITED HISTORICAL COST | |
|---------------------|--------------------|--------------------|---------------------------|--------------------|
| | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 | 31 Dec 2019 ZWS000 | 31 Dec 2018 ZWS000 |
| Depreciation charge | (7 951) | (7 636) | (929) | (992) |
| Amortisation charge | (47) | (54) | (5) | (5) |
| | (7 998) | (7 690) | (934) | (997) |

5. Other (losses)/gains - net

| | | | | |
|-------------------------|-----------------|------------|-----------------|-----------|
| Fair value gains | 310 | 547 | 310 | 88 |
| Foreign exchange losses | (61 865) | - | (41 987) | - |
| | (61 555) | 547 | (41 677) | 88 |

6. Capital expenditure

| | | | | |
|--|----------------|----------------|--------------|--------------|
| | (1 237) | (2 394) | (391) | (278) |
|--|----------------|----------------|--------------|--------------|

7. Trade and other payables

| | 31 Dec 2019 ZWS 000 | 31 Dec 2018 ZWS 000 | 31 Dec 2019 ZWS 000 | 31 Dec 2018 ZWS 000 |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| Trade payables | 62 536 | 16 057 | 62 536 | 2 585 |
| Amounts due to related parties | 62 971 | 126 758 | 62 971 | 20 407 |
| Social security and other taxes | 68 | 19 063 | 68 | 3 069 |
| Accrued expenses | 1 400 | 10 292 | 1 400 | 1 657 |
| Dividends payable | 2 705 | 16 833 | 2 705 | 2 710 |
| Other | 148 | 479 | 148 | 77 |
| | 129 828 | 189 482 | 129 828 | 30 505 |

8. Going concern

The Directors believe that the Company is a going concern and will continue to be for the foreseeable future. The recent development of export markets is expected to provide enough foreign currency required to source raw materials to maintain and continue day to day operations. The Directors are confident that the export business is pivotal in strengthening the future development, performance and position of the Company.

In light of the global pandemic, COVID-19, the Directors are of the view that the significant doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Auditor's statement

The financial statements should be read in conjunction with the complete set of financial statements for the year ended 31 December 2019, which have been audited by KPMG Chartered Accountants (Zimbabwe), with the responsible partner being Craig Adamson. An adverse opinion was issued thereon, in respect of functional currency, as requirements of IAS 21 *The Effects of Foreign Exchange Rates* were not complied with. The auditor's report on the financial statements, which forms the basis of these financial results, is available for inspection at the Company's registered office.