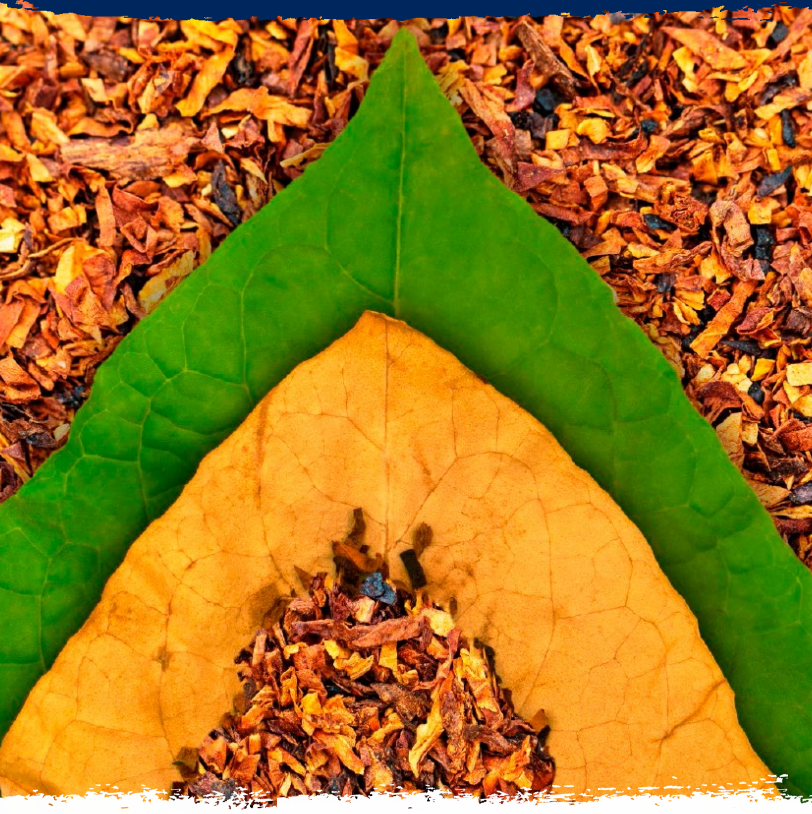
ANNUAL REPORT
2016



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*The financial statements are expressed in United States Dollars (US$).

Our Brands

DANGER: SMOKING IS HARMFUL TO HEALTH

Vision, Mission, Strategic Pillars and Guiding Principles

Our Vision

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

We have centred our vision around the consumer. Everything we do must be about exciting the consumer and being passionate about meeting their needs ahead of anyone else. Going forward, we must understand the smoking experiences that consumers are looking for and offer them a choice of products that satisfy their needs.

Our Mission

To champion informed consumer choice and shape a new deal with society. Our mission is our higher purpose, it is what we believe in and it is what will help us deliver the future.

Informed consumer choice means that we will advocate and defend the rights of our consumers to choose, give them real choice to meet their needs and ensure that they are informed about the potential implications of their choices. We need to participate in the shaping of a new deal with society, one that is not based on the stark choice of quit or die but presents a third way. We believe that we can forge a 'new deal' with consumers and society alike, as we aspire to lead in developing and commercialising a portfolio of reduced risk tobacco.

Strategic Imperatives

We must accelerate our growth by sharpening our combustible model, winning in the Next Generation Products and pursuing organic opportunities. Growth will be enabled by a globally integrated enterprise, proactive external engagement and talented leaders.

Our Guiding Principles

Enterprising Spirit

We have the confidence to passionately pursue growth and new opportunities whilst 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 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

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 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.

International Marketing Principles

At British American Tobacco we believe in upholding high standards of corporate behaviour. We agree that the tobacco industry should be regulated, but we also think we should be able to communicate in a responsible way with adult tobacco consumers about our products, in order to grow market share.

We believe our marketing should be responsible and honest.

Our four core principles are:

1

Our marketing will not mislead about the risks of smoking.

2

We will only market our products to adult smokers.

3

We will not seek to influence the consumer's decision about whether or not to smoke, nor how much to smoke.

4

It should always be clear to our consumers that our advertising originates from a tobacco company and that it is intended to promote the sale of our tobacco brands.

Directorate, Committees & Administration

DIRECTORATE

Non-Executive Chairman
Mr Lovemore T Manatsa

Non-Executive Directors
Mrs Angela Mashanyare
Professor Hope C Sadza

Executive Directors
Mrs Clara Mlambo (Managing Director)
Mr Lucas Francisco (Finance Director)

COMMITTEES

Board Audit Risk and CSR Committee
Mrs Angela Mashanyare
Mr Lovemore T Manatsa
Professor Hope C Sadza

Board Compensation Committee
Mr Lovemore T Manatsa
Mrs Angela Mashanyare
Professor Hope C Sadza

Auditors

KPMG Chartered Accountants (Zimbabwe)
Mutual Gardens
100 The Chase (West)
Emerald Hill
Harare

Administration

Company Secretary
Stephen Nyabadza
Registered Office
1 Manchester Road
P.O. Box ST98
Southerton
Harare

Transfer Secretaries
First Transfer Secretaries
1 Armagh Avenue
Off Enterprise Road
Eastlea
Harare

Bankers

Standard Chartered Bank Zimbabwe Limited
Africa Unity Square Branch
68 Nelson Mandela Avenue
Africa Unity Square Building
Harare
P.O. Box 60
Harare

Legal Practitioners

Chihambakwe, Mutizwa and Partners
7 Lawson Avenue
Milton Park
Harare

Directorate

MR LOVEMORE T MANATSA
NON-EXECUTIVE CHAIRMAN

Mr Lovemore Tavaziya Manatsa was appointed Chairman of British American Tobacco Zimbabwe (Holdings) Limited (BAT Zimbabwe) in 2016, having served as Managing Director for British American Tobacco Zimbabwe (Holdings) Limited since September 2008. He joined the Company as the Advertising Manager in 1995, and occupied various senior roles within the Company and within the BAT Southern Africa Markets Area. In mid - 2007 Lovemore was appointed Country Manager for the BAT Zambia & Malawi Cluster and was based in Lusaka. Lovemore retired from his last position as Managing Director of the Company on 31 January 2016 but remained as a Non-Executive Director. Lovemore also sits on the Board of Standard Chartered Bank (Zimbabwe) Limited as a Non-Executive Director.

MRS ANGELA MASHANYARE
NON-EXECUTIVE DIRECTOR

Mrs Angela Mashanyare was appointed as Non-Executive Director for British American Tobacco Zimbabwe (Holdings) Limited in 2003. She has been Chief Executive Officer for Business Equipment Corporation for the past eleven years, a position she holds today. Mrs Mashanyare serves on a number of boards for local and international organisations and has brought to British American Tobacco Zimbabwe (Holdings) Limited her many years of experience. She is a member of the Business Council of Zimbabwe, National Chamber of Commerce and serves as Councillor of the Institute of Directors in Zimbabwe.

PROFESSOR HOPE C SADZA
NON-EXECUTIVE DIRECTOR

Professor Hope Cynthia Sadza co-founded the Women's University in Africa (WUA) with Dr Fay Chung in 2002. She is the Vice Chancellor of WUA. She served as a Public Service Commissioner for ten years, a Parastatal's Services Commissioner and a Public Service Review Commissioner. She sits on several professional organisations and also sits on Boards of Delta Corporation, Securico Security Services and the Administrative Board of the International Association of Universities. She is the Patron of the National Blood Services of Zimbabwe, Chairperson of the Commander Airforce of Zimbabwe Charity Fund and Chairperson of the Joshua Nkomo Scholarship Trust. She has received accolades locally and from Nigeria and Washington DC. She was co-chairperson for the All Stakeholders Conference responsible for writing the new constitution of Zimbabwe.

Directorate

MRS CLARA MLAMBO
MANAGING DIRECTOR

Mrs Clara Mlambo was appointed Managing Director of the Company with effect from 1 February 2016. Clara joined the Company as a Management Trainee and went further to hold the positions of Head of Brands, Head of Trade and Marketing Manager. In 2006, Clara was posted to British American Tobacco South Africa where she was initially Cluster Manager Grocery responsible for the Spar, Pick'n'Pay and Shoprite Accounts. In 2009, Clara became Area Head of Brands Sub Saharan Africa and later Area Head of Brands East and Central Africa Area based in Kenya. From September 2011 to December 2013, Clara held the position of Head of Marketing for the British American Tobacco Southern Africa Markets cluster. Prior to her recent appointment, Clara was Managing Director of British American Tobacco (Zambia) Plc which is listed on the Lusaka Stock Exchange.

MR LUCAS A FRANCISCO
FINANCE DIRECTOR

Mr Lucas Antonio Francisco was appointed as Finance Director of the Company with effect from 8 December 2015. Lucas has enjoyed over 9 years experience in various senior finance and internal audit roles within the British American Tobacco Southern Africa Area Markets. Prior to his recent appointment, Lucas was the Finance Director of British American Tobacco Mozambique Limitada.

MR STEPHEN NYABADZA
COMPANY SECRETARY

Stephen is the Legal and External Affairs Manager and Company Secretary for British American Tobacco Zimbabwe (Holdings) Limited. Stephen has over 10 years experience in commercial law practise in Zimbabwe and within the region. He joined British American Tobacco Zimbabwe (Holdings) Limited in May 2013. Prior to this, he was the Company Secretary and Legal Advisor of a listed hotel group. He is admitted to the practise in Zimbabwe and Botswana as an Attorney, Conveyancer and Notary Public.

Leadership Team*

MS RUMBIDZAI HONDORA
HEAD OF TRADE

Rumbidzai is an Associate Member of the Institute of Marketing Management South Africa as well as the Marketing Association of Zimbabwe. She has an IMM Diploma in Marketing Management, a Bachelor of Arts Hons in Economic History from the University of Zimbabwe and recently completed a Masters of Business Leadership with UNISA. She has a wealth of experience in trade and distribution, particularly in the FMCG industry, having worked for several local companies over the past 8 years. Rumbidzai joined BAT Zimbabwe in May 2012 as Trade Marketing and Distribution Manager and was appointed Head of Trade in November 2013.

MR MOSES MUSARUGWA
HEAD OF MANUFACTURING

Moses joined Rothmans Zimbabwe as an Apprentice in 1991. In 1998 he was part of the team that put up the Factory in Chimoio, Mozambique where he was responsible for the maintenance of the factory. He returned to Zimbabwe in 2000 after the merger of Rothmans and BAT as an Electrical Team Leader, a position he held until 2005 when he was promoted to Plant Engineer. In 2006, his scope was expanded to Secondary Manufacturing, Engineering and Environmental Health and Safety. He was then promoted to Head of Manufacturing in 2007.

MR KUDZAI CHAMBA
HR BUSINESS PARTNER

Mr Kudzai Chamba has been with BAT Zimbabwe since September 2012, as a HR Manager bringing with him 8 years of progressive experience gained from the Packaging and Retail industry. Kudzai was elevated in 2016 to the role of HR Business Partner for Zimbabwe, Zambia and Malawi. He holds a Degree in Politics and Administration from the University of Zimbabwe.

*Profiles of Mrs Clara Mlambo, Mr Lucas Francisco and Mr Stephen Nyabadza can be found on page 7

BRITISH AMERICAN TOBACCO
ZIMBABWE

ISO 9001:2015
CERTIFIED COMPANY.

inyoita, haaaa...heavy!

Chairman's Statement

"Independent research confirms that the company's market share continues to grow year-on-year"

Financial Highlights

Group Summary (US$ 000's)	YEAR ENDED 31 DECEMBER 2016 US$ 000	2015 US$ 000
Revenue	34 068	45 265
Operating profit	11 916	20 791
Profit before income tax	11 952	20 788
Profit attributable to shareholders	8 477	15 476
Total assets	31 707	28 943
Basic earnings per share (US$)	0.41	0.75
Diluted earnings per share (US$)	0.41	0.75

Introduction

During the year under review, the economic environment remained constrained, characterised by weak consumer demand resulting principally from weak macro-economic performance. The year recorded low production levels across various sectors of the economy. Agricultural output was depressed by the recent El Nino induced drought, whilst natural resources output was negatively affected by the depressed commodity prices on the international market.

Against this backdrop, the total market size of the cigarette industry further contracted. Resultantly, British American Tobacco Zimbabwe (Holdings) Limited's volume performance declined compared to the year ended 31 December 2015. It is in this context that British American Tobacco Zimbabwe (Holdings) Limited ("BAT Zimbabwe" or "the Group") presents its financial results for the financial year ended 31 December 2016.

Volumes

The Company continues to lead the cigarette industry despite sales volumes declining by 21% from the previous year due to the reasons stated above. The volume decrease was experienced in our local brands, which declined by 21.5% compared to the same period in 2015. Our Global Drive Brand, Dunhill, grew by 7.2% compared to the same period in the prior year driven by a small but growing consumer base.

Financial Results

Total revenues were US$34.1 million, a 25% reduction compared with the same period in the prior year. This was mainly due to the decrease in sales volumes as a result of the economic environment described above. Consequently, gross profit for the period declined by US$7.6 million (24%) to US$24.7 million, compared to the period ended 31 December 2015.

Selling and marketing costs increased by US$0.4 million (9%) compared to the period ended 31 December 2015, due to increased marketing activities carried out to defend the Company's sales volumes. Administrative expenses were 3% lower compared to the same period in the prior year. The foregoing is largely attributable to the annualised benefit of the staff rationalisation exercise and a decrease in management and technical advisory fees.

Other income decreased by US$1.2 million (42%) compared to the period ended 31 December 2015 driven by the once off income from the property sale in 2015.

Operating profit decreased by US$8.9 million (43%) compared to the period ended 31 December 2015, to close at US$11.9 million. Net profit attributable to shareholders for the period was US$8.5 million which was down by US$7.0 million compared to the period ended 31 December 2015. This represents a decrease in earnings per share to US$0.41, down from US$0.75 for the period ended 31 December 2015.

Cash generated from operations was US$13.3 million, which is a decrease of 13% against US$15.3 million achieved in the period ended 31 December 2015. The decrease was mainly due to a profit decrease offset by improved collections, delays in payments to foreign suppliers and a decrease in stock holding.

Dividend

The Group continues to hold in the highest regard the interests of its shareholders to achieve maximum returns on their investments.

In view of the profit for the period ended 31 December 2016 and considering our dividend policy, the Board is proposing the declaration of a final dividend of US$ 0.33 per share. This, together with the interim dividend of US$0.18 per share, brings the total dividend for 2016 to US$0.51, a decrease of 44% versus 2015.

Contributions to the Government Treasury

Chairman's Statement (Continued)

The Company's contribution to the Zimbabwe Revenue Authority in taxes, that is to say Excise, Corporate Tax, VAT, PAYE and Withholding Tax, declined by 13%, from US$37.3 million paid for the period ended 31 December 2015 to US$32.5 million for the period ended 31 December 2016. The decline is highly linked to the performance of the business in 2016, as detailed above.

Corporate Governance

In terms of Article 96 of the Company's Articles of Association, Mrs Angela Mashanyare and Professor Hope Cynthia Sadza retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election in terms of the Company's Articles of Association.

Outlook

Trading conditions are expected to remain challenging in 2017, despite the measures implemented to alleviate the currency shortage in the country. We are confident that given our strategies and the quality of our people we will strive to deliver a decent return on investment to our shareholders.

Lovemore T Manatsa
Chairman

21 February 2017

Managing Director's Review

"Notwithstanding, our global drive brand Dunhill continued on a growth trajectory, securing a 7.2% growth compared to the same period in prior year."

Introduction

2016 was a challenging year for most businesses, mainly as a result of cash shortages which effectively reduced consumer purchasing power. The manufacturing sector remained under pressure principally as a result of limited capital inflows, low aggregate demand, high cost of utilities and bottlenecks in making foreign payments with respect to critical raw materials.

Towards the end of last year, Government put in place various initiatives, including the introduction of bond notes with the intent of addressing the cash shortages and other challenges found by businesses.

BAT Zimbabwe is supportive of Government's position not to increase excise on cigarettes with respect to the 2017 financial year. This will allow the industry to stabilise its prices thereby regain volumes lost in the previous years.

The cigarette industry volume declined further in 2016 due to the economic challenges stated above. An increase in illicit trade was noted, particularly in certain areas in Harare as consumers grappled with affordability challenges.

Cigarette smuggling deprives Government of revenues and devalues investments in local operations and distribution networks. Illicit trade in cigarettes also harms established brands and undermines the regulatory frameworks governing legitimate tobacco industry players.

Despite the above challenges, based on independent research carried out by our company, BAT Zimbabwe's average market share declined slightly by 1% to close at 79% from 80% for the year ended 31 December 2015.

That said, in terms of excise contribution statistics, as per the Government's Consolidated Statement of Account for the period to 30 October 2016, the company contributed 86% of the overall excise for the cigarettes sector. Since Zimbabwe's excise regime is specific, and assuming that all legally registered cigarette companies pay excise, this translates to 86% of the market share for the period.

Net profit attributable to shareholders however, decreased by US$7 million compared to the year ended 31 December 2015 to close at US$8.5 million. The directors have recommended a final dividend of US$0.33 per share, which together with the interim dividend of US$0.18 per share declared in 2016, brings the aggregate dividend for 2016 to US$0.51 per share.

Company Performance

As a result of the economic challenges stated above, the company recorded an overall volume decline of 21% across the board. Notwithstanding, our global drive brand Dunhill continued on a growth trajectory, securing a 7.2% growth compared to the same period in prior year.

As part of our drive to support our brands and reward our loyal consumers, we ran our ever popular Madison *Usadherere/Ungadeleli* promotion in Quarter 2 and Quarter 3, thereby delivering additional value to the trade and consumers.

Our Everest #LEVELS promotion was the cornerstone for the growth for the brand in 2016. We are incredibly excited about the prospects of the Everest brand going into the future, as it continues to indisputably lead the emerging menthol segment in Zimbabwe.

The company made capital investments across its route to market by replacing aged fleet, and acquiring motor bikes for trading partners nationwide.

Productivity

Our customers are critical stakeholders in the growth and sustainability of the business. In 2016, BAT Zimbabwe was certified to ISO9001:2015 Quality Management System. This system will be assistive in managing the various business processes so that we continue to meet and exceed our customer expectations.

BAT Zimbabwe is committed to its employees, contractors and visitors safety and annually we invest in safety improvement initiatives. 2016 was another full year of ZERO accidents for BAT Zimbabwe, making it the fourth continuous year of ZERO accidents for the company.

Our manufacturing cost per unit of production reduced by a significant 20% attributable to our cost efficiency model which requires that we only spend where it matters, coupled by an optimized headcount, crewing options as well as negotiations for best prices with various suppliers.

Sustainability

We are extremely proud of the successful empowerment initiatives that have been undertaken by our empowerment vehicle, i.e. the BAT

Managing Director's Review (continued)

Zimbabwe Tobacco Empowerment Trust. The main objective of the Trust is to empower indigenous tobacco farmers in Zimbabwe. To date, the Trust has successfully established a centre of excellence in tobacco production at Chaminuka Vocational Training Centre (VTC) in Mount Darwin. The Trust has completed all the capital works at Chaminuka VTC which include the renovation of classrooms and residences, construction of tobacco barns, the establishment of an irrigation system and the setup of an IT centre at the institution.

The first group of 133 students will complete their first year at the centre in May 2017. The total cost of this investment is US$696 582, of which US$316 000 has already been fully expended on the project to date.

Winning Organisation
The business maintained its focus on ensuring it has a fit for purpose structure, mainly by expanding its resourcing in key areas such as distribution and rightsizing our support functions. The benefits of these changes have begun to yield positive results and the momentum should continue going forward.

We also continued to invest in our people through maintaining focus on developing talent, employee wellness and appropriate reward approaches ensuring that we grow our Top Employer brand.

Achievements
In 2016, BAT Zimbabwe received accolades in recognition of its market leadership, tax contribution and financial performance from independent and regulatory authorities such as the Zimbabwe Revenue Authority, Zimbabwe Independent - Quoted Companies and Old Mutual Top Companies.

Acknowledgements
We acknowledge our trade partners for their support in ensuring that our business furnishes a good financial performance in the context of a challenging economic climate.

On behalf of the Board and Management, I thank our employees for the commitment to the highest standards of business conduct and their enterprising spirit which has been instrumental in us meeting and surpassing shareholder expectations.

Finally, I am grateful to our loyal consumers for their continued support.

Going forward, the business remains committed to satisfy consumer moments through our differentiated portfolio.

Clara Mlambo
Managing Director

21 February 2016

Directors' Report

MR LUCAS FRANCISCO
FINANCE DIRECTOR

"Net Profit before taxation totalled US$12.0 million."

The Directors have pleasure in presenting the audited financial statements for the year ended 31 December 2016.

The Directors' report has been drawn up and is presented in accordance with and reliance upon applicable Zimbabwe company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Group Results

The Group's results are addressed fully in the financial statements.

Net profit before taxation totalled US$12.0 million whilst profits attributable to ordinary shareholders amounted to US$8.5 million (US$0.41 per share).

Dividends (Historic Cost)

An interim dividend of US$0.18 per share was declared in July 2016. A final dividend of US$ 0.33 per share was proposed at the board meeting held in February 2017, bringing the total dividends declared for the year ended 31 December 2016 to US$0.51 per share. This compares with a total dividend of US$0.91 per share declared for the year ended December 2015.

Reserves

The movements in reserves are shown in the statement of changes in equity.

Investments

Particulars of subsidiaries, associate companies and other investments are disclosed in note 6 of the financial statements.

Directorate

In terms of Article 96 of the Company's Articles of Association, Mrs Angela Mashanyare and Professor Hope Cynthia Sadza retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election in terms of the Company's Articles of Association.

Directors' Interest

As at 31 December 2016, the Directors held, directly and indirectly, an interest of 0.0097% (31 December 2015: 0.0097%) in the issued share capital of the Company. No change in the interest of Directors has taken place between the financial year end and the date of this report.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement and Managing Directors Report.

Stock Market Listings

The ordinary shares of the Company (as British American Tobacco Zimbabwe (Holdings) Limited) are listed and are trading on the Zimbabwe Stock Exchange.

Share Capital

As at 31 December 2016, the Company had an authorised issued share capital comprising 20 633 517 ordinary shares.

Auditors

The Group's auditors, KPMG Chartered Accountants (Zimbabwe), have indicated their willingness to continue in office.

On behalf of the Board

Lucas Francisco
Finance Director

21 February 2017

Corporate Governance Report

"The company's non-executive directors have extensive experience and specialist skills across a range of sectors."

We define corporate governance as the creation and enhancement of long term sustainable value for our stakeholders through ethically driven business processes. At British American Tobacco Zimbabwe (Holdings) Limited, it is imperative that our company affairs are managed in a lawful and transparent manner.

British American Tobacco Zimbabwe (Holdings) Limited aims to attain high standards of corporate governance and compliance with legislation and any applicable codes to ensure that the business is sustainable.

The Directors confirm that the company materially complied with the principles of the UK Code on Corporate Governance as read together with the British American Tobacco Group Corporate Governance Booklet throughout the financial year.

Board Composition

The Board is composed of five directors, two who are executive directors and three non-executive directors.

Detailed profiles of the directors including qualifications, skills and experience are set out on pages 6 and 7 of the Annual Report.

The Company's non-executive directors have extensive business experience and specialist skills across a range of sectors. This enables them to provide balanced and independent advice and judgement in the decision making process.

The Board meets at least four times a year. Additional meetings may be convened to consider specific business issues which may arise between scheduled meetings. No additional meetings were required during the financial year under review.

Board Chairman

The Board elected Mr Lovemore T Manatsa as Chairman of the Board pursuant to the resignation of Dr Mandevhani in May 2016. Prior to his appointed as Chairman, Mr Manatsa was the Company's Managing Director until 31 January 2016.

Since January 2016, the Company has experienced significant changes at both Management and Board level. In addition, the Company's trading environment has become increasingly challenging. In view of the foregoing, the Board considers it to be in the best interest of the Company and necessary to appoint Mr Manatsa to the position of the Chairman. Mr Manatsa has a long history with the Company, having served as Managing Director until his retirement in January 2016. Mr Manatsa has also been involved in various key strategic initiatives and projects with the Company, some of which are still ongoing.

In terms of the Company's Articles of Association, the position of Chairman is reviewed from time to time by the directors.

Leadership and Effectiveness

The Board is collectively responsible for the Company's vision and strategic direction, its values and its governance. The Board is accountable for the performance of the business and the Company's long term success. It provides leadership necessary for the Company to meet its performance objectives with the frameworks of internal controls. Specifically, the Board's responsibility includes the following:

- Company strategy and policies;
- Major corporate activities;
- Annual Report plan and budget;
- Board succession plans;
- Risk management and internal controls;
- Periodic financial reporting; and
- Dividend policy.

In terms of Article 105 of the Company's Articles of Association, the Managing Director is responsible for the day to day management of the affairs of the company, with such powers, direction and delegation as is authorised from time to time by the Board through specific Statements of Delegated Authorities.

Board Appointments

The Board, constituting itself as nomination committee, considers vacancies or additional membership on the Board in a transparent process. In terms of Article 88 of the Company's Articles of Association, any directors appointed by the Board to fill in a causal vacancy or as an addition to the Board shall hold office only until the next following Annual General Meeting of the Company and shall be eligible for re-election at such meeting.

Newly appointed directors undergo a formal director induction process which includes meetings with the head of functions and a tour of the company's operations throughout Zimbabwe. From time to time,

Corporate Governance Report (continued)

directors receive ongoing training and development particularly around regulatory changes relevant to the company's operations.

In terms of Article 96 of the Company's Articles of Association, at least one third of the directors must retire by rotation in each year. In this regard, Professor Hope Sadza and Mrs Mashanyare, retire at the next Annual General Meeting and, being eligible, offer themselves for re-election in terms of the Company's Articles of Association.

Company Secretary

In terms of article 125, the Company Secretary is appointed by the directors. The Company Secretary ensures that the Board complies with constitutional documents, regulations and corporate governance requirements. The Company Secretary provides advice to directors with respect to their fiduciary responsibilities. The Company Secretary advises the Board on any legislative updates and changes in the law which affect the business.

The Company Secretary is the custodian of good corporate governance. The Board is of the view that it is able to look up to the company secretary for advice with respect to their responsibilities and duties in terms of the law.

2016 Board Attendance

Director Name	16th February	26th July	12th October	7th December
Dr. Mandevhani	√	N/A	N/A	N/A
Mr. Lovemore Manatsa	√	√	√	√
Prof. Hope C Sadza	√	√	-	√
Mrs. A Mashanyare	√	√	√	√
Mr. Gary Fagan	√	N/A	N/A	N/A
Mrs. Clara Mlambo	√	√	√	√
Mr. Lucas Francisco	√	√	√	√
Notes- Dr. Mandevhani and Mr. Fagan resigned from the Board in May 2016.				

Director Independence Statement

Independent directors are directors who have the ability to exercise their duties to the Company unfettered by any business or other relationship with the Company and are willing to express their opinions at board meetings free of concern about their position or the position of any other third party. The Board notes that it might be difficult to provide an exhaustive qualification of director independence but has adopted the following useful guidelines for its purposes;

An independent director is one who:

- is not a representative or nominee of a shareholder
- was not in the employment of BAT Zimbabwe in the past three financial years;
- is not a professional advisor of BAT Zimbabwe or the Group;
- is not a material supplier or material customer of BAT Zimbabwe;
- is free from business or other relationship with BAT Zimbabwe which is or could be material

Each director is required to immediately disclose to the Board if they have any interest or relationship which is likely to impact on their independence or if the director believes that he or she is no longer independent.

The following are the company's independent directors:

Name	Year of Appointment
Mrs. Angela Mashanyare	2003
Professor Hope C Sadza	2013

As at 31 December 2016, the company had two executive directors, namely Mrs. Clara Mlambo (Managing Director) and Mr. Lucas Francisco (Finance Director).

Conflict of Interest

The Board has formal procedures for managing conflicts of interests in accordance with the provisions of the Companies Act (Chapter 24:03) as read together with the Company's constitutional documents.

Directors are required to give advance notice of any conflict issues to the Company Secretary, and these are considered at the next Board meeting. No material conflicts were reported by Directors in 2016.

Corporate Governance Report (continued)

A Balanced Board

Our non-executive directors come from broad industry and professional backgrounds with varied experience and expertise aligned to the needs of the business.

The Board appreciates the benefit of diversity in all its forms, within its own membership and at all levels of the Company. The Board promotes diversity and is encouraging initiatives to improve gender diversity in senior management roles.

Board Committees

Audit, Risk and Corporate Social Responsibility Committee

The Audit, Risk and Corporate Social Responsibility Committee comprises of two independent directors and one non-executive director. The committee meets at least three times a year and is responsible for assisting the board in fulfilling its corporate governance responsibilities in relation inter alia to the following:

- The integrity of financial reporting;
- Compliance with legal and regulatory obligations;
- Monitoring the effectiveness of BAT Zimbabwe's enterprise wide risk management and internal controls framework; and
- Oversight of the independence of external auditors.

At least once a year, the Audit, Risk and Corporate Social Responsibility Committee meets privately with the external auditors.

Board Compensation Committee

The Board Compensation Committee comprises of two independent non-executive directors and two executive directors. The committee is responsible for assisting the Board in fulfilling its corporate governance responsibilities with regards to remuneration matters including the following:

- Remuneration framework for non-executive directors;
- Remuneration and incentive framework including any proposed equity incentive awards to executive directors and other senior employees; and
- Strategic human resources direction.

ZSE Listing Rules Annual Compliance Certificate

I, Stephen Nyabadza in my capacity as Company Secretary of British American Tobacco Zimbabwe (Holdings) Limited ("the Company"), being duly authorised hereto, certify that the Company has, during the twelve months ended 31 December 2016, complied with every disclosure requirement for continued listing on the Zimbabwe Stock Exchange ("ZSE") imposed by the Committee of the ZSE during that period.

Stephen Nyabadza
Company Secretary

21 February 2017

Financial Highlights

Group Summary (US$ 000's)	YEAR ENDED 31 DECEMBER 2016 US$ 000	2015 US$ 000
Revenue	34 068	45 265
Operating profit	11 916	20 791
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Diluted earnings per share (US$)	0.41	0.75

FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Shareholders of British American Tobacco Zimbabwe (Holdings) Limited

Opinion

We have audited the consolidated and separate financial statements of British American Tobacco Zimbabwe (Holdings) Limited ('the Group and Company') set out on pages 11 to 69, which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of British American Tobacco Zimbabwe (Holdings) Limited as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Chapter 24:03).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. The key audit matters set out below were identified as the matters that were of the most significance in our audit of both the consolidated financial statements and separate financial statements. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for Taxation and Disclosure of Contingencies

See note 31 to the financial statements on page 61.

The key audit matter	How we addressed the matter in our audit
During 2016, the Company was assessed in respect of income tax returns submitted to the Zimbabwe Revenue Authority (ZIMRA) for the tax years from 2009 to 2014. Incorrect tax treatment of expenses, from ZIMRA's perspective, resulted in additional taxes, penalties and interest being charged by ZIMRA amounting to US$6 679 488. We focused on this area due to the following: • Given ZIMRA's assessment, the Company accounted for US$1 312 967 during the period in terms of its assessment of the penalties relating to the incorrect tax treatment of provisions, prepayments, entertainment expenses and consultancy fees. These penalties are included in other expenses for the year. • Subsequent to the above assessment, ZIMRA agreed to provide a final determination on the deductibility of management and information technology global service delivery fees expenditure, following review of additional documentation provided by the Company to support the deductibility thereof. The determination of the distinction between allowable and disallowable amounts within the Company's expenses is complex and requires significant judgement on application of relevant tax legislation, as does the decision to disclose this matter as a contingent liability rather than recognising a provision for taxation in these financial statements. Due to the significance of the judgements involved in the provision for taxation and the disclosure of contingencies, this was the matter of most significance to our audit of the consolidated and separate financial statements.	In respect of the penalties that were accounted for, our audit procedures included: • Evaluating management's best estimate of the tax penalties by assessing likely settlements with ZIMRA based on the latest correspondence with the tax authority. • Recalculating the tax penalties recognised in the financial statements. In respect of the contingent liability disclosed, our audit procedures included: • Considering the competence and independence of the Company's external tax advisor handling the objection to the assessment made by ZIMRA and consulting with the tax advisor concerning the Company's chances of success in obtaining a favourable tax ruling. • Involving tax specialists as part of our audit to: ✓ Inspect the agreements that gave rise to the tax dispute; and ✓ Analyse and challenge the assumptions made by management regarding the deductibility of management and information technology global service delivery fees expenditure for income tax purposes, based on our knowledge and experience of the application of the legislation by the tax authority. We also considered the appropriateness of the disclosure of the contingent liability in note 31 in accordance with the applicable financial reporting standards.

Other Information

The Directors are responsible for the other information. The other information comprises the Chairman's Statement, the Managing Directors Review, the Directors' Report, Corporate Governance Report and the Financial Highlights, but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in a manner required by the Companies Act (Chapter 24:03), and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are, therefore, the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Craig Adamson
Partner
Registered Auditor
Registration number 208

Signed on behalf of:
KPMG Chartered Accountants (Zimbabwe)
100 The Chase (West)
Emerald Hill
Harare, Zimbabwe
21 February 2017

Consolitated Statement Of Profit Or Loss And Other Comprehensive Income

For The Year Ended 31 December 2016

	NOTES	YEAR ENDED 31 DECEMBER 2016 US$ 000	2015 US$ 000
Revenue	20	**34 068**	**45 265**
Cost of sales		(9 325)	(12 892)
Gross profit		**24 743**	**32 373**
Selling and marketing costs		(4 085)	(3 734)
Administrative expenses		(10 375)	(10 658)
Re-measurement of share-based payment liability	16	-	11
Other income	21	1 645	2 814
Other losses - net	24	(12)	(15)
Operating profit	22	**11 916**	**20 791**
Net finance income/(costs)		**36**	**(3)**
Finance costs	23	(64)	(51)
Finance income	23	100	48
Profit before income tax		**11 952**	**20 788**
Income tax expense	25	(3 475)	(5 312)
Profit for the year		**8 477**	**15 476**
Attributable to:			
Owners of the parent		8 477	15 476
Total comprehensive income for the year		**8 477**	**15 476**
Basic earnings per share (US$)	27	0.41	0.75
Diluted earnings per share (US$)	27	0.41	0.75

Separate Statement Of Profit Or Loss And Other Comprehensive Income

For The Year Ended 31 December 2016

	NOTES	YEAR ENDED 31 DECEMBER 2016 US$ 000	2015 US$ 000
Revenue	20	**34 068**	**45 265**
Cost of sales		(9 325)	(12 892)
Gross profit		**24 743**	**32 373**
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Profit for the year		**8 477**	**15 476**
Basic earnings per share (US$)	27	0.41	0.75
Diluted earnings per share (US$)	27	0.41	0.75

Consolidated Statement Of Financial Position

As At 31 December 2016

		YEAR ENDED 31 DECEMBER	
ASSETS	**NOTES**	**2016 US$ 000**	**2015 US$ 000**
Non-current assets			
Property, plant and equipment	3	8 083	8 992
Intangible assets	4	28	33
Investment property	5	119	123
Financial assets at fair value through profit or loss	10	18	30
		8 248	**9 178**
Current assets			
Inventories	8	7 473	8 670
Trade and other receivables	9	3 625	7 226
Cash and cash equivalents	11	12 361	3 869
		23 459	**19 765**
Total assets		**31 707**	**28 943**
EQUITY AND LIABILITIES			
Equity attributable to the owners of the parent			
Share capital	12	5 214	5 214
Non-distributable reserves		337	337
Retained earnings		6 899	9 103
Total equity		**12 450**	**14 654**
Non-current liabilities			
Deferred income tax liability	17	690	1 352
Current liabilities			
Trade and other payables	14	15 852	10 718
Provisions for other liabilities and charges	15	2 399	1 601
Share-based payment liability	16	61	325
Current income tax liability	26	255	293
		18 567	**12 937**
Total equity and liabilities		**31 707**	**28 943**

The notes on pages 31 to 58 are an intergral part of these consolidated financial statements. These financial statements were authorised for use by the board of directors on 21 February 2017 and signed on its behalf by:

....

Managing Director Finance Director

Separate Statement Of Financial Position

As At 31 December 2016

		YEAR ENDED 31 DECEMBER	
ASSETS	**NOTES**	**2015 US$ 000**	**2014 US$ 000**
Non-current assets			
Property, plant and equipment	3	8 083	8 992
Intangible assets	4	28	33
Investment property	5	119	123
Investment in subsidiaries	6	-	-
Financial assets at fair value through profit or loss	10	18	30
		8 248	**9 178**
Current assets			
Inventories	8	7 473	8 670
Trade and other receivables	9	3 625	7 226
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Share-based payment liability	16	61	325
Current income tax liability	26	255	293
		18 567	**12 937**
Total equity and liabilities		**31 707**	**28 943**

The notes on pages 31 to 58 are an intergral part of these consolidated financial statements. These financial statements were authorised for use by the board of directors on 21 February 2017 and signed on its behalf by:

.... Managing Director

.... Finance Director

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2016

	ATTRIBUTABLE TO OWNERS OF THE PARENT			
	Share capital US$ 000	**Non-distributable reserves US$ 000**	**Retained earnings US$ 000**	**Total US$ 000**
Balance as at 1 January 2015	**5 214**	**337**	**10 487**	**16 038**
Total comprehensive income for the year	-	-	15 476	15 476
Dividends	-	-	(16 860)	(16 860)
Balance as at 31 December 2015	**5 214**	**337**	**9 103**	**14 654**
Balance as at 1 January 2016	**5 214**	**337**	**9 103**	**14 654**
Total comprehensive income for the year	-	-	8 477	8 477
Dividends	-	-	(10 681)	(10 681)
Balance as at 31 December 2016	**5 214**	**337**	**6 899**	**12 450**

[1] **Non-distributable reserves**
This reserve arose as a result of the change in the Group'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.

Separate Statement Of Changes In Equity

For The Year Ended 31 December 2016

	ATTRIBUTABLE TO OWNERS OF THE PARENT			
	Share capital US$ 000	**Non distributable reserves US$ 000**	**Retained earnings US$ 000**	**Total US$ 000**
Balance as at 1 January 2015	**5 214**	**337**	**10 487**	**16 038**
Total comprehensive income for the year	-	-	15 476	15 476
Dividends	-	-	(16 860)	(16 860)
Balance as at 31 December 2015	**5 214**	**337**	**9 103**	**14 654**
Balance as at 1 January 2016	**5 214**	**337**	**9 103**	**14 654**
Total comprehensive income for the year	-	-	8 477	8 477
Dividends	-	-	(10 681)	(10 681)
Balance as at 31 December 2016	**5 214**	**337**	**6 899**	**12 450**

[1] **Non-distributable reserves**
This reserve arose as a result of the change in the Group'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.

Consolidated Statement Of Cash Flows
For The Year Ended 31 December 2016

	NOTES	YEAR ENDED 31 DECEMBER 2016 US$ 000	2015 US$ 000
Cash flows from operating activities			
Cash generated from operations	18	17 582	20 611
Interest paid	23	(64)	(51)
Income tax paid	26	(4 175)	(5 279)
Net cash generated from operating activities		**13 343**	**15 281**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(580)	(901)
Proceeds from sale of property, plant and equipment		140	73
Interest received	23	100	48
Net cash used in investing activities		**(340)**	**(780)**
Cash flows from financing activities			
Dividends paid to owners of the parent	28	(4 511)	(16 090)
Net cash used in financing activities		**(4 511)**	**(16 090)**
Net increase/(decrease) in cash and cash equivalents		**8 492**	**(1 589)**
Cash and cash equivalents at the beginning of the year		3 869	5 458
Cash and cash equivalents at the end of the year	11	**12 361**	**3 869**

Separate Statement Of Cash Flows

For The Year Ended 31 December 2016

		YEAR ENDED 31 DECEMBER	
	NOTES	2015 US$ 000	2014 US$ 000
Cash flows from operating activities			
Cash generated from operations	18	17 582	20 611
Interest paid	23	(64)	(51)
Income tax paid	26	(4 175)	(5 279)
Net cash generated from operating activities		**13 343**	**15 281**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(580)	(901)
Proceeds from sale of property, plant and equipment		140	73
Interest received	23	100	48
Net cash used in investing activities		**(340)**	**(780)**
Cash flows from financing activities			
Dividends paid to owners of the parent	28	(4 511)	(16 090)
Net cash used in financing activities		**(4 511)**	**(16 090)**
Net increase/(decrease) in cash and cash equivalents		**8 492**	**(1 589)**
Cash and cash equivalents at the beginning of the year		3 869	5 458
Cash and cash equivalents at the end of the year	**11**	**12 361**	**3 869**

Notes To The Financial Statements
For The Year Ended 31 December 2016

1. GENERAL INFORMATION

British American Tobacco Zimbabwe (Holdings) Limited ("the Company") and its subsidiaries (together, "the Group") manufactures, distributes and sells cigarettes through a network of independent retailers and distributors. The Group has a cigarette manufacturing plant in Zimbabwe and sells cigarettes entirely on the Zimbabwean market.

These financial statements are presented in United States dollars rounded to the nearest thousand dollars.

The Company is a limited liability company incorporated and domiciled in Zimbabwe. The address of its registered office is Number 1 Manchester Road, Southerton, Harare, Zimbabwe.

The Company has its primary listing on the Zimbabwe Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") pronouncements and the requirements of the Zimbabwe Companies Act (Chapter 24:03) and the relevant statutory Instruments ("SI") SI 33/99 and SI 62/96. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management 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 areas where assumptions and estimates are significant to the financial statements, are disclosed in note 35.

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations effective for the first time for 31 December 2016 year ends and adopted by the Group

IFRS 11 amendment	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations.
IAS 27 amendment	Separate Financial Statements: Equity Method in Separate Financial Statements.
IAS 28 amendment	Investment in Associates and Joint Ventures: Applying the Consolidation Exception.
IFRS 12 amendment	Disclosure of Interests in Other Entities: Investment Entities: Applying the Consolidation Exception.
IFRS 10 amendment	Consolidated Financial Statements: Investment Entities: Applying the Consolidation Exception.
IAS 1	Presentation of financial statements: Disclosure Initiative.
IAS 16 amendment	Property, plant and equipment: Clarification of Acceptable Methods of Depreciation and Amortisation.
IAS 38 amendment	Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortisation.

The adoption of these revised standards in the current year has not led to any changes in the Company's accounting policies.

(b) New and amended standards and interpretations not yet adopted

The following standards and interpretations were in issue but not yet effective:

IAS 7 amendment	Statement of cash flows: Disclosure Initiative - Annual periods beginning on or after 1 January 2017.
IAS 12 amendment	Income taxes: Recognition of Deferred Tax Assets for Unrealised Losses - Annual periods beginning on or after 1 January 2017.
IFRS 15	Revenue from Contracts with Customers - Annual periods beginning on or after 1 January 2018.
IFRS 9	Financial Instruments - Annual periods beginning on or after 1 January 2018.
IFRS 2 amendment	Share-based payment: Classification and Measurement of Share-based Payment Transactions - Annual periods beginning on or after 1 January 2018.
IFRS 4 amendment	Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Annual periods beginning on or after 1 January 2018.
IFRS 16	Leases - Annual periods beginning on or after 1 January 2019.

Notes To The Financial Statements
For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New and amended standards and interpretations not yet adopted (continued)

The above standards and interpretations, with the exception of IFRS 9, IFRS 15 and IFRS 16, are not applicable to the business of the entity and will, therefore, have no impact on future financial statements.

The Directors are of the opinion that the impact of the application of the applicable standards and interpretations will be as follows:

IFRS 9 - Financial Instruments
On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The Company is assessing the potential impact on the financial statements, which will include changes in the measurement bases of the Company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Company.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 - Revenue from Contracts with Customers
This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The Company is assessing the potential impact on the financial statements resulting from the application of IFRS 15 regarding a possible change in the timing of when revenue is recognised and the amount of revenue recognised.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 16 - Leases
IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Company is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

2.2 Consolidation

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 value 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 generally 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 the acquiree's identifiable net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Subsidiaries (continued)
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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the statement of comprehensive income.

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 re-measured, 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 the 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 profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.3 Investment in subsidiaries
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 directly attributable costs of investment.

2.4 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 leadership decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in United States dollars (US$) which is the Group's functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the 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 the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "administrative expenses".

2.6 Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount thereof, and are recognised net within other income in profit or loss.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Notes To The Financial Statements
For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

Depreciation
Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	40 years
Plant and machinery	6 - 15 years
Motor vehicles	3 - 5 years
Computer equipment	5 years
Furniture, fittings and equipment	8 years

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

An asset's carrying amount is written down immediately to its recoverable amount, which is the higher of its value in use and its fair value less costs to sell, in profit or loss, if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Intangible assets
Intangible assets that are acquired by the Group and have finite useful lives are measured initially at cost and are amortised on a straight line basis over their estimated useful lives. The cost includes expenditures that are directly attributable to the acquisition of the intangible asset. The carrying amount is reduced by any provision for impairment, to its recoverable amount, which is the higher of its value in use and its fair value less costs to sell, in profit or loss, if the asset's carrying amount is greater than its estimated recoverable amount.

Amortisation of intangible assets is charged over their useful economic life on the following basis:

Accounting system software	8 years

The residual values and useful lives, if not insignificant, are reassessed annually.

2.8 Investment property
Investment property consists of residential land and buildings let out to third parties or operating lease agreements. Investment property is stated at cost less accumulated depreciation.

Gains and losses on disposal of investment property are determined by comparing the proceeds from disposal with the carrying amount thereof, and are recognised net within other income in profit or loss.

Land is not depreciated. Depreciation on buildings is calculated using the straight line method to allocate their cost less their residual values over their estimated useful lives of 40 years.

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

2.9 Impairment of non-financial assets
Assets that are subject to amortisation or depreciation 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 separate identifiable cash flows (cash generating units). Non financial assets, other than goodwill that suffered an impairment, are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification
The Group classifies its financial assets in the following categories: at fair value through profit or loss or loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

The Group's loans and receivables comprise "trade and other receivables" and "cash and cash and equivalents" in the statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of comprehensive income within "other gains/(losses) - net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group's right to receive payments is established.

2.10.3 Offset

If a legally enforceable right exists to set-off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

2.11 Impairment of financial assets

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

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 the statement of comprehensive income.

2.12 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average costing 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). Net realisable value is the estimated selling price in the ordinary course of business, less cost to dispose.

2.13 Trade receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business.

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

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivables are impaired. When a trade receivable is uncollectible, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against the trade receivables impairment provision in profit or loss.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and bank overdrafts.

Cash and cash equivalents are measured at fair value, with any impairment or appreciation in value of foreign currency denominated balances arising from changes in exchange rates, being written off or credited against the exchange gains and losses account in profit or loss.

In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

Notes To The Financial Statements
For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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 method.

2.17 Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, and any difference between proceeds (net of transaction costs) and redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

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

2.18 Current and deferred income tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, 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 laws enacted or substantively enacted in Zimbabwe. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

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

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

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 tax assets and liabilities relate to income levied by the same taxation authority on either entity or different taxable entities where there is an intention to settle the balance on a net basis.

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

2.20 Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns, excise duty and value added taxes. Excise duty on cigarettes is recognised based on the volume of cigarette sticks sold and the excise duty per stick is as stipulated by the Zimbabwe Revenue Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition (Continued)

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods - wholesale and retail

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

2.21 Other income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

Rental income from operating leases is recognised in the accounting period in which the property is occupied by the tenant.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Leases: accounting by lessor

The Group leases certain investment properties to third parties under leases. Each of these leases is determined to be an operating lease as the Group retains risks and rewards incidental to ownership of investment property.

When assets are leased out under operating leases, they are included under investment property in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight line basis. The operating leases bear no escalation clauses. The Group has no finance leases.

2.24 Employee benefits

(a) Pension obligations

The Group has a defined contribution plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group and its employees also contribute to the National Social Security Authority ("NSSA") scheme. This is a social security scheme which was promulgated under the National Social Security Act (Chapter 17:04) and the National Social Security Statutory Instrument 393 of 1993.

The Group's obligations under the scheme are limited to specific contributions as legislated from time to time.

The contributions are recognised as employee benefit expenses in the statement of comprehensive income when they are due.

(b) 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.

Notes To The Financial Statements
For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Employee benefits (continued)

(c) Incentive bonus plan

The Group recognises a liability and an expense for incentive bonuses based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.25 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) The party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
(b) The Group and the party are subject to common control; and
(c) The party is a member of key management personnel of the Group or the Company's parent, or close family member of such an individual.

2.26 Share-based payment

The Group has founded an Employee Share Ownership Trust ("ESOT"), which was registered in 2013. The Trust was founded in order to comply with the Indigenisation and Economic Empowerment Act (Chapter 14:33) and Indigenisation and Economic Empowerment (General) Regulations, 2010, as amended.

The ESOT holds 10% of the ordinary share capital of British American Tobacco Zimbabwe (Holdings) Limited (2 063 352 shares). 1 031 676 shares were donated to the ESOT without consideration by BAT International Holdings (UK) Limited and a further 1 031 676 shares were issued for value from new share capital by British American Tobacco Zimbabwe (Holdings) Limited.

The ESOT operates as a cash settled share scheme. Directly linked to the shares donated to the ESOT by BAT International Holdings (UK) Limited, qualifying employees were awarded an equivalent number of share units for free, based on their length of service. Employees are entitled to sell the share units back to the ESOT for cash consideration whilst in employment or upon termination of employment with British American Tobacco Zimbabwe (Holdings) Limited. Employees are also entitled to subscribe for further share units from the ESOT.

The cash consideration for the share units is indicative of a cash settled share-based payment transaction. Under IFRS 2 Share-based payment, the share-based payment is required to be recognised as an expense in profit or loss. As it is cash settled, the standard requires the recognition of a liability (see note 16).

The share units have vested and there are no further performance conditions attached. Fair value is estimated using the prevailing British American Tobacco Zimbabwe (Holdings) Limited share price on the Zimbabwe Stock Exchange at the end of the reporting period.

Notes To The Financial Statements
For The Year Ended 31 December 2016

3. Property, plant and equipment

Consolidated and Company	Freehold land US$ 000	Buildings US$ 000	Vehicles, machinery and equipment US$ 000	Furniture, fittings and equipment US$ 000	Total US$ 000
Year ended 31 December 2016					
Opening net book amount	774	3 062	4 235	921	8 992
Additions	-	-	497	83	580
Disposals	-	-	(156)	-	(156)
Depreciation charge	-	(160)	(1 058)	(115)	(1 333)
Closing net book amount	**774**	**2 902**	**3 518**	**889**	**8 083**
At 31 December 2016					
Cost	774	3 820	10 522	1 462	16 578
Accumulated depreciation and impairment	-	(918)	(7 004)	(573)	(8 495)
Net book amount	**774**	**2 902**	**3 518**	**889**	**8 083**
Year ended 31 December 2015					
Opening net book amount	774	3 055	5 182	507	9 518
Transfers	-	254	(636)	425	43
Additions	-	79	652	170	901
Disposals	-	(200)	(22)	-	(222)
Depreciation charge	-	(126)	(920)	(181)	(1 227)
Impairment loss	-	-	(21)	-	(21)
Closing net book amount	**774**	**3 062**	**4 235**	**921**	**8 992**
At 31 December 2015					
Cost	774	3 820	10 149	1 378	16 121
Accumulated depreciation and impairment	-	(758)	(5 914)	(457)	(7 129)
Net book amount	**774**	**3 062**	**4 235**	**921**	**8 992**

Notes To The Financial Statements
For The Year Ended 31 December 2016

4. INTANGIBLE ASSETS

Consolidated and Company	**Computer software US$ 000**	**Total US$ 000**
Year ended 31 December 2016		
Opening net book amount	**33**	**33**
Amortisation charge	(5)	(5)
Closing net book amount	**28**	**28**
At 31 December 2016		
Cost	**710**	**710**
Accumulated amortisation charge	(682)	(682)
Net book amount	**28**	**28**
Year ended 31 December 2015		
Opening net book amount	**38**	**38**
Transfers	40	40
Amortisation charge	(45)	(45)
Closing net book amount	**33**	**33**
At 31 December 2015		
Cost	**710**	**710**
Accumulated amortisation charge	(677)	(677)
Net book amount	**33**	**33**

5. INVESTMENT PROPERTY

Consolidated and Company	**Land and buildings US$ 000**	**Total US$ 000**
Year ended 31 December 2014		
Opening net book amount	123	123
Transfers	-	-
Depreciation charge	(4)	(4)
Closing net book amount	**119**	**119**
At 31 December 2016		
Cost	166	166
Accumulated depreciation	(47)	(47)
Net book amount	**119**	**119**
Year ended 31 December 2015		
Opening net book amount	213	213
Transfers	(84)	(84)
Depreciation charge	(6)	(6)
Closing net book amount	**123**	**123**
At 31 December 2015		
Cost	166	166
Accumulated depreciation	(43)	(43)
Net book amount	**123**	**123**

Notes To The Financial Statements
For The Year Ended 31 December 2016

5. INVESTMENT PROPERTY (continued)

Fair values of investment property
A Director's valuation of the Company's investment property was performed to determine the fair value as at 31 December 2015 and 2016.

The following table analyses the non-financial assets carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Fair value measurements using significant unobservable inputs (Level 3)	
	2016 US$ 000	2015 US$ 000
Investment property	166	166

There were no transfers out of Level 3 during 2015 or 2016.

Level 3 fair values of investment property have been derived using the sales comparison approach by the finance team in consultation with the Managing Director. The team has determined these inputs based on the size of the property, location of the land and the state of the local economy.

Information about fair value measurements using significant unobservable inputs (Level 3):

	Fair value at 31 December 2016 US$ 000	Fair value at 31 December 2015 US$ 000	Valuation technique	Observable inputs	Relationship of observable inputs to fair value
Investment property	166	166	Sales comparison approach	Market price per square metre	The higher the price per square metre, the higher the fair value

6. INVESTMENT IN SUBSIDIARIES

	2016 US$ 000	2015 US$ 000
Company		
Investment in subsidiaries	-	-

Set out below are the Company's subsidiaries at 31 December 2016. The subsidiaries, as listed below, have share capital consisting solely of ordinary shares, which are held directly by the Company. All of the subsidiaries are dormant and have nil values with insignificant assets and liabilities.

Subsidiaries	% of ownership interest held by the Company	Country of incorporation
House of Raleigh Limited	100%	Zimbabwe
R&B Service Station (Private) Limited	100%	Zimbabwe

The British American Tobacco Zimbabwe Employee Share Ownership Trust ("ESOT") and the British American Tobacco Zimbabwe Tobacco Empowerment Trust ("TET") were founded by British American Tobacco Zimbabwe (Holdings) Limited and registered in 2013. British American Tobacco Zimbabwe (Holdings) Limited provided financial support to the two Trusts in the form of loans on an arm's length basis in order for them to acquire newly issued share capital.

The TET and the ESOT are consolidated into the Group financial statements. As a result, the shares held by the Trust's are treated as unissued, that is, these are considered treasury shares from the Group perspective and the loan funding is eliminated.

The impact on the financial statements from the activities of the ESOT is described in notes 2.26 (Share-based payment) and 16 (Share-based payment liability).

Notes To The Financial Statements
For The Year Ended 31 December 2016

6. INVESTMENT IN SUBSIDIARIES (continued)

The TET was established with the purpose of making awards to individuals or entities for the development of tobacco growing by indigenous Zimbabweans. Such awards will be funded by dividend income received by the Trust from British American Tobacco Zimbabwe (Holdings) Limited, net of repayments of interest and capital on the loan from the founder.

7. FINANCIAL INSTRUMENTS BY CATEGORY

Consolidated and Company

31 December 2016	Loans and receivables US$ 000	Assets at fair value through profit or loss US$ 000	Total US$ 000
Assets as per statement of financial position			
Trade and other receivables excluding prepayments	3 522	-	3 522
Financial assets at fair value through profit or loss	-	18	18
Cash and cash equivalents	12 361	-	12 361
Total	**15 883**	**18**	**15 901**

	Other financial liabilities US$ 000	Total US$ 000
Liabilities as per statement of financial position		
Trade and other payables excluding statutory liabilities	15 082	15 082
Total	**15 082**	**15 082**

31 December 2015	Loans and receivables US$ 000	Assets at fair value through profit or loss US$ 000	Total US$ 000
Assets as per statement of financial position			
Trade and other receivables excluding prepayments	7 027	-	7 027
Financial assets at fair value through profit or loss	-	30	30
Cash and cash equivalents	3 869	-	3 869
Total	**10 896**	**30**	**10 926**

	Other financial liabilities US$ 000	Total US$ 000
Liabilities as per statement of financial position		
Trade and other payables excluding statutory liabilities	7 809	7 809
Total	**7 809**	**7 809**

8. INVENTORIES

Consolidated and Company	2016 US$ 000	2014 US$ 000
Raw materials	3 802	5 497
Finished goods	3 504	3 001
Consumables	167	172
	7 473	**8 670**

The cost of inventories recognised as an expense and included in "cost of sales" amounted to US$6 258 416 (2015: US$7 779 344).

During the year, following a change in estimates, US$46 619 (2015: US$126 000) in previously recognised write downs was reversed.

Notes To The Financial Statements
For The Year Ended 31 December 2016

9. TRADE AND OTHER RECEIVABLES

	2016 US$ 000	2015 US$ 000
Consolidated and Company		
Trade receivables	2 733	4 535
Less: Provision for impairment of trade receivables	(606)	(738)
Trade receivables - net	2 127	3 797
Other receivables	89	2 132
Prepayments	103	199
Receivables from related parties (note 29)	1 306	1 098
	3 625	**7 226**

The fair value of trade and other receivables approximates their carrying values due to their short tenure.

As at 31 December 2016, trade receivables amounting to US$1 250 866 (2015: US$3 689 818) were fully performing.

As at 31 December 2016, trade receivables amounting to US$875 609 (2015: US$106 891) were past due but not impaired. Past due but not impaired receivables relate to amounts due for more than 7 days but up to 60 days.

These relate to a number of independent customers for whom there is no recent history of default.

The maturity analysis of trade and other receivables at 31 December is as follows:

	Total US$ 000	Up to 14 days US$ 000	Up to 21 days US$ 000	Up to 28 days and more US$ 000
31 December 2016				
Distributors	444	222	61	161
Wholesalers	711	679	32	-
Retailers	327	293	32	2
Stockists	226	219	7	-
Other external debtors	419	-	419	-
Other receivables	89	81	4	4
Prepayments	103	103	-	-
Receivables from related parties	1 306	947	-	359
Total	**3 625**	**2 544**	**555**	**526**
31 December 2015				
Distributors	1 028	868	-	160
Wholesalers	374	374	-	-
Retailers	1 471	1 385	18	68
Stockists	885	867	-	18
Other external debtors	39	39	-	-
Other receivables	2 132	2 132	-	-
Prepayments	199	199	-	-
Receivables from related parties	1 098	1 098	-	-
Total	**7 226**	**6 962**	**18**	**246**

As at 31 December 2016, trade receivables amounting to US$606 124 (2015: US$737 791) were impaired. The amount of the provision recognised amounted to US$606 124 as of 31 December 2016 (2015: US$737 791). The individually impaired receivables mainly relate to distributors, wholesalers and retailers, which are in a difficult economic situation.

	2016 US$ 000	2015 US$ 000
The ageing of these receivables is as follows:		
3 to 6 months	-	-
Over 6 months	606	738
	606	**738**
The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:		
US dollar	3 625	7 226
GBP	-	-
ZAR	-	-
Total	**3 625**	**7 226**

Notes To The Financial Statements

For The Year Ended 31 December 2016

9. TRADE AND OTHER RECEIVABLES (continued)

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

	2016 US$ 000	2015 US$ 000
At 1 January	**738**	**96**
Provision for receivables impairment	48	642
Unused amounts reversed	(180)	-
At 31 December	**606**	**738**

The recognition and release of provisions in respect of impaired receivables are included in "other expenses" in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of receiving additional cash. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 US$ 000	2015 US$ 000
Consolidated and Company		
Listed securities held for trading		
Equity securities - Hunyani Holdings Limited	18	30

Financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital in the statement of cash flows. Changes in fair value of financial assets at fair value through profit or loss are recorded in other gains/(losses) - net in the statement of comprehensive income.

The fair value of all equity securities is based on their current bid price in an active market. These instruments would be classified as Level 1 under the fair value hierarchy.

The following table presents the Group and Company's assets that are measured at fair value at 31 December 2016

Financial assets	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
2016				
Quoted securities at market value	18	-	-	18
2015				
Quoted securities at market value	30	-	-	30

Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on the quoted market price set on the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occuring market transactions at an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise, primarily, Zimbabwe Stock Exchange investments classified as trading securities or available for sale.

11. CASH AND CASH EQUIVALENTS

	2016 US$ 000	2015 US$ 000
Consolidated and Company		
Cash at bank and on hand	12 361	3 869
Cash and cash equivalents	**12 361**	**3 869**

Notes To The Financial Statements
For The Year Ended 31 December 2016

11. CASH AND CASH EQUIVALENTS (continued)

Included in cash and cash equivalents are balances with local banks. These balances are used for transacting on a daily basis. During the year, the Central Bank (Reserve Bank of Zimbabwe), through Exchange Control Operational Guide 8 (ECOGAD8), introduced prioritisation criteria which have to be followed when effecting foreign payments. Any foreign payments which are effected from the bank balances above are ranked based on the Central Bank prioritisation criteria and paid subject to the bank having adequate funds with its Foreign Correspondent Banks. Most of the Company's foreign payments are categorised in Priority One (High) by the directive, however, there have been delays in effecting payments as a result of unavailability of funds in bank accounts held in foreign countries by domestic banks to facilitate settlement of exchange and trade transactions. This has resulted in an increase in foreign creditor balances compared to prior year.

Included in cash and cash equivalents is cash on hand amounting to US$1 090. Cash on hand includes bond notes, which are a debt instrument that has been disclosed under cash and cash equivalents as it meets the definition of cash and cash equivalents and is pegged at 1:1 with the US$.

12. SHARE CAPITAL AND PREMIUM

Consolidated and Company

	31 Dec. 2016		31 Dec. 2015	
	Number of ordinary shares	Ordinary shares US$ 000's	Number of ordinary shares	Ordinary shares US$ 000's
Authorised				
Ordinary shares at US$0.30 each	21 252 000	6 376	21 252 000	6 376

	Number of ordinary shares	Ordinary shares US$ 000
Issued and fully paid		
At 1 January 2015	**20 633 517**	**6 190**
Less treasury shares	(3 252 000)	(976)
At 31 December 2015	**17 381 517**	**5 214**
At 1 January 2015	**20 633 517**	**6 190**
Less treasury shares	(3 252 000)	(976)
At 31 December 2015	**17 381 517**	**5 214**

	Number of ordinary shares	Ordinary shares US$ 000
Issued and fully paid		
At 31 December 2015	**20 633 517**	**6 190**
At 31 December 2016	**20 633 517**	**6 190**
Treasury shares		
At 31 December 2015	**3 252 000**	**976**
At 31 December 2016	**3 252 000**	**976**

During 2013, the issuance of 3 252 000 ordinary shares was concluded, of which 2 220 324 shares were issued to The BAT Zimbabwe Tobacco Empowerment Trust, with the remaining 1 031 676 shares issued to the British American Tobacco Zimbabwe Employee Share Ownership Trust. The Trusts are consolidated in the financial statements of the Group. This treatment is based on an assessment of sufficient control under the principles of IFRS 10 Consolidated Financial Statements. Due to this treatment, the shares held by the Trusts are recognised as treasury shares.

Notes To The Financial Statements
For The Year Ended 31 December 2016

13. DIRECTORS' INTERESTS

Company

At 31 December 2015 the Directors held, directly or indirectly, the following number of shares in the Company:

	2016 US$ 000	2015 US$ 000
L T Manatsa	1 000	1 000
K Mandevhani	500	500
A Mashanyare	500	500
	2 000	**2 000**

Except as stated above, no other Director or his/her nominee had any beneficial interest in the share capital of the Company.

14. TRADE AND OTHER PAYABLES

Consolidated and Company

	2016 US$ 000	2015 US$ 000
Trade payables	459	586
Amounts due to related parties (note 29)	11 536	4 826
Social security and other taxes	770	2 909
Accrued expenses	718	1 186
Other	2 369	1 211
	15 852	**10 718**

Other payables comprise of payroll related creditors, staff claims, creditors goods received but not invoiced and sundry creditors.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2016 US$ 000	2015 US$ 000
ZAR	634	366
GBP	1 746	1 240
US dollar	13 472	9 112
	15 852	**10 718**

15. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Consolidated and Company

	Restructuring costs US$ 000	Incentive bonus and other provisions US$ 000	Statutory claims US$ 000	Total US$ 000
At 1 January 2016	**1 062**	**539**	-	**1 601**
Utilised during the year	(1 062)	(539)	-	(1 601)
Charged to the statement of comprehensive income	66	980	1 353	2 399
At 31 December 2016	**66**	**980**	**1 353**	**2 399**

Analysis of total provisions:	2016 US$ 000
Non-current	-
Current	2 399
	2 399

	Restructuring costs US$ 000	Incentive bonus and other provisions US$ 000	Statutory claims US$ 000	Total US$ 000
At 1 January 2015	**695**	**551**	-	**1 246**
Utilised during the year	(695)	(551)	-	(1 246)
Charged to the statement of comprehensive income	1 062	539	-	1 601
At 31 December 2015	**1 062**	**539**	-	**1 601**

Analysis of total provisions:	2015 US$ 000
Non-current	-
Current	1 601
	1 601

(a) Incentive bonus provision
The incentive bonus provision is payable within four months after year end.

(b) Provision for restructuring costs
This is a provision based on the number of employees who are involved in a redundancy exercise. These costs were fully provided for in 2016. The provision amounting to US$66 000 (2015: US$1 062 019) at 31 December 2016 is expected to be fully utilised during the first half of 2017.

(c) Statutory claims
This provision relates to penalties charged to the Company by the Zimbabwe Revenue Authority during the year. Refer to additional disclosures under the contingencies note 31.

Notes To The Financial Statements
For The Year Ended 31 December 2016

16. SHARE-BASED PAYMENT LIABILITY

Consolidated and Company

This liability represents the value of unsettled share units issued for free to employees by the British American Tobacco Zimbabwe Employee Share Ownership Trust ("ESOT", see note 2.26). The liability is recognised in both the consolidated and Company financial statements. The liability is recognised in the Company financial statements on the basis that the ESOT has a constructive liability to settle the share units but remains reliant on dividend income from the Company in order to fund any cash settlements. As such, the Company recognises the value of this obligation.

The recognition of a liability is also required under IFRS 2 Share-based payment, as the cash settled nature of the scheme is indicative of a cash settled share-based payment.

The share units have vested and there are no further performance conditions attached. Fair value is estimated using the prevailing British American Tobacco Zimbabwe (Holdings) Limited share price on the Zimbabwe Stock Exchange at the end of the reporting period.

The liability shown as at the statement of financial position date represents the total value of awards less amounts already settled in cash during the course of the financial year.

	2016 US$ 000	2015 US$ 000
At 1 January 2016	**325**	**3 881**
Re-measurement of share-based payment liability	-	(11)
Amounts paid during the year	(264)	(3 545)
At 31 December 2016	**61**	**325**

17. DEFERRED INCOME TAX LIABILITIES

Consolidated and Company

The deferred tax liability is made up of:

	2016 US$ 000	2015 US$ 000
Property, plant and equipment - accelerated depreciation	1 495	1 675
Provisions	(758)	(281)
Allowance for credit losses	(62)	(52)
Marketable securities - fair value	1	1
Prepayments	11	19
Inventory write-down	(30)	(42)
Unrealised exchange differences	33	32
Deferred tax liability - net	**690**	**1 352**

The gross movement on the deferred tax account is as follows:

	2016 US$ 000	2015 US$ 000
At 1 January 2016	**1 352**	**1 585**
Credit to statement of comprehensive income	(662)	(233)
At 31 December 2016	**690**	**1 352**

17. DEFERRED INCOME TAX LIABILITIES (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation US$ 000	Total US$ 000
At 1 January 2016	**1 352**	**1 352**
Credit to statement of comprehensive income	(662)	(662)
At 31 December 2016	**690**	**690**
At 1 January 2015	**1 585**	**1 585**
Credit to statement of comprehensive income	(233)	(233)
At 31 December 2015	**1 352**	**1 352**

18. CASH GENERATED FROM OPERATIONS

	2016 US$ 000	2015 US$ 000
Consolidated and Company		
Profit before income tax	11 952	20 788
Adjustment for:		
- Depreciation of property, plant and equipment	1 337	1 255
- Amortisation of intangible assets	5	45
- Impairment of property, plant and equipment	-	21
- Loss/(profit) on sale of property, plant and equipment	15	(1 472)
- Fair value losses/(gains) on financial assets at fair value through profit or loss (note 24)	12	15
- Finance costs	64	51
- Finance income	(100)	(48)
Changes in working capital:		
- Decrease/(increase) in inventories	1 197	(1 572)
- Decrease/(increase) in trade and other receivables	3 601	(415)
- (Decrease)/increase in trade and other payables	(1 035)	5 144
- Increase in provisions for other liabilities and charges	798	355
- Decrease in share-based payment provision	(264)	(3 556)
Cash generated from operations	**17 582**	**20 611**

19. RETIREMENT BENEFIT OBLIGATIONS

Consolidated and Company

Defined Contribution Scheme

Pensions are provided for employees by a separate pension fund to which both the employees and the Group contribute. This pension fund is a defined contribution plan under which retirement benefits are determined by reference to the contributions to the fund.

National Social Security Authority (NSSA) Scheme

The Group and its employees contribute to the National Social Security Authority Scheme. This is a social security scheme which was promulgated under the National Social Security Act (Chapter 17:04) and the National Social Security Statutory Instrument 393 of 1993.

Notes To The Financial Statements

For The Year Ended 31 December 2016

19. RETIREMENT BENEFIT OBLIGATIONS (continued)

	Employee US$ 000	Group US$ 000	Total US$ 000
2016			
Current service costs			
The contributions to the funds were:			
Defined contribution scheme	215	462	677
NSSA	49	128	177
	264	**590**	**854**
2015			
Current service costs			
The contributions to the funds were:			
Defined contribution scheme	249	536	785
NSSA	44	114	158
	293	**650**	**943**

20. REVENUE

	2016 US$ 000	2015 US$ 000
Consolidated and Company		
Revenue from sales of goods	34 068	45 265

21. OTHER INCOME

	2016 US$ 000	2015 US$ 000
Consolidated and Company		
Profit on intercompany recharges	98	140
Royalties	279	216
Rental income	46	351
IT services charge to third parties	441	350
Scrap and other stock sales	-	16
Profit on sale of property, plant and equipment	-	1 472
Sundry income	563	145
Exchange gains	218	124
	1 645	2 814

22. OPERATING PROFIT

Consolidated and Company

22.1 Operating profit before net financing costs and taxation includes the following:

	2016 US$ 000	2015 US$ 000
Auditors' remuneration - current year	100	63
Depreciation of property, plant and equipment (note 3)	1 333	1 227
Impairment of property, plant and equipment	-	21
Directors' fees	27	17
Management fees	2 651	3 327
Allowance for credit losses	(132)	642
Tax related penalties (note 31)	1 353	-

22.2 Staff costs

	2016 US$ 000	2015 US$ 000
Salaries and wages	6 256	6 786
Pension contributions	501	638
	6 757	7 424

22.3 The number of employees as at 31 December 2016 was 140 (2015: 151).

Notes To The Financial Statements
For The Year Ended 31 December 2016

	2016 US$ 000	2015 US$ 000
23. NET FINANCE (COSTS)/INCOME		
Consolidated and Company		
Finance costs	(64)	(51)
Finance income	100	48
Net finance income/(costs)	**36**	**(3)**
24. OTHER (LOSSES)/GAINS - NET		
Consolidated and Company		
Financial assets at fair value through profit or loss (note 10)		
- Fair value (losses)/gains	**(12)**	**(15)**
25. INCOME TAX EXPENSE		
Consolidated and Company		
Current income tax on profit for the year	4 088	5 420
Deferred taxation credit (note 17)	(662)	(233)
Capital gains tax	-	80
Withholding tax	49	45
	3 475	**5 312**

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

	%	%
Tax effect on: current income tax rate	25.75	25.75
Prior year adjustments	(0.84)	0.61
Disallowable expenditure:		
Depreciation of property, plant and equipment	0.33	0.63
Excess pension contributions	0.31	0.01
Fines	2.92	-
Other	0.21	1.18
Withholding tax	0.40	0.30
Non taxable income	-	(2.93)
Effective tax rate	**29.08**	**25.55**

	2016 US$ 000	2015 US$ 000
26. INCOME TAX PAID		
Consolidated and Company		
Opening balance	293	26
Charge per statement of comprehensive income	4 137	5 546
Closing balance per statement of financial position	(255)	(293)
	4 175	**5 279**

27. EARNINGS PER SHARE

Consolidated and Company

Basic and diluted

Basic earnings per share is 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.

	2016 US$ 000	2015 US$ 000
Profit attributable to equity holders of the Company (US$ 000)	8 477	15 476
Weighted average number of ordinary shares in issue (thousands)	20 634	20 634
Basic and diluted earnings per share	0.41	0.75

Notes To The Financial Statements

For The Year Ended 31 December 2016

28. DIVIDENDS

Consolidated and Company

Dividends paid in 2016 were US$4 511 460 (2015: US$16 090 382), including an interim dividend of US$0.18 per share.

29. RELATED PARTY TRANSACTIONS

The Company is controlled by British American Tobacco International Holdings Limited, incorporated in the United Kingdom, which owns 43% of the Company's shares. The remaining 57% shares are widely held. The ultimate holding company of the Group is British American Tobacco Plc, incorporated in the United Kingdom.

The following transactions were carried out with related parties:

Consolidated and Company

		2016 US$ 000	2015 US$ 000
(a)	**Sales of goods (cut rag) and services:**		
	British American Tobacco South Africa (Pty) Limited	-	**869**
(b)	**Other sales:**		
	British American Tobacco Angola Lda	**279**	**218**
(c)	**Purchase of goods and services:**		
	British American Tobacco South Africa (Pty) Limited	2 896	1 622
	British American Tobacco (Holdings) Limited	90	561
	British American Tobacco Shared Services GSD UK	1 900	1 537
	British American Tobacco (GLP) Limited	364	418
	British American Tobacco Shared Services AME (BASS)	-	53
	British American Tobacco Southern Africa Markets (Pty) Limited	-	444
	British American Tobacco Shared Services Europe (BASSE)	598	229
		5 848	**4 864**

Goods, services and machinery are acquired from British American Tobacco (Holdings) Limited and British American Tobacco South Africa (Pty) Limited.

Management services are rendered by British American Tobacco South Africa (Pty) Limited.

Information technology support services are received from British American Tobacco Shared Services GSD UK.

Accounting support services are received from British American Tobacco Shared Services Europe.

(d) Key management compensation

Key management includes Directors (executive and non-executive), members of the Executive Committee and the Company Secretary.

The compensation paid or payable to key management for employee services is shown below:

	2016 US$ 000	2015 US$ 000
Short-term employee benefits	1 287	1 191
Termination benefit	1 161	-
	2 448	**1 191**

		2016 US$ 000	2015 US$ 000
(e)	**Year end balances arising from sales/purchases of goods and services**		
	Receivable from related parties (note 9):		
	British American Tobacco Angola Lda	526	149
	British American Tobacco Zambia	-	208
	British American Tobacco Malawi	1	11
	British American Tobacco Southern Africa Markets (Pty) Limited	-	27
	British American Tobacco South Africa (Pty) Limited	432	485
	British American Tobacco Investments Limited	-	-
	British American Tobacco (GLP) Limited	347	218
		1 306	**1 098**

29. RELATED PARTY TRANSACTIONS (continued)

(e) Year end balances arising from sales/purchases of goods and services (continued)

	2016 US$ 000	2015 US$ 000
Payable to related parties (note 14):		
British American Tobacco (Holdings) Limited	5 427	820
British American Tobacco Shared Services GSD UK	1 444	977
British American Tobacco South Africa (Pty) Limited	2 998	2 719
British American Tobacco SS (Europe) SRL	809	244
British American Tobacco Mozambique	204	66
British American Tobacco (GLP) Limited	635	-
British American Tobacco Angola Lda	19	-
	11 536	**4 826**

The receivables from related parties arise mainly from sales transactions and are due two months after the date of sale.

The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties (2015: US$ nil).

The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

30. CAPITAL COMMITMENTS

There were no capital commitments at year end (2015: US$ nil).

31. CONTINGENCIES

The Company was, during the year ended 31 December 2016, assessed in respect of income tax returns submitted to the Zimbabwe Revenue Authority (ZIMRA) for the periods 2009 to 2014. The key results of this assessment were as follows:

- Disallowable deductions relating to provisions were not appropriately treated for income tax purposes in the relevant years' assessments;
- The full portion of management and information technology global service delivery fees expenditure was assessed as non-deductible for tax purposes as there did not appear to be related services that were offered to the Company by affiliated companies which would warrant payments of these fees; and
- The total additional tax, penalties and interest charged following the above assessment amounted to US$6 679 488 for the periods 2009 to 2014.

Of this amount, tax related penalties amounting to US$1 312 967 have been recognised in the Company's financial statements relating to the incorrect tax treatment of provisions.

As at the date of these financial statements, ZIMRA has agreed to review additional documentation provided by the Company regarding management and information technology global service delivery fees expenditure. ZIMRA will then make a determination on the deductibility of these fees after review of the documentation provided. As a result, the Company has not recognised a provision for the portion of the assessment relating to principal, penalties and interest on management and information technology global service delivery fees expenditure in the financial statements. As the Company considers that these amounts are deductible, the Directors could not ascertain the outcome of the review being conducted by ZIMRA on the additional documentation provided.

In addition, additional taxes, penalties and interest amounting to US$80 334 were charged by ZIMRA to the Company as a result of 2014 export sales declared in 2015 tax returns. Of this amount, the Company has recognised US$40 167 in its financial statements, as part of tax penalties.

Tax related penalties are disclosed as other expenses in note 22.

Notes To The Financial Statements
For The Year Ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT

Consolidated and Company

32.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is governed by the Audit and Risk Committee ("Treasury") under policies approved by the board of directors.

The Audit and Risk Committee identifies and evaluates financial risks, where applicable. The Board and Executive Committee provide written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, credit risk, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UK pound, the South African Rand and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, investments in the local market and transactions with foreign sister companies.

Management has set up a policy that guides the Group to manage foreign exchange risk against the functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group has no investments in foreign operations, hence is not exposed to foreign currency translation risk.

As at 31 December 2016, if the currency had weakened/strengthened by 10% against the UK Pound, South African Rand and the Euro, with all other variables held constant, post-tax profit for the year and equity would have been US$220 638 lower/higher (2015: US$173 847) lower/higher, mainly as a result of foreign exchange gains or losses on the translation of foreign trade payables.

(ii) Price risk

The Group is exposed to equity securities price risk due to investments held by the Group and classified on the consolidated statement of financial position at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge the contract. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. Only approved financial institutions with sound capital bases are utilised to invest surplus funds. In respect of customers, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisations of credit limits are regularly monitored to manage risk.

The Group's maximum exposure to credit risk by class of financial asset is as follows:	**2016 US$ 000**	**2016 US$ 000**
Trade receivables and other receivables excluding prepayments		
- Trade receivables from customers	3 522	7 027
- Cash and cash equivalents	12 361	3 869
	15 883	**10 896**

32. FINANCIAL RISK MANAGEMENT (Continued)

32.1 Financial risk factors (Continued)

(b) Credit risk (continued)

The fair value of trade and other receivables at 31 December 2016 approximates their carrying amount due to their short tenure.

There is no significant risk with respect to cash and cash equivalents as the Group holds bank accounts with large financial institutions with sound financial and capital cover.

The fair value of cash and cash equivalents at the reporting date approximates the carrying amounts. The financial institutions holding cash and cash equivalents of the Group are as follows:

Financial institution	2016 US$ 000	2015 US$ 000
Standard Chartered Bank of Zimbabwe Limited	10 447	3 136
Peoples Own Savings Bank (POSB)	11	717
Barclays Bank of Zimbabwe Limited	810	16
Central Africa Building Society (CABS)	1 093	-
	12 361	**3 869**

c) Liquidity risk

Management monitors rolling forecasts of the Group's liquidity requirements (comprising cash and cash equivalents on the basis of expected cash flow). This is generally carried out in accordance with best practice and limits set by the Group. In addition, the Group's liquidity management policy involves projecting cash flows and liquid assets necessary to meet these as well as monitoring the statement of financial position liquidity ratios against internal requirements.

Liquidity risk is the risk that the Group may fail to meet its payment obligations when they fall due. The Group identifies liquidity risk through liquidity gap analysis and the maturity profile of assets and liabilities. Where major gaps appear, action is taken in advance to close or minimise the gaps. Cash flow forecasting is performed by management.

The liquidity risk in respect of foreign creditors and lenders has increased significantly due to the delay in affecting foreign payments. The delay arises from a combination of unavailability of funds in bank accounts held in foreign countries by domestic banks to facilitate settlement of exchange and trade transactions, and delay due to the exchange control priority backlog. Refer to additional disclosures under the cash and cash equivalents note 11.

The Company has instituted the following measures to mitigate the potential operational consequences of delays in foreign payments to suppliers:

- Increase in sourcing of production consumables and equipment from affiliated companies as opposed to unrelated companies.
- Engagement with local financial institutions for prioritisation of foreign payments on the back of US$ denominated cash deposits.

The table below analyses the maturity profile of the Company's assets and liabilities based on the remaining period at 31 December to the contractual maturity date.

Maturity analysis as at 31 December 2016 is as follows:

	Up to 1 month US$ 000	1 to 2 months US$ 000	Later than 3 months US$ 000	Total US$ 000
Assets				
Cash and cash equivalents	12 361	-	-	12 361
Trade and other receivables (excluding prepayments)	1 789	249	161	2 199
Receivables from related parties	947	-	376	1 323
Financial assets at fair value through profit or loss	-	-	18	18
Total assets	**15 097**	**249**	**555**	**15 901**

Notes To The Financial Statements
For The Year Ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (Continued)

32.1 Financial risk factors (Continued)

(c) Liquidity risk (continued)

	Up to 1 month US$ 000	1 to 2 months US$ 000	Later than 3 months US$ 000	Total US$ 000
Assets				
Liabilities				
Trade and other payables (excluding statutory liabilities)	-	-	15 082	15 082
Liquidity gap	**15 097**	**249**	**(14 527)**	**819**

At the reporting date, the Group held sufficient assets to cover liabilities.

Maturity analysis as at 31 December 2015 is as follows:

	Up to 1 month US$ 000	1 to 2 months US$ 000	Later than 3 months US$ 000	Total US$ 000
Assets				
Cash and cash equivalents	3 869	-	-	3 869
Trade and other receivables (excluding prepayments)	5 666	68	195	5 929
Receivables from related parties	1 098	-	-	1 098
Financial assets at fair value through profit or loss	-	-	30	30
Total assets	**10 633**	**68**	**225**	**10 926**
Liabilities				
Trade and other payables (excluding statutory liabilities)	7 809	-	-	7 809
Liquidity gap	**2 824**	**68**	**225**	**3 117**

32.2 Capital risk management

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 benefits for other stakeholders 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, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, 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 (including current and non-current borrowings as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as disclosed in the statement of financial position, plus net debt. As at 31 December 2016, the Group neither had borrowings payable to related parties, nor other financial institutions.

32.3 Fair value estimation

I FRS 13 Fair Value Measurement specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources whereas unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy.

Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities. This level includes listed equity securities traded on the Zimbabwe Stock Exchange.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This level includes non-listed equity investments.

32. FINANCIAL RISK MANAGEMENT (continued)

32.3 Fair value estimation (continued)

The hierarchy requires the use of observable market data, when available. The Group considers relevant and observable market prices in its valuations, where possible.

The fair value of financial assets at fair value through profit or loss is based on quoted market prices at the end of the reporting period (Level 1).

33. SEGMENT INFORMATION

Consolidated and Company
Management has determined the operating segments based on the reports reviewed by the leadership team that are used to make strategic decisions.

The Group has operated in the single segment of cigarettes.

Revenue amounting to US$34 068 251 (2015: US$45 264 514) is from external customers who are domiciled in Zimbabwe and is from the sale of cigarettes.

	2016		2015	
	Cigarettes US$ 000	**Total US$ 000**	**Cigarettes US$ 000**	**Total US$ 000**
External revenue	61 445	61 445	79 290	79 290
Tobacco duties	(27 377)	(27 377)	(34 025)	(34 025)
Net revenue	**34 068**	**34 068**	**45 265**	**45 265**
Profit before interest, taxation, depreciation and amortisation	**13 258**	**13 258**	**22 190**	**22 190**
Depreciation	(1 337)	(1 337)	(1 333)	(1 333)
Impairment	-	-	(21)	(21)
Amortisation	(5)	(5)	(45)	(45)
Net finance income	100	100	48	48
Net finance costs	(64)	(64)	(51)	(51)
Profit before income tax	**11 952**	**11 952**	**20 788**	**20 788**
Total assets	**31 707**	**31 707**	**28 943**	**28 943**
Total liabilities	**19 257**	**19 257**	**14 289**	**14 289**

34. OPERATING LEASES

Consolidated and Company
The Company leases out various residential properties and offices under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

Lease income receivable	**2016 US$ 000**	**2015 US$ 000**
No later than 1 year	29 640	30 000
Later than 1 year and no later than 5 years	148 200	43 200
Later than 5 years	-	-
	177 840	**73 200**

Notes To The Financial Statements
For The Year Ended 31 December 2016

35. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Income taxes
Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Useful lives of property, plant and equipment
The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on projected lives of these assets. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Provisions for statutory claims
The Group's management determines the estimates for any statutory claims that may arise as a result of tax assessments conducted by the Zimbabwe Revenue Authority during the year ended 31 December 2016. The estimates are based on the principal amounts of the expected liability for which the tax assessments relate to. The Group also relies on independent opinions of tax advisors.

(d) Share-based payment liability
The valuation of the share-based payment liability represents a significant estimate by Group management. The basis for the determination of the value of the liability has been included in note 2.26.

36. EVENTS AFTER REPORTING DATE

There were no events that occurred between the end of the reporting period and the date when the financial statements were authorised for issue that require adjustments to be effected on reported amounts in the financial statements or disclosure in the financial statements.

Top Twenty Shareholders

Consolidated Top 20 Shareholders as at 31 December 2016

Rank	Shareholder	Number of Shares	% of total
1	B A T INTERNATIONAL HOLDINGS (UK) LIMITED	8,867,272	42.98
2	OLD MUTUAL LIFE ASSURANCE COMPANY OF ZIMBABWE LIMITED	2,575,542	12.48
3	THE BRITISH AMERICAN TOBACCO ZIMBABWE TOBACCO EMPOWERMENT TRUST	2,220,324	10.76
4	THE BRITISH AMERICAN TOBACCO ZIMBABWE EMPLOYEE SHARE OWNERSHIP TRUST	2,063,352	10
5	STANBIC NOMINEES (PRIVATE) LIMITED	881,947	4.27
6	STANDARD CHARTERED NOMINEES (PRIVATE) LIMITED,	877,124	4.25
7	OLD MUTUAL ZIMBABWE LIMITED	484,719	2.35
8	STANDARD CHARTERED NOMINEES (PRIVATE) LIMITED - NR (SCB NOMINEES NR)	229,016	1.11
9	NATIONAL SOCIAL SECURITY AUTHORITY	197,683	0.96
10	ANGLO AMERICAN ASSOCIATED COMPANIES PENSION FUND	118,172	0.57
11	LOCAL AUTHORITIES PENSION FUND	101,977	0.49
12	NATIONAL FOODS P/ F-IMARA	94,612	0.46
13	ZIMBABWE ELECTRICITY IND PENSION FUND	64,232	0.31
14	DELTA BEVERAGES PENSION FUND	58,472	0.28
15	MIMOSA MINING PENSION FUND	53,866	0.26
16	AMZIM PENSION FUND	48,711	0.24
17	MINERVA INC W/DRWL FUND	46,642	0.23
18	FBC HOLDINGS PF-IMARA	45,692	0.22
19	DIE RUPERT KUNSSTIGTING	41,500	0.2
20	TFS NOMINEES (PVT) LTD	35,322	0.17
	TOTAL	19,106,177	92.6
	OTHER SHAREHOLDERS	1,527,340	7.4
	TOTAL ISSUED SHARES	20,633,517	100

Notice to Shareholders

NOTICE IS HEREBY GIVEN that the fifty-seventh Annual General Meeting of the shareholders of British American Tobacco Zimbabwe (Holdings) Limited will be held at the British American Tobacco Zimbabwe Offices, 1 Manchester Road, Southerton, Harare on Thursday, 11 May 2017 at 10:00 am for the following purposes:

Ordinary Business

1. Minutes of the Previous Meeting

To confirm and sign off the minutes of the fifty-sixth Annual General Meeting.

2. Financial Statements and Reports

To receive and adopt the audited financial statements for the year ended 31 December 2016, together with the reports of the directors and auditors thereon.

3. Dividend

To confirm the payment of an interim dividend of US$0.18 per share and approve the declaration of a final dividend of US$0.33 per share for the year ended 31 December 2016.

4. Directorate

4.1 To approve directors' fees for the year ended 31 December 2016 in the amount of US$27,337.50.

4.2 To re-elect Professor Hope Sadza and Mrs Angela Mashanyare who retire by rotation in terms of article 96 of the company's articles of association.

The profiles of directors to be re-elected are included in the Annual Report under Directorate.

5. Auditors

5.1 To fix the remuneration of the auditors for the past year.

5.2 To reappoint Messrs. KPMG Chartered Accountants (Zimbabwe) as auditors of the company until the conclusion of the next Annual General Meeting.

By Order of the Board

Stephen Nyabadza
Company Secretary

21 February 2017

Registered Office:
1 Manchester Road
P O Box ST 98
Southerton
Harare
Zimbabwe
Email: stephen_nyabadza@bat.com

NOTES:
A member of the company entitled to attend and vote at this meeting is entitled to appoint a proxy to speak and, on a poll, vote in his/her stead.

A proxy need not be a member of the company. Proxy forms should be forwarded to reach the office of the transfer secretaries or the company at least 48 hours before the commencement of the meeting

Notes

Notes

Form of Proxy

FIFTY SIXTH ANNUAL GENERAL MEETING

BRITISH AMERICAN TOBACCO
ZIMBABWE

I/We ……………………………………………………………………
Of…………………………………………………………………………
Being a shareholder of the British American Tobacco Zimbabwe (Holdings) Limited hereby appoint:

……………………………………………………………………………or
failing him/her

……………………………………………………………………………or
failing him/her the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the fifty-seventh Annual General Meeting of the Company to be held at British American Tobacco Zimbabwe Offices, 1 Manchester Road, Southerton, Harare on Thursday, 11 May 2017, at 10:00am.

Signed this……………………….day of ………………………..2017

Signature of member /members……………………………………..

NOTE:

1. In terms of section 129 of the Companies Act (Chapter 24.03) shareholders are entitled to appoint one or more proxies to act in their alternative to attend and vote and speak in their place in meeting. A proxy need not be a member of the Company.
2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initiated by the signatory/signatories.
3. Instruments of proxy must be lodged at the registered office of the Company at least forty eight hours before the time appointed for holding the meeting.

Form of Proxy

FIFTY SIXTH ANNUAL GENERAL MEETING

BRITISH AMERICAN TOBACCO
ZIMBABWE

I/We ……………………………………………………………………
Of…………………………………………………………………………
Being a shareholder of the British American Tobacco Zimbabwe (Holdings) Limited hereby appoint:

……………………………………………………………………………or
failing him/her

……………………………………………………………………………or
failing him/her the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the fifty-seventh Annual General Meeting of the Company to be held at British American Tobacco Zimbabwe Offices, 1 Manchester Road, Southerton, Harare on Thursday, 11 May 2017, at 10:00am.

Signed this……………………….day of ………………………..2017
Signature of member /members……………………………………..

NOTE:

1. In terms of section 129 of the Companies Act (Chapter 24.03) shareholders are entitled to appoint one or more proxies to act in their alternative to attend and vote and speak in their place in meeting. A proxy need not be a member of the Company.
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Form of Proxy

FIFTY SIXTH ANNUAL GENERAL MEETING

BRITISH AMERICAN TOBACCO
ZIMBABWE

I/We ……………………………………………………………………
Of…………………………………………………………………………
Being a shareholder of the British American Tobacco Zimbabwe (Holdings) Limited hereby appoint:

……………………………………………………………………………or
failing him/her

……………………………………………………………………………or
failing him/her the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the fifty-seventh Annual General Meeting of the Company to be held at British American Tobacco Zimbabwe Offices, 1 Manchester Road, Southerton, Harare on Thursday, 11 May 2017, at 10:00am.

Signed this……………………….day of ………………………..2017

Signature of member /members……………………………………..

NOTE:

1. In terms of section 129 of the Companies Act (Chapter 24.03) shareholders are entitled to appoint one or more proxies to act in their alternative to attend and vote and speak in their place in meeting. A proxy need not be a member of the Company.
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3. Instruments of proxy must be lodged at the registered office of the Company at least forty eight hours before the time appointed for holding the meeting.

BRITISH AMERICAN TOBACCO
ZIMBABWE

Affix
stamp
here

The Company Secretary
BAT Zimbabwe
1 Manchester Road,
PO Box ST 98
Southerton,
Harare

BRITISH AMERICAN TOBACCO
ZIMBABWE

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Harare

BRITISH AMERICAN
TOBACCO
ZIMBABWE

BRITISH AMERICAN TOBACCO ZIMBABWE
(HOLDINGS) LIMITED
1 Manchester Road, PO Box ST 98, Southerton,
Harare, Zimbabwe

Tel: 621 170-84, Fax: 661 934,
Website: www.bat.com