

# Reviewed Financial Results

for the half Year Ended 30 June 2020

## CHAIRMAN'S STATEMENT

### Introduction

The country continued to face economic challenges during the half year ended 30 June 2020. This was aggravated by the effects of the COVID-19 pandemic, and the impact of the lockdown measures implemented to contain the spread of the pandemic. The economic impact of the COVID-19 pandemic put severe pressure on consumers' purchasing power, in addition to adversely impacting the overall trading environment. However, the Company came up with mitigatory measures so as to ensure consistent product supply and, thus, satisfy consumer needs.

The Zimbabwean dollar devaluation against major trading currencies further affected consumer disposable incomes, resulting in the rising of inflation to 737% by the end of June 2020 when compared to 175.6% in June 2019. This contributed to increased operating costs for the Company on a historical cost basis.

It is in this context that the Company presents its Reviewed Financial Results for the half year ended 30 June 2020.

### Volumes

The Company's total sales volumes for the period under review decreased by 3% compared to the same period in prior year mainly due to shrinking consumer disposable incomes and the impact of the COVID-19 pandemic lockdown. This affected the movements of people and their normal way of life such as visiting recreational facilities, where our products are normally consumed. The Premium Brand, Dunhill returned to the market as the Company was now able to import the brand and consequently it recorded a significant increase of 184% versus the same period in prior year.

In the Aspirational Premium segment, Newbury volumes, declined by 10% whilst the Value for Money segment, (Madison and Everest) and Low Value for Money brand (Ascot), recorded a 1% increase and 40% decrease respectively. These movements were driven by shrinking consumer disposable incomes due to the challenging economic environment and the COVID-19 pandemic's impact on sales.

### Hyperinflationary Financial Results

*Commentary on financial performance is based on inflation adjusted figures.*

Despite the drop in volumes, revenue increased by ZW\$68.9 million (20%) from ZW\$341.6 million to ZW\$410.5 million, when compared to same period in 2019. The increase in revenue was driven by price increases taken during the period as well as revenue generated from the export of cut-rag. These two factors resulted in a gross profit increase of ZW\$49.6 million (22%) compared to the same period in 2019.

Selling and marketing costs decreased by ZW\$0.2 million (1%) compared to same period in prior year, driven by route to market initiatives aimed at managing the Company's distribution costs.

Administrative expenses were ZW\$17 million (35%) lower than the same period in prior year, driven by the business's ongoing cost saving initiatives.

Other losses increased by ZW\$116.4 million (397%) due to foreign exchange losses on liabilities driven by the devaluation in the Zimbabwe dollar against major trading currencies.

As a result of all of the above, operating profit was higher by ZW\$90.6 million (498%) versus the same period in prior year. Net profit attributable to shareholders for the period under review was ZW\$73.7 million compared to a net loss of ZW\$18.8 million in the same period in prior year, representing a 492% increase. The Company's earnings per share increased to ZW\$3.58 from (ZW\$0.91) generated in the same period in 2019.

Cash generated from operations was a negative ZW\$13.1 million as a result of a significant increase in trade and other receivables due to prepayments to purchase leaf and an increased debtors' book as a result of price increases taken during the period.

### Dividend

As a result of the economic challenges, the Board has not declared an interim dividend for the period ended 30 June 2020 to allow reinvestment into the operations of the Company.

### Contribution to the Government Treasury

The Company contributes to the Government treasury through various taxes, including Excise Duty, Corporate Tax, Value Added Tax, Customs Duties, Pay as You Earn and Withholding Tax. The Company's contribution to the Zimbabwe Revenue Authority (ZIMRA) in taxes increased from ZW\$19.9 million in 2019 to ZW\$173 million for the period ended 30 June 2020. The key contributors of the increase in tax were Excise Duty and Corporate Tax driven by the increases in selling prices and profit before tax.

### Corporate Governance

Mr Leslie Malunga resigned as Finance Director of the Company with effect from 17 July 2020. The Board would like to thank Mr Malunga for his invaluable contribution to the Company during his tenure. Ms Lynnet Sambo was appointed Acting Finance Director with effect from 17 July 2020 pending the appointment of a substantive Finance Director for the Company.

### Outlook

Trading conditions are expected to remain challenging for the remainder of 2020 mainly driven by macro-economic variables and the effects of the COVID-19 pandemic. In response to the negative effects of the COVID-19 pandemic, we are continuously reviewing our business model and related strategies so as to remain aligned to the market dynamics in the 'new normal' way of doing business. We remain confident that our brand portfolio and route to consumer footprint remains consumer relevant to deliver value growth for our shareholders. With the introduction of the foreign currency auction platform, we hope to access the much-needed foreign currency which the Company requires to source raw materials for the production of our consumer centric brands.

**Lovemore T. Manatsa**  
Chairman  
9 September 2020

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Inflation Adjusted 6 months ended 30 June 2020 ZW\$ 000	Inflation Adjusted 6 months ended 30 June 2019 ZW\$ 000	Historical Cost 6 months ended 30 June 2020 ZW\$ 000	Historical Cost 6 months ended 30 June 2019 ZW\$ 000
<b>Revenue</b>	<b>410 527</b>	<b>341 644</b>	<b>288 444</b>	<b>29 458</b>
Cost of sales	(133 882)	(114 628)	(65 067)	(5 931)
<b>Gross profit</b>	<b>276 645</b>	<b>227 016</b>	<b>223 377</b>	<b>23 527</b>
Selling and marketing costs	(42 026)	(42 258)	(26 978)	(3 983)
Administrative expenses	(31 484)	(48 501)	(15 538)	(4 968)
Re-measurement of share-based payment liability	(485)	(225)	(485)	(27)
Other income	266	3 478	266	261
Other gains/(losses) - net	(145 796)	(29 355)	(119 904)	(3 528)
Monetary (loss)/gain on hyperinflation adjustment	51 730	(91 945)	-	-
<b>Profit before income tax</b>	<b>108 850</b>	<b>18 210</b>	<b>60 738</b>	<b>11 281</b>
Income tax expense	(35 076)	(37 034)	(8 934)	(2 773)
<b>Total comprehensive income/(loss) for the period</b>	<b>73 774</b>	<b>(18 826)</b>	<b>51 804</b>	<b>8 508</b>
<b>Attributable to:</b>				
Owners of the parent	73 774	(18 826)	51 804	8 508
Basic earnings per share (ZWL)	3.58	(0.91)	2.51	0.41
Diluted earnings per share (ZWL)	3.58	(0.91)	2.51	0.41
Headline earnings per share (ZWL)	3.58	(0.91)	2.51	0.41

The historical financial information is shown as other information. This information does not comply with International Financial Reporting Standards. As a result the auditors have not expressed a conclusion on the historical financial information.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Notes	Inflation Adjusted 30 June 2020 ZW\$ 000	Inflation Adjusted 31 Dec 2019 ZW\$ 000	Historical Cost 30 June 2020 ZW\$ 000	Historical Cost 31 Dec 2019 ZW\$ 000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	129 224	138 549	6 139	6 402
Intangible assets	237	254	9	11
Investment property	3 352	3 600	156	160
Financial assets at fair value through profit or loss	1 107	1 391	1 107	531
Deferred tax asset	16 539	18 698	32 649	12 922
	<b>150 459</b>	<b>162 492</b>	<b>40 060</b>	<b>20 026</b>
<b>Current assets</b>				
Inventories	264 931	298 520	109 760	88 175
Trade and other receivables	396 928	86 580	396 928	33 047
Cash and cash equivalents	72 437	111 024	72 437	42 377
	<b>734 296</b>	<b>496 125</b>	<b>579 125</b>	<b>163 599</b>
<b>Total assets</b>	<b>884 755</b>	<b>658 617</b>	<b>619 185</b>	<b>183 625</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to the owners of the parent</b>				
Share capital	117 641	117 641	5 214	5 214
Non-distributable reserve	7 593	7 593	337	337
Retained earnings	232 923	159 149	87 036	35 232
<b>Total equity</b>	<b>358 157</b>	<b>284 383</b>	<b>92 587</b>	<b>40 783</b>
<b>Non-current Liabilities</b>				
<b>Current Liabilities</b>				
Trade and other payables	488 462	340 138	488 462	129 828
Provisions for other liabilities and charges	-	-	-	-
Staff benefits liability	23 026	16 000	23 026	6 107
Share based payment liability	621	356	621	136
Current tax liability	14 489	17 740	14 489	6 771
	<b>526 598</b>	<b>374 234</b>	<b>526 598</b>	<b>142 842</b>
<b>Total equity and liabilities</b>	<b>884 755</b>	<b>658 617</b>	<b>619 185</b>	<b>183 625</b>

The notes are an integral part of these consolidated financial results. This financial information was authorised for use by the board of directors on 9 September 2020 and signed on its behalf by:

**Kimesh Naidoo**  
Managing Director

**Lynnet Sambo**  
Acting Finance Director

# Reviewed Financial Results

for the half Year Ended 30 June 2020



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2020

	INFLATION ADJUSTED ATTRIBUTABLE TO OWNERS OF THE PARENT			
	Share capital	Non-distributable reserves	Retained earnings	Total
	ZW\$000	ZW\$000	ZW\$000	ZW\$000
<b>Balance at 1 January 2019</b>	<b>117 641</b>	<b>7 593</b>	<b>231 721</b>	<b>356 955</b>
Total comprehensive (loss)/income for the year	-	-	(72 572)	(72 572)
Dividends	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>117 641</b>	<b>7 593</b>	<b>159 149</b>	<b>284 383</b>
<b>Balance at 1 January 2020</b>	<b>117 641</b>	<b>7 593</b>	<b>159 149</b>	<b>284 383</b>
Total comprehensive income for the period	-	-	73 774	73 774
Dividends	-	-	-	-
<b>Balance at 30 June 2020</b>	<b>117 641</b>	<b>7 593</b>	<b>232 923</b>	<b>358 157</b>

### Non-distributable reserve

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2020

	HISTORICAL COST ATTRIBUTABLE TO OWNERS OF THE PARENT			
	Share capital	Non-distributable reserve	Retained earnings	Total
	ZW\$000	ZW\$000	ZW\$000	ZW\$000
<b>Balance at 1 January 2019</b>	<b>5 214</b>	<b>337</b>	<b>12 492</b>	<b>18 043</b>
Total comprehensive income for the year	-	-	-	22 740
Dividends	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>5 214</b>	<b>337</b>	<b>35 232</b>	<b>40 783</b>
<b>Balance at 1 January 2020</b>	<b>5 214</b>	<b>337</b>	<b>35 232</b>	<b>40 783</b>
Total comprehensive income for the period	-	-	51 804	51 804
Dividends	-	-	-	-
<b>Balance at 30 June 2020</b>	<b>5 214</b>	<b>337</b>	<b>87 036</b>	<b>92 587</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2020

Notes	Inflation Adjusted		Historical Cost	
	6 months ended 30 June 2020	6 months ended 30 June 2019	6 months ended 30 June 2020	6 months ended 30 June 2019
	ZW\$ 000	ZW\$ 000	ZW\$ 000	ZW\$ 000
<b>Cash flows from operating activities</b>				
Cash (utilised in)/generated from operations	(13 165)	96 260	51 188	11 511
Income tax paid	(25 179)	(30 400)	(20 944)	(3 632)
<b>Net cash (utilised in)/generated from operating activities</b>	<b>(38 344)</b>	<b>65 860</b>	<b>30 244</b>	<b>7 879</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(243)	-	(184)	-
Proceeds on disposal of property, plant and equipment	-	260	-	31
<b>Net cash used in investing activities</b>	<b>(243)</b>	<b>260</b>	<b>(184)</b>	<b>31</b>
<b>Cash flows from financing activities</b>				
Dividends paid to owners of the parent	-	42	-	(5)
Dividends paid to non-controlling interests	-	-	-	-
<b>Net cash used in financing activities</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>(5)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(38 588)</b>	<b>66 162</b>	<b>30 059</b>	<b>7 905</b>
Cash and cash equivalents at the beginning of the period	111 024	280 906	42 377	33 561
<b>Cash and cash equivalents at end of the period</b>	<b>72 437</b>	<b>347 068</b>	<b>72 437</b>	<b>41 466</b>

## NOTES TO THE FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 1. General Information

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

### 2. Accounting policies and reporting currency

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

## NOTES TO THE FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 (continued)

### 3. Basis of preparation

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

*IAS 29 Financial Reporting in Hyperinflationary Economies*, requires that the financial statements be prepared in the currency of a hyperinflationary economy and be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. The restatement was calculated by means of conversion factors derived from the Zimbabwe Consumer Price Index (CPI) issued by the Zimbabwe Central Statistical Office. The indices and conversion factors used to restate the accompanying financial information at 30 June 2020, are as follows:

Dates	Indices	Conversion Factor
CPI as at 30 June 2020	1 445.21	1.000
CPI as at 31 December 2019	551.63	2.62
CPI as at 30 June 2019	172.61	8.37

### 4. Blocked funds registration

As at 30 June 2020, the Reserve Bank of Zimbabwe ("RBZ") registered blocked funds amounting to US\$15.7 million in respect of outstanding dividends and foreign suppliers, consistent with the blocked funds guidelines provided in the Exchange Control Directive RU28 dated 21 February 2019 and Exchange Control Circular No. 8 of 24 July 2019. Following the registration of the blocked funds, an amount of ZWS15.7 million was transferred to the RBZ to allow settlement of the registered blocked funds. In line with the provisions of the February 2019 Monetary Policy Statement on the settlement arrangements for these blocked funds, RBZ is still working on an appropriate Instrument(s) to facilitate settlement of the registered blocked funds. As a result of the registration, management has continued to account for the outstanding blocked funds at a rate of US\$1: ZWS1 and a receivable of ZWS15.7 million (note 8) was recognised for the amount transferred to RBZ for the registered blocked funds.

### Supplementary information

	INFLATION ADJUSTED		HISTORICAL COST	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	ZW\$ 000	ZW\$ 000	ZW\$ 000	ZW\$ 000
<b>5. Depreciation</b>				
Depreciation charge	9 815	7 536	451	900
Amortisation charge	18	23	2	3
	<b>9 833</b>	<b>7 559</b>	<b>453</b>	<b>903</b>
<b>6. Other (losses)/gains - net</b>				
Fair value gains	576	900	576	173
Exchange losses	(146 372)	3	(120 480)	(3 702)
	<b>(145 796)</b>	<b>903</b>	<b>(119 904)</b>	<b>(3 528)</b>
<b>7. Capital expenditure</b>	<b>243</b>	<b>-</b>	<b>184</b>	<b>-</b>
<b>8. Trade and other receivables</b>				
Trade receivables	74 064	63 047	74 064	24 065
Amounts due from related parties	44 195	13 658	44 195	5 213
Other receivables	262 920	9 875	262 920	3 769
Receivable from Reserve Bank of Zimbabwe for blocked funds	15 749	-	15 749	-
	<b>396 928</b>	<b>86 580</b>	<b>396 928</b>	<b>33 047</b>
The receivable from the RBZ relates to a prepayment made towards settlement of legacy debt in line with relevant exchange control directives.				
Other receivables mainly consist of prepayments made towards the purchase of leaf.				
<b>9. Trade and other payables</b>				
Trade payables	193 043	163 833	193 043	62 536
Amounts due to related parties	238 582	164 984	238 582	62 971
Accrued expenses	28 875	3 846	28 875	1 468
Dividends payable	2 705	7 087	2 705	2 705
Other	25 257	388	25 257	148
	<b>488 462</b>	<b>340 138</b>	<b>488 462</b>	<b>129 828</b>
<b>10. Subsequent events</b>				
The Company has evaluated events from 30 June 2020 and there were no subsequent events that need disclosure.				
<b>11. Statement on review report</b>				
These consolidated financial results for the period ended 30 June 2020 have been reviewed by Messrs KPMG who expressed a modified review conclusion because of non-compliance with International Accounting Standard 21, <i>The Effects of Changes in Foreign Exchange rates</i> . A copy of the auditor's review report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.				





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### **Independent reviewer's report**

#### **To the shareholders of British American Tobacco Zimbabwe (Holdings) Limited**

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

#### **Introduction**

We have reviewed the accompanying consolidated inflation-adjusted interim financial results of British American Tobacco Zimbabwe (Holdings) Limited ("the Company") set out on pages 1 to 2, which comprise the consolidated inflation-adjusted statement of financial position as at 30 June 2020 and the consolidated inflation-adjusted statements of comprehensive income, changes in equity and cash flows for the period then ended and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated inflation-adjusted interim financial results in accordance with the International Financial Reporting Standards (IFRS) including the requirements of IAS 34 *Interim Financial Reporting* as well as the requirements of the Companies and Other Business Entities Act of Zimbabwe (Chapter 24:31). Our responsibility is to express a conclusion on these consolidated inflation-adjusted interim financial results based on our review.

#### **Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial policies and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



### **Basis for Qualified Conclusion**

As described in note 4 to the consolidated inflation-adjusted interim financial results, as at 30 June 2020, the Reserve Bank of Zimbabwe ("RBZ") registered blocked funds amounting to US\$15.7 million in respect of foreign liabilities for outstanding dividends and to foreign suppliers, consistent with the blocked funds guidelines provided in the Exchange Control Directive RU28 dated 21 February 2019 and Exchange Control Circular No. 8 of 24 July 2019. Following the registration of the blocked funds, an amount of ZW\$15.7 million was transferred to the RBZ to allow settlement of the registered blocked funds in line with the provisions of the February 2019 Monetary Policy Statement on the settlement arrangements for these blocked funds. However, the RBZ is still working on an appropriate instrument(s) to facilitate settlement of the registered blocked funds. Therefore, as at the date of this report, there is no legally binding instrument that had been issued by the RBZ that defines how this commitment will be implemented and the specific terms and conditions thereof in order to support its commitment to assist in obtaining foreign currency required to settle such foreign liabilities on a 1:1 basis. The Company has continued to account for foreign currency denominated liabilities registered as legacy debt on a 1:1 basis that we believe should be translated at the closing interbank exchange rate on 30 June 2020 to conform with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Consequently, we were unable to obtain sufficient appropriate review evidence to support the translation and measurement of the foreign liabilities using a rate of 1:1. This departure from IAS 21 is considered to be material.

### **Qualified Conclusion**

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that these consolidated inflation-adjusted interim financial results do not present fairly, in all material respects, the consolidated inflation-adjusted financial position of British American Tobacco Zimbabwe (Holdings) Limited as at 30 June 2020, and its consolidated inflation-adjusted financial performance and consolidated inflation-adjusted cash flows for the period then ended in accordance with the International Financial Reporting Standards (IFRS) including the requirements of IAS 34 *Interim Financial Reporting* and the Companies and Other Business Entities Act (Chapter 24:31) of Zimbabwe.

### **Other matter**

The Directors are responsible for the other information. The other information comprises the Chairman's statement and the financial information in the consolidated inflation-adjusted interim financial results titled "Historical cost", but does not include the consolidated inflation-adjusted interim financial results.

Our opinion on the consolidated inflation-adjusted interim financial results does not cover the other information and we do not express a conclusion or any form of assurance conclusion thereon.



In connection with our review of the consolidated inflation-adjusted interim financial results, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated inflation-adjusted interim financial results or our knowledge obtained in the review, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Conclusion section above, the Company has continued to account for foreign currency denominated liabilities registered as legacy debt on a 1:1 basis that we believe should be translated at the closing interbank exchange rate on 30 June 2020 to conform with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. We have, therefore, concluded that the other information is materially misstated for the same reason with respect to the financial information in the Chairman's statement and the financial information in the consolidated inflation-adjusted interim financial results titled "Historical cost", affected by the failure to comply with the requirements of IAS 21.

KPMG

**Craig Adamson**

Partner

Registered Auditor

PAAB Practicing Certificate Number 208

11 September 2020

For and on behalf of KPMG Chartered Accountants (Zimbabwe),

Reporting Auditor

Mutual Gardens

100 The Chase West

Emerald Hill

Harare

Zimbabwe