Abridged Audited Financial Results

For the Year Ended 31 December 2018

BRITISH AMERICAN TOBACCO
ZIMBABWE

Chairman's Statement

Introduction

Annual inflation for the year closed at 42%, which was a significant upsurge from the prior year inflation which closed at 0.9%. During the second half of the year, retail prices of basic commodities increased significantly resulting in pressure on consumer purchasing power. Excise tax on cigarettes increased from US$20 per thousand sticks to US$25 per thousand sticks with effect from 27 November 2018. Furthermore, Government introduced a requirement to pay duty in foreign currency on imported cigarettes.

Notwithstanding the challenging economic environment, British American Tobacco Zimbabwe (Holdings) Limited ("the Company") recorded a remarkable financial performance for the year ended 31 December 2018.

Reporting Currency

The final accounts presented herein are aligned to the previous reporting and functional currency of the Company which is the United States of America dollar (US$). The fiscal and monetary policy pronouncements made in October 2018 led to a reassessment of the functional currency under International Accounting Standard 21 ("IAS 21") – "The Effects of Changes in Foreign Exchange Rates" and there was a change in functional currency of the Company.

However, this change could not be effected on the financial statements as there was no local currency in Zimbabwe until Statutory Instrument 33 of 2019 ("SI 33") came into effect. SI 33 requires that assets and liabilities which prior to 22 February 2019 were recorded in US$ should be presented on the basis of 1:1 between the US$ and RTGS$. The financial statements have, therefore, been reported on the basis of 1:1. The inconsistency between the legal requirements and the International Financial Reporting Standards ("IFRS") resulted in the auditors expressing an adverse opinion on the financial statements, which is a market wide phenomenon.

Volumes

The Company's total sales volumes for the year under review increased by 16% compared to the 2017 financial year. The Company's Low Value for Money Brand, Ascot, grew by 171% driven by robust trade activations, with the Value for Money Segment (Madison and Everest) recording a 10% growth driven by Everest which grew by 35%. The Company's Aspirational Premium Segment, Newbury, recorded a 6% growth whilst the Global Drive Brand, Dunhill, recorded an increase of 16% compared to 2017 due to strengthened trade partnerships.

Financial Results

For the year under review, revenue increased by 16% or US$5.9 million when compared to 2017, driven by a strong sales performance and an improvement in the sales mix. Gross profit consequently increased by US$4.7 million (18%) compared to 2017, abetted by continued increased efficiencies in the Company's manufacturing activities.

Selling and marketing costs increased by US$0.1 million (3%) compared to 2017 in line with continued support of our main brand activities to drive the Company's volumes upwards.

Administrative expenses were US$0.4 million (5%) lower than the previous year, driven by savings initiatives coupled with the benefits of restructuring activities implemented in previous years which offset the impact of an increase in inflation in the last quarter of the year.

Other income increased by US$0.5 million (19%) compared to 2017 due to foreign exchange gains on liabilities.

As a result of the above, operating profit grew by US$6.0 million (36%) versus the same period last year, to close at US$22.6 million. Net profit attributable to shareholders for the period under review was US$14.8 million compared to US$10.6 million in the previous year representing a 40% growth which translated into an increase in earnings per share to US$0.72 up from US$0.51 in 2017.

Cash generated from operations was US$17.1 million representing a US$3.1 million (22%) increase from the US$14 million generated in 2017. This was due to an increase in profit offset by higher inventories and debtors.

Dividend

The Company declared an interim dividend of US$0.30 per share during 2018. The directors have not recommended a final dividend with respect to the full year ended 31 December 2018. The directors believe that it is in the best interest of the Company that the profits are reinvested in 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, Pay As You Earn and Withholding Tax. The Company's contribution to the Zimbabwe Revenue Authority in taxes increased by 21% from US$35.2 million in 2017 to US$42.5 million in 2018. The key drivers of the increase in the tax contribution were Excise Duty, spurred by the increase in sales, and Corporate Tax driven by the increase in profitability.

The recently promulgated Customs and Excise (Designation of Foreign Currency Dutiable Goods) Notice 2018 Regulations ("the Regulations"), has been interpreted to mean that both excise duty and import duty on imported cigarettes should be paid for in foreign currency. The Regulations affect the Company's premium and innovative brand Dunhill which is imported from South Africa and sold on the local market in RTGS$. Excise duty being a consumption tax, charged on the consumer and collected on behalf of Government by the Company, should ideally be paid for in the medium of exchange used with respect to the Company's own sales in relation to its products. Further, excise duty being an internal tax should be applied in the same and equal manner on all products sold on the market. The levying of excise duty on imported cigarettes in foreign currency will affect the Company's ability to continue servicing the premium segment, translating to revenue loss for both Government and the Company. Accordingly, the Company is engaging Government on this matter.

Corporate Governance

In terms of Article 96 of the Company's Articles of Association, Mrs Rachel Kupara and Mr Edwin Manikai 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 2019 as the country continues to strive for economic stability. We are confident that our strategies remain appropriate and that our brand portfolio is consumer relevant. Further, the quality of our people and processes will help us to deliver a sustainable competitive advantage required for the future success of the Company in delivering consistent value to our shareholders.

Lovemore T. Manatsa
Chairman

24 April 2019

Consolidated Statement Of Comprehensive Income
For The Year Ended 31 December 2018

	2018 US$000's	2017 US$000's
Revenue	**42 704**	**36 760**
Cost of sales	(11 273)	(10 065)
Gross profit	**31 431**	**26 695**
Selling and marketing costs	(4 990)	(4 856)
Administrative expenses	(6 949)	(7 325)
Impairment gain/(loss) on trade receivables	104	(326)
Re-measurement of share-based payment liability	13	(123)
Other income	2 941	2 466
Other gains	88	115
Operating profit	**22 638**	**16 646**
Profit before income tax	**22 638**	**16 646**
Income tax expense	(7 830)	(6 076)
Total comprehensive income for the year	**14 808**	**10 570**
Attributable to:		
Owners of the parent	14 808	10 570
Basic earnings per share (US$)	0.72	0.51
Diluted earnings per share (US$)	0.72	0.51

Consolidated Statement Of Financial Position
As At 31 December 2018

	Notes	2018 US$000's	2017 US$000's
ASSETS			
Non-current assets			
Property, plant and equipment		6 941	7 725
Intangible assets		18	23
Investment property		164	115
Financial assets at fair value through profit or loss		221	133
		7 344	**7 996**
Current assets			
Inventories		5 805	4 769
Trade and other receivables		4 727	3 677
Cash and cash equivalents		33 561	21 470
		44 093	**29 916**
Total assets		**51 437**	**37 912**
EQUITY AND LIABILITIES			
Equity attributable to the owners of the parent			
Share capital		5 214	5 214
Non-distributable reserve		337	337
Retained earnings		12 492	8 035
Total equity		**18 043**	**13 586**
Non-current liabilities			
Deferred tax liability		613	847
Current liabilities			
Trade and other payables	6	30 505	21 419
Provisions for other liabilities and charges		-	422
Staff benefits liability		1 511	1 129
Share-based payment liability		222	247
Current income tax liability		543	262
		32 781	**23 479**
Total equity and liabilities		**51 437**	**37 912**

The notes are an integral part of the consolidated financial results. These financial results were authorised for use by the Board of Directors on 24 April 2019 and signed on its behalf by:

Clara Mlambo
Managing Director

Leslie Malunga
Finance Director

Consolidated Statement Of Changes In Equity
For The Year Ended 31 December 2018

	ATTRIBUTABLE TO OWNERS OF THE PARENT			
	Share capital US$000's	Non-distributable reserve[1] US$000's	Retained earnings US$000's	Total US$000's
Balance as at 1 January 2017	**5 214**	**337**	**6 899**	**12 450**
Total comprehensive income for the year	-	-	10 570	10 570
Dividends	-		(9 434)	(9 434)
Balance as at 31 December 2017	**5 214**	**337**	**8 035**	**13 586**
Balance as at 1 January 2018	**5 214**	**337**	**8 035**	**13 586**
Total comprehensive income for the year	-	-	14 808	14 808
Dividends	-	-	(10 351)	(10 351)
Balance as at 31 December 2018	**5 214**	**337**	**12 492**	**18 043**

[1]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 Cash Flows
For The Year Ended 31 December 2018

	2018 US$000's	2017 US$000's
Cash flows from operating activities		
Cash generated from operations	24 844	19 869
Income tax paid	(7 783)	(5 912)
Net cash generated from operating activities	**17 061**	**13 957**
Cash flows from investing activities		
Purchase of property, plant and equipment	(278)	(535)
Proceeds from sale of property, plant and equipment	20	146
Net cash used in investing activities	**(258)**	**(389)**
Cash flows from financing activities		
Dividends paid to owners of the parent	(4 712)	(4 460)
Net cash used in financing activities	**(4 712)**	**(4 460)**
Effect of movements in exchange rates on cash held	-	**1**
Net increase in cash and cash equivalents	**12 091**	**9 109**
Cash and cash equivalents at the beginning of the year	21 470	12 361
Cash and cash equivalents at the end of the year	**33 561**	**21 470**

Notes To The Financial Results
For The Year Ended 31 December 2018

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 United States Dollars (US$), as prescribed by SI33 of 2019.

The Company has in previous financial periods adopted the United States dollar as both its presentation currency and functional currency. In order to comply and meet the prescribed requirements of Statutory Instrument 33 of 2019 (SI 33), the Company has adopted the US dollar as its presentation currency for the 2018 financial statements. Based on the requirements of SI 33, the Company was not able to apply the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates.

3. Basis of preparation

The Company's financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and based on statutory records that are maintained under the historical cost conversion, except for financial assets and financial liabilities at fair value through profit or loss, which are measured at fair value.

The Company's financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

Supplementary information

	31 December 2018 US$000's	31 December 2017 US$000's
4. Depreciation		
Depreciation charge	(992)	(863)
Amortisation charge	(5)	(5)
	(997)	**(868)**
5. Capital expenditure	**278**	**535**
6. Trade and other payables		
Trade payables	2 585	1 199
Amounts due to related parties	20 407	15 467
Social security and other taxes	3 069	1 889
Accrued expenses	1 657	423
External dividends	2 710	1 700
Other	77	741
	30 505	**21 419**

The increase in amounts due to related parties is due to delays in receiving the exchange control approvals for the contracts and general shortage of foreign currency for external payments.

Auditor's statement

The financial results should be read in conjunction with the complete set of financial statements for the year ended 31 December 2018, which have been audited by KPMG Chartered Accountants (Zimbabwe). An adverse opinion was issued thereon, in respect of functional currency, as requirements of IAS 21 "The Effects of Foreign Exchange Rates" were not complied with. The auditor's report on the financial statements, which forms the basis of these financial results, is available for inspection at the Company's registered office.

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Independent Auditor's Report

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

Adverse 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 10 to 70 which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the consolidated and separate financial statements do not present fairly, the consolidated and separate financial position of British American Tobacco Zimbabwe (Holdings) Limited as at 31 December 2018, and its consolidated and separate financial performance and 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 of Zimbabwe (Chapter 24:03).

Basis for Adverse Opinion

As described in note 2.6, during the year ended 31 December 2018, the Group and Company transacted using a combination of the United States dollar (US$), bond notes and bond coins. Acute shortage of US$ cash and other foreign currencies in the country, resulted in an increase in the use of different modes of payment for goods and services such as settlement through the Real Time Gross Settlement (RTGS) system overseen by the Reserve Bank of Zimbabwe (RBZ), point of sale and mobile money platforms. The note further explains that during the year there was a significant divergence in market perception of the relative values between the US$, and the bond note, bond coin, mobile money platforms and RTGS, collectively referred to therein as "local currency". Although bond notes and bond coins, RTGS and mobile money platforms were not legally recognised as currency during the year ended 31 December 2018, the substance of the economic phenomenon suggested that it was currency. Due to these factors, the directors performed an assessment of the functional currency of the Group and Company in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21) and acknowledge that the functional currency of the Group and Company has changed from US$ to RTGS.

In February 2019, an electronic currency called the RTGS dollar was issued through Statutory Instrument 33 of 2019 (SI 33) with an effective date of 22 February 2019 and the currency commenced trading at a rate of 2.5 to the US$. In addition, SI 33 fixed the exchange rate between the RTGS dollar and the US$ at a rate of 1:1 for periods before the effective date. The rate of 1:1 is consistent with the rate mandated by the Reserve Bank of Zimbabwe (RBZ) at the time it issued the bond notes as currency.

Although directors acknowledge that there was a functional currency change and that market exchange rate between the US$ and local currency was not 1:1, they have maintained their functional currency as the US$ and have presented the Group and Company financial statements in US$ using an exchange rate of 1:1, in compliance with SI 33. This constitutes a departure from the requirements of IAS 21.

The directors have performed a sensitivity analysis of how different exchange rates would impact the consolidated and separate statements of financial position in note 35 to the financial statements. The amounts presented in that sensitivity analysis may not necessarily reflect the opening balances in RTGS dollars going forward. This sensitivity analysis confirms that had the local currency been translated to US$ in accordance with IAS 21, many elements in the statements of financial position would have been materially affected and, therefore, the departure from the requirements of IAS 21 is considered to be pervasive. The effects of this departure on the Group's and the Company's financial statements have not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period and which are not materially impacted by the matter described in the *Basis for Adverse Opinion* section. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our adverse opinion thereon, and we do not provide a separate opinion on these matters. Except for the matter described in the *Basis for Adverse Opinion* section, we have determined there are no other key audit matters to be communicate in our report.

Other Information

The directors are responsible for the other information. The other information comprises the Chairman's Statement, the Directors' Report, and the Financial Highlights, but does not include the consolidated and separate financial statements and our auditors' 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 on the other information obtained prior to the date of this auditor's report, 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 Adverse Opinion* section above, the Group and Company should have translated its local currency transactions and balances to US$ using a rate determined in accordance with IAS 21. We have, therefore, concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Chairman's Statement, the Directors' Report, and the Financial Highlights affected by the failure to translate the local currency transactions and balances using a rate which complies with the requirements of IAS 21.

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 the manner required by the Companies Act of Zimbabwe (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 the 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 the 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 the Company's internal control.

KPMG

- 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 the 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 year 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

24 April 2019

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