

Abridged Financial Results

For The Year Ended 31 December 2021

NOTES TO THE FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. General Information

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

2. Accounting policies and reporting currency

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

3. 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 Companies and Other Business Entities Act (Chapter 24:31). The financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities at fair value through profit and loss, which are measured 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 Group.

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 acGrouping financial statements at 31 December 2021, are as follows:

Dates	Indices	Conversion Factor
CPI as at 31 December 2021	3 977.50	1.000
CPI as at 31 December 2020	2 474.51	1.61
Average CPI 2021	3 135.23	
Average CPI 2020	1 579.09	

4. Blocked funds registration

As at 31 December, 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 ZWS\$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, RBZ is still working on an appropriate Instrument(s) to facilitate settlement of the registered blocked funds, which were listed as approved blocked funds under Annex 1 of the Finance Act (no 7) of 2021, (gazetted on 21 December 2021). As a result of the registration, management has continued to account for the outstanding blocked funds at a rate of US\$1: ZWS\$1 and a receivable of ZWS\$15.7 million was recognised for the amount transferred to RBZ for the registered blocked funds.

Supplementary information

5. Depreciation

	INFLATION ADJUSTED		UNAUDITED HISTORICAL COST	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	ZWS 000	ZWS 000	ZWS 000	ZWS 000
Depreciation charge	(38 504)	(53 320)	(3 520)	(909)
Amortisation charge	(336)	(336)	(5)	(5)
	(38 840)	(53 656)	(3 525)	(914)

6. Other losses

Loss on sale of property, plant and equipment	(226)	-	(226)	-
Exchange losses	(82 505)	(616 615)	(56 576)	(318 587)
	(82 731)	(616 615)	(56 802)	(318 587)

7. Capital expenditure

	(91 811)	(2 850)	(82 139)	(1 491)
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8. Trade and other receivables

Trade receivables	147 682	96 192	147 682	59 844
Amounts due from related parties	152 124	217 502	152 124	135 314
Other receivables	55 363	56 829	55 363	35 354
Prepayments	188 250	223 590	173 098	139 101
Provision for impairment	(60 398)	(71 098)	(60 399)	(44 232)
	483 021	523 015	467 868	325 381

Included in other receivables is an amount of ZWS\$ 15 748 856 which is a prepayment made to the Reserve Bank of Zimbabwe towards settlement of blocked funds in line with the relevant exchange control directives.

9. Trade and other payables

Trade payables	66 092	201 644	(42 811)	125 448
Amounts due to related parties	518 337	628 988	518 337	391 310
Social security and other taxes	162 189	183 739	162 189	114 309
Accrued expenses	85 865	433 226	194 769	269 523
Dividends payable	2 705	4 348	2 705	2 705
	835 188	1 451 945	835 189	903 295

10. Segment Information

2021

	INFLATION ADJUSTED	
	Cigarettes	Leaf and Cut-rag Tobacco
	ZWS 000	ZWS 000
External revenue	6,667,694	475,324
Tobacco duties	(2,421,690)	-
Net revenue	4,246,004	475,324
Profit before interest, taxation, depreciation and amortization	2,187,670	43,211
Depreciation	(38,504)	-
Amortisation	(336)	-
Interest	(12,013)	-
Profit before income tax	2,136,817	43,211
Total assets	3,488,096	51,695
Total liabilities	1,257,784	-

2020

	INFLATION ADJUSTED	
	Cigarettes	Leaf and Cut-rag Tobacco
	ZWS 000	ZWS 000
External revenue	4,505,864	346,060
Tobacco duties	(1,517,471)	-
Net revenue	2,988,393	346,060
Profit before interest, taxation, depreciation and amortization	433,977	31,461
Depreciation	(53,320)	-
Amortisation	(336)	-
Profit before income tax	380,321	31,461
Total assets	2,408,840	121,720
Total liabilities	1,649,722	-

2021

	UNAUDITED HISTORICAL COST	
	Cigarettes	Leaf and Cut-rag Tobacco
	ZWS 000	ZWS 000
External revenue	5,375,424	395,367
Tobacco duties	(1,942,647)	-
Net revenue	3,432,777	395,367
Profit before interest, taxation, depreciation and amortization	2,000,249	35,942
Depreciation	(3,520)	-
Amortisation	(5)	-
Interest	(12,013)	-
Profit before income tax	1,984,711	35,942
Total assets	2,999,646	51,695
Total liabilities	1,250,112	-

2020

	UNAUDITED HISTORICAL COST	
	Cigarettes	Leaf and Cut-rag Tobacco
	ZWS 000	ZWS 000
External revenue	1,994,172	175,494
Tobacco duties	(647,149)	-
Net revenue	1,347,023	175,494
Profit before interest, taxation, depreciation and amortization	353,985	17,549
Depreciation	(909)	-
Amortisation	(5)	-
Profit before income tax	353,071	17,549
Total assets	1,263,309	75,725
Total liabilities	1,026,337	-

11. Going Concern

The Directors are confident that the Group has adequate resources to continue in operational existence for the foreseeable future and is expected to continue to generate profits.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to settle all its outstanding obligations.

12. Subsequent events

Since the year end, there has been significant movement of the auction exchange rates. As at the reporting date, the rate had increased from a closing rate of US\$1: ZWS\$108.7 to US\$1:ZWS\$142.4. This represents an average of 31% increase in a period of 3 months. Should this trend continue, the 2022 closing interbank rate could be significantly above the 2021 closing rate. In addition to the rate movement, the CPI index has significantly increased to current rate of 4,483 as of February 2022, from 3,977 as at 31 December 2021.

As the conflict in Ukraine continues to escalate, we continue to monitor developments in Ukraine and their potential impact on the Zimbabwean business. In the short term the business anticipates a potential increase in the cost of production.

13. Auditor's statement

The financial statements should be read in conjunction with the complete set of financial statements for the year ended 31 December 2021, which have been audited by KPMG Chartered Accountants (Zimbabwe), with the responsible partner being Vinay Ramabhai. A qualified audit opinion was issued thereon, in respect the exchange rates being applied to foreign creditors, related to approved Blocked Funds, in the current and prior periods, and in respect of exchange rates applied in the comparative period, as the 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 Group's registered office.



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Independent Auditors' Report

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

Qualified opinion

We have audited the inflation adjusted consolidated and separate financial statements of British American Tobacco Zimbabwe (Holdings) Limited (the Group and Company) set out on pages 13 to 67, which comprise the inflation adjusted consolidated and separate statements of financial position as at 31 December 2021, and the inflation adjusted consolidated and separate statements of profit or loss and other comprehensive income, the inflation adjusted consolidated and separate statements of changes in equity and the inflation adjusted 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, except for the effect of the matters described in the *Basis for qualified opinion* section of our report, the inflation adjusted consolidated and separate financial statements present fairly, in all material respects, the inflation adjusted consolidated and separate financial position of British American Tobacco Zimbabwe (Holdings) Limited as at 31 December 2021, and its inflation adjusted consolidated and separate financial performance and inflation adjusted consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the manner required by the Companies and other Business Entities Act [Chapter 24:31].

Basis for qualified opinion

Non-compliance with International Financial Reporting Standards IAS 21 – The Effects of Changes in Foreign Exchange Rates (IAS 21) and inappropriate application of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

During the period 1 January 2020 to 23 June 2020, the Group translated foreign denominated transactions and balances using the interbank rate. During this period, due to the lack of access to foreign currency for immediate delivery through the interbank foreign currency market, the interbank rate did not satisfy the requirements to be considered an appropriate exchange rate in accordance with IAS 21. The impact of this departure from IAS 21 affected the inflation adjusted consolidated and separate financial statements for the year 31 December 2020, and whilst considered to be material, it was impractical to quantify the misstatement, due to the lack of an appropriate alternate rate that would satisfy the requirements of IAS 21.



Management has not restated the prior year amounts in line with the requirements of IAS 8; and consequently, many corresponding numbers, in respect of the financial performance and cash flows, remain misstated on the inflation adjusted consolidated and separate financial statements of 31 December 2020.

Non-compliance with International Financial Reporting Standards IAS 29 – Financial Reporting in Hyperinflationary Economies (IAS 29)

In addition, as described in note 2.1 to the inflation adjusted consolidated and separate financial statements, Zimbabwe became a hyperinflationary economy with effect from 1 July 2019. IAS 29 has been applied to the incorrect balances due to the non-compliance with IAS 21 in the prior years, as commented on above.

Our opinion on the current year's inflation adjusted consolidated and separate financial statements has been qualified because of the possible effects of these matters on the comparability of the current year's inflation adjusted financial statements with those of the prior year.

RBZ blocked funds

As described in note 14 to the inflation adjusted consolidated and separate financial statements, the Group has continued to account for foreign liabilities amounting to US\$15.7 million, approved as blocked funds on a 1:1 basis being ZW\$15.7 million, as included in Trade and other payables balance, as the Directors believe the Reserve Bank of Zimbabwe (RBZ) will assist the Group in sourcing foreign currency at that rate. Whilst the amount has been listed as approved blocked funds in the Finance Act (No.7) of 2021, enacted on 31 December 2021, no legally binding instrument had been issued by the RBZ to confirm the contractual terms supporting settlement of the approved blocked funds. The accounting of these foreign liabilities at a rate of 1:1 is not in line with the requirement of IAS 21, which requires foreign currency denominated liabilities to be translated at the closing spot rates at the respective period end. Accordingly, other losses is understated by ZW\$423.9 million, monetary gain on hyperinflation adjustment is understated by ZW\$769.6 million, the trade and other payables balance is understated by ZW\$1,706.6 million and the opening retained earnings balance as at 1 January 2021 is overstated by ZW\$2,052.3 million.

This departure from IAS 21 on the inflation adjusted consolidated and separate financial statements is material and our opinion on the current year's inflation adjusted consolidated and separate financial statements has been qualified as a result.

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 inflation adjusted 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the inflation adjusted consolidated and separate 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 qualified opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the inflation adjusted consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the inflation adjusted 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. In addition to the matters described in the *Basis for qualified opinion*, section we have determined the matters described below to be the key audit matters to be communicated in our report.

Application of IAS 21 – The Effects of Changes in Foreign Exchange Rates (IAS 21) with respect to the appropriateness of the determined spot rate (Group and Company) - Refer to accounting policies note 2.6	
Key audit matter	How the matter was addressed in our audit
<p>The Zimbabwean economy is currently characterized by two exchange rates: the official exchange rate, prescribed by the Reserve Bank of Zimbabwe (RBZ) (the auction rate) and the parallel market rate, which is unofficial.</p> <p>The Group and Company's transactions include a mix of Zimbabwe Dollar (ZW\$), Pounds Sterling (GBP) and US Dollar (US\$) based transactions, both from a sale (cut-rag exports), expenses and foreign balances perspective, all of which are required to be translated to ZW\$ at the prevailing spot rate at the dates of the transactions or valuation, where items are re-measured.</p> <p>The Group and Company has applied the auction rate in its determination of the appropriate spot rate pursuant to complying with IAS 21 for the financial year ended 31 December 2021. Foreign currency transactions and balances were thus translated to ZW\$ at the auction rate, as the Group and Company has concluded that there is no lack nor a temporary lack of exchangeability of foreign currency in terms of IAS 21 given that the Group and Company participated in the foreign exchange auction and were allotted foreign currency which demonstrated exchangeability.</p> <p>Due to the uncertainty surrounding which exchange rate should be considered as the prevailing spot rate for the purpose of translating foreign currency transactions and balances to ZW\$, the appropriateness of the determined spot rate was considered a key audit matter.</p>	<p>Our audit procedures performed included the following:</p> <ol style="list-style-type: none">1. We evaluated management's technical analysis outlining their considerations for the basis of using the auction rate as the spot rate in accordance with the requirements of IAS 21 by performing an analysis of the amount of successful bids against the amounts allocated, thereby assessing whether the Group and Company were able to obtain foreign currency from the auction market;2. We assessed the adequacy of the disclosures made in the financial statements in respect of the significant estimates and judgements made in the determination of the appropriate foreign currency exchange translation rate in terms of IAS 21 – <i>The Effects of Changes in Foreign Exchange Rates</i>.



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 inflation adjusted consolidated and separate financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the inflation adjusted consolidated and separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the inflation adjusted consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

As described in the *Basis for qualified opinion* section above, the Group has not restated the inflation adjusted consolidated and separate comparative financial statements, as required by IAS 8, to resolve the matters which resulted in the adverse opinion in the prior year relating to the non-compliance with IAS 21. In addition, the Group continued to account for foreign liabilities, approved as blocked funds, at an exchange rate of 1:1 as at 31 December 2021, which is not in compliance with IAS 21. We have, therefore, concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Chairman's statement, the Directors' report and the Financial highlights.

Responsibilities of the directors for the inflation adjusted consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the inflation adjusted consolidated and separate financial statements in accordance with International Financial Reporting Standards and the manner required by the Companies and other Business Entities Act [Chapter 24:31], and for such internal control as the directors determine is necessary to enable the preparation of inflation adjusted consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the inflation adjusted consolidated and separate financial statements, the directors are responsible for assessing the Group 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 or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the inflation adjusted consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the inflation adjusted consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 inflation adjusted 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 inflation adjusted 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 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 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 auditors' report to the related disclosures in the inflation adjusted 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the inflation adjusted consolidated and separate financial statements, including the disclosures, and whether the inflation adjusted 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the inflation adjusted consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

Vinay Ramabhai
Chartered Accountant (Z)
Registered Auditor
PAAB Practicing Certificate Number 0569

31 March 2022

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

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