

Abridged Audited Financial Results for the Year Ended 31 December 2019



BRITISH AMERICAN
TOBACCO
ZIMBABWE

Chairman's Statement

Introduction

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

Volumes

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

Hyperinflationary Financial Results

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

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

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

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

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

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

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

Blocked funds registration

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

Dividend

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

Contribution to the Government Treasury

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

Corporate Governance

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

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

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

Outlook

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

Lovemore T. Manatsa
Chairman
10 June 2020

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

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

ABRIDGED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

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

Kimesh Naidoo
Managing Director

Leslie Malunga
Finance Director

Abridged Audited Financial Results for the Year Ended 31 December 2019



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

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

Non-distributable reserve

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

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

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

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

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

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

1. General Information

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

2. Accounting policies and reporting currency

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

3. Basis of preparation

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

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

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

Supplementary information

4. Depreciation

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

5. Other (losses)/gains - net

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

6. Capital expenditure

	(1 237)	(2 394)	(391)	(278)
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7. Trade and other payables

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

8. Going concern

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

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

Auditor's statement

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