British American Tobacco
Zambia

Delivering today, Investing in tomorrow

Annual Report 2019

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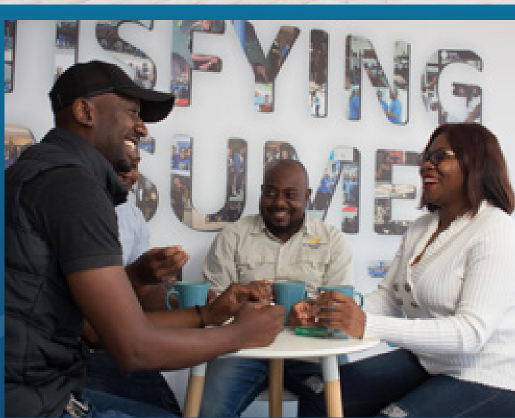
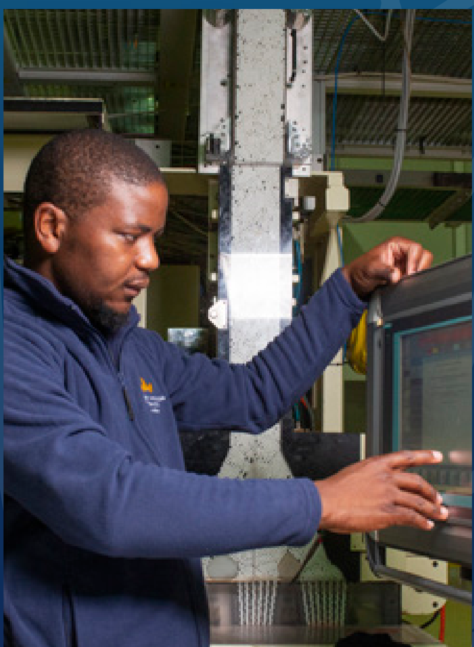
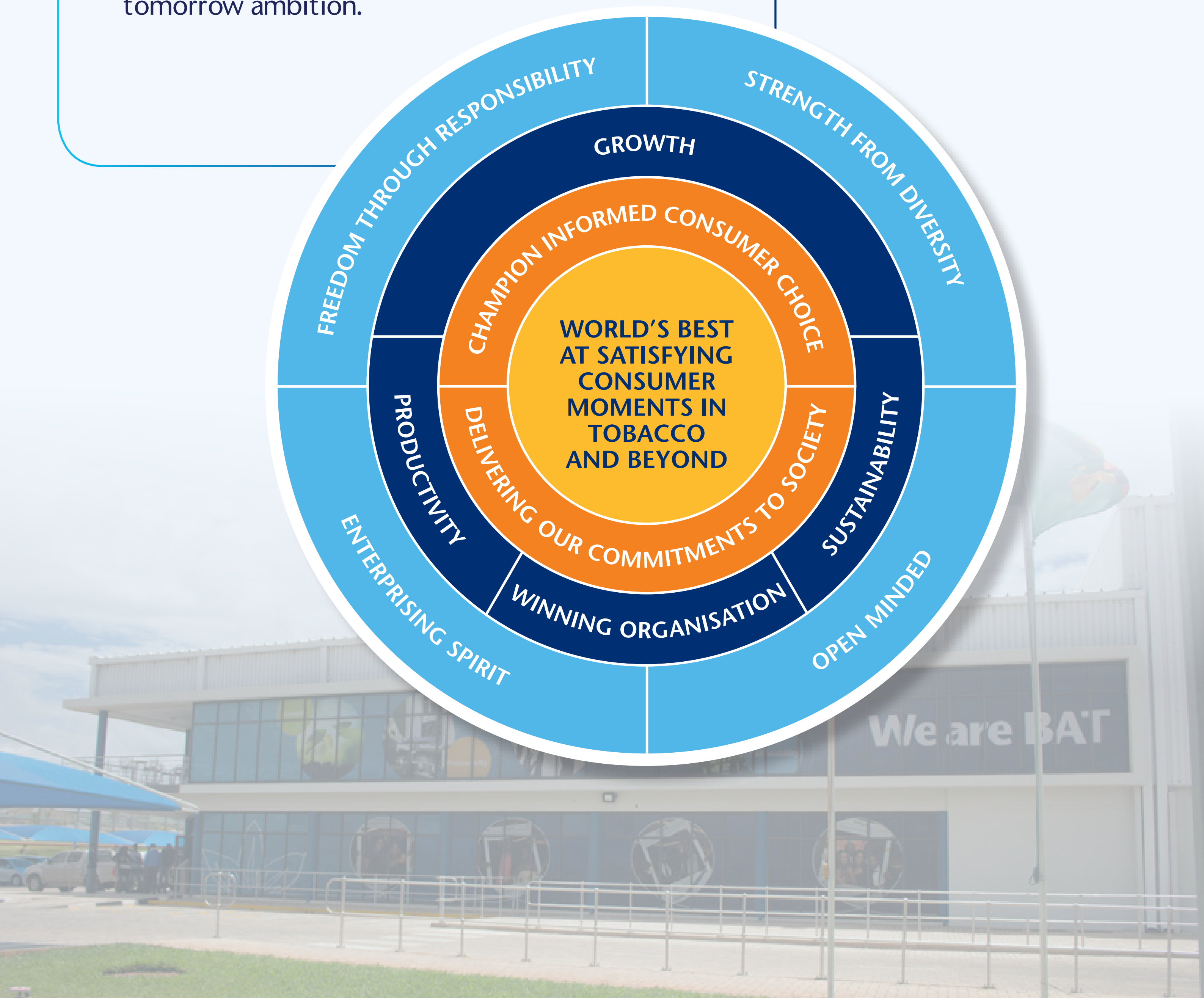
BRITISH AMERICAN
TOBACCO
ZAMBIA





Our Group Strategic Framework

Our strategy remains as relevant today to drive our delivering today, investing in tomorrow ambition. It enables us to deliver growth today while driving the investment required to deliver our transformational agenda. Our vision remains clear: while combustible tobacco products will remain at the core of our business for some time to come, we understand that long-term sustainability will be delivered by our delivering today, investing in tomorrow ambition.



Our Business

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

Our mission
Delivering our commitments to society, while championing informed consumer choice.

Group Strategic focus areas

Our four key focus areas remain fundamental to our strategy as we focus on our ambition.

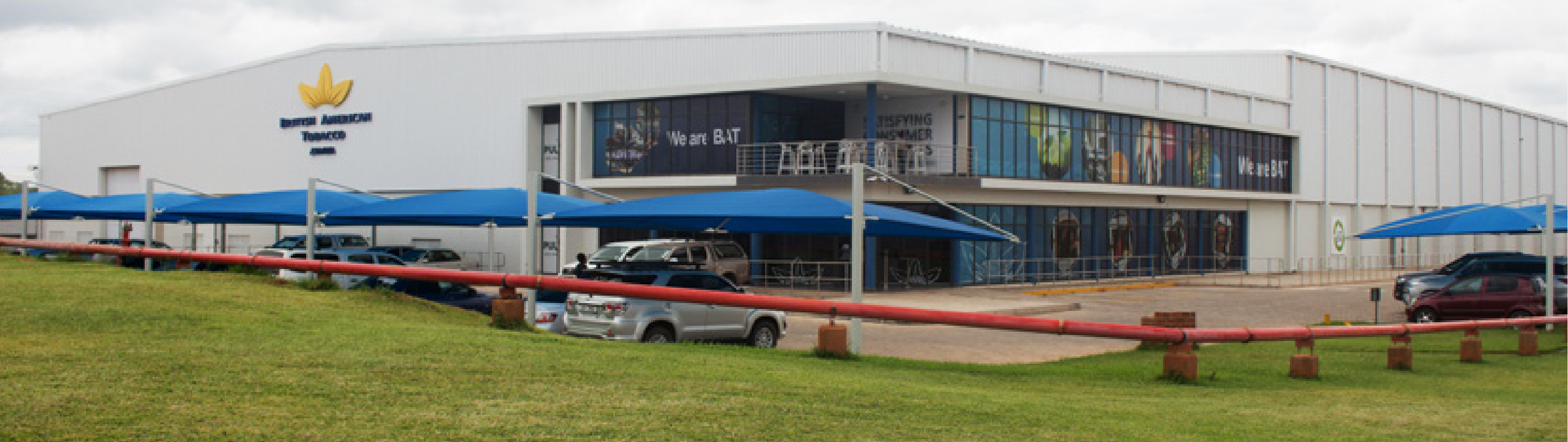
Growth | Productivity | Winning Organisation | Sustainability

Growth
Constantly developing our brand portfolio while continuing to drive revenue growth from our traditional combustible brands.

Productivity
Effectively deploying resources between product categories and managing our cost base to release funds for investment.

Winning Organisation
Ensuring we have great people with the right skill sets in the right teams to drive the transformation of our business.

Sustainability
Ensuring a sustainable business that meets the expectations of all our various stakeholders.



We are BAT Zambia!

We have strength from diversity...

Founded in 1902
we've been in business for more than 115 years.

World Class Factory
Officially commissioned at LS-MFEZ 28 November 2019

100%
Zambian run factory operation

95%
brands produced locally.

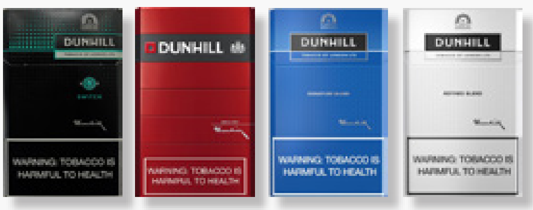
3500+
SME businesses supported by BAT Zambia

149.3 Million
paid in taxes (in 2019.)

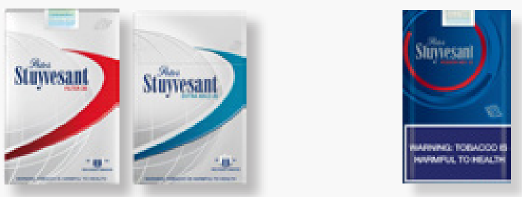
and an enterprising spirit

Our brands

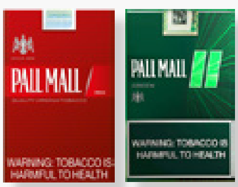
NOT FOR SALE FOR TO PERSONS UNDER THE AGE OF 18 YEARS



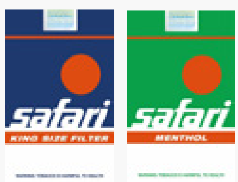
DUNHILL



PETER STUYVESANT



PALL MALL



SAFARI

WARNING: TOBACCO IS HARMFUL TO HEALTH

Outstanding Results

Production
30% increase vs 2018

Quality
Exceeded Regional Index (Q2S)

Manufacturing Cost
18% reduction vs 2018

Safety
No Lost Day Incident since 2017

Turnover Growth
40% increase vs 2018

Operating Profit
14% increase vs 2018

Contribution to Government Treasury
41.5% increase vs 2018

Reduction in Loan Financing
13% vs 2018

Volume Growth
32% increase vs 2018

Investment in SME (Trade) Development
20% outlets invested in

Youth Access Prevention (YAP) Programme rolled out
discouraging underage smoking

Electronic Sales Platform (RCS8)
100% roll out.

BAT Zambia Plant Commissioned
by Minister of Finance

Cash generated from operations
K92.6 million increase vs 2018

Subdued by devaluation of the kwacha & illicit trade..

Loss before taxation of K25.1 million vs K8.9million profit before taxation in 2018.

Illicit trade – Estimated 30% market share

Financial Highlights

K' 000	2019	2018	2017	2016 Restated	2015
Turnover	230,631	165,206	123,291	169,139	196,912
Operating profit/(loss)	19,007	16,637	(9,360)	30,681	58,653
(Loss)/profit before taxation	(25,098)	8,862	(11,058)	30,155	61,941
(Loss)/profit for the year	(23,260)	9,680	(14,107)	18,476	39,187
Total assets	232,551	266,672	187,197	129,672	105,015
Current liabilities	97,333	82,196	190,370	115,498	81,257
Total equity	(16,759)	5,601	(3,179)	15,542	23,758
Kwacha					
Dividend per share	0.00	0.00	0.00	0.09	0.18
Basic and diluted earnings per share	(0.11)	0.05	(0.07)	0.09	0.18

Chairman's Report

" We are confident that our strategies remain appropriate and that our brand portfolio is consumer relevant..."

Introduction

On behalf of the Board of Directors of British American Tobacco (Zambia) Plc ("BAT Zambia"), it gives me great pleasure to present to you the financial results for the full year ended 31 December 2019.

In 2019 the Zambian economy registered real GDP growth at an estimated 2% as compared to 4% in 2018. This was below the projected 4% growth for the year. Subdued economic growth was mainly on account of adverse climatic conditions, particularly poor rainfall in the 2018/2019 rainy season, which negatively affected agricultural production and electricity generation. Copper prices averaged US$ 6,091 per metric tonne compared to US$ 6,723 per metric tonne over the corresponding period in 2018. Industry and households experienced long periods of electricity load shedding and this negatively affected economic activity in almost all sectors. Inflation rose from 7.5% in 2018 to 11.7% in 2019, pushed by large exchange rate depreciations and food price increases. This prompted monetary policy tightening, with the Bank of Zambia raising the policy rate by 50 basis points to 10.25% in May 2019. Correspondingly, the exchange rate faced significant pressures during 2019, depreciating by about 10% to about ZMK13.0/US$ through August.

These conditions resulted in constrained economic growth and a challenging operating environment.

The illicit cigarettes market continues to be a challenge for the cigarette industry. Duty not paid cigarettes, are openly sold on the informal market, without the appropriate health warning messages or tax stamps as required by Zambian law. The illicit cigarette market constitutes approximately 30% of the total market representing revenue loss to Government of approximately ZMW200 million annually.

Financial Results

The Company recorded an increase in turnover of 40% amounting to K230.6 million during the period under review compared to K165.2 million recorded in same period in 2018. The increase in turnover was largely driven by a general volume increase across the portfolio of 32%. The increase in volume sold was as a result of the Company competing favourably on price following the commencement of local production at the end of 2017. The Company continues to invest in marketing its brands and improving the distribution of its products. Turnover in the financial results represents revenue, excluding excise duties.

An operating profit of K19.0 million was recorded compared to an operating profit of K16.6 million in 2018. This represents an increase of 14%. The increase in operating profit was driven by an increase in turnover, coupled with smart cost management across the rest of the business.

For the period ended 31 December 2019, the Company made a loss before taxation of K25.1 million compared to a profit before taxation in 2018 of K8.9 million. The decrease is largely attributable to the severe depreciation of the Kwacha versus the United States Dollar which negatively impacted the Company's foreign currency denominated borrowings.

Cash generated from operations increased by K92.6 million from a negative cash generated from operations in 2018.

Dividends

In view of the Company's performance for the period, the Directors do not recommend the payment of a dividend.

Contributions to the Government Treasury

The Company continues to be a key and compliant contributor to the Zambian Government's treasury through the payment of various taxes. Key among them are Excise, Corporate Tax, VAT, PAYE and Withholding Taxes. The Company's contribution to the treasury in various taxes for the period ending 31 December 2019 was ZMW149.3 million (2018: ZMW105.5 million).

Board Composition

Mr. Godfrey Machanzi resigned on 30th September 2019 as Managing Director. The Board extends its appreciation to Mr. Machanzi for his service during his tenure. I take this opportunity to welcome Mr. Kimesh Naidoo, who succeeded Mr. Machanzi in the role of Managing Director. The Board congratulates Mr. Naidoo and wish him well in his new role.

Outlook

Excise was increased from ZMK 240/mille to ZMK 265/mille with effect from 1 January 2020. The excise increase is within the bounds of inflation. It is our view that manageable increases which are in line with inflation, will deter the further growth of the illicit cigarette market.

Trading conditions are expected to remain challenging in 2020 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 the sustainable competitive advantage required for the future success of the Company.

Conclusion

I would like to express my thanks and appreciation to my fellow Directors on the Board, the Management Team, staff and all other stakeholders.

Michael Mundashi
Chairman
18 March 2020

Managing Director's Report

"The Company will continue striving to exceed its targets whilst taking into consideration the potential impact of regulatory changes and regulatory developments in the near future..."

Kimesh Naidoo – Managing Director Designate

Consolidating the Delivery of our Strategy

With the factory operation now established, we are focused on further consolidating its performance and ensuring the delivery of the Company's ambitions. Notwithstanding our great success to date in localizing the production of 95% of our portfolio in Zambia, as well as the capacity building of Zambians to run and manage this state-of-the-art factory, we do acknowledge that we are at the beginning of a long journey and look forward to introducing innovative approaches to enhance our contribution to the overall sustainable development of the Zambian economy whilst maximizing shareholder value.

Financial Performance

2019 is the year where we saw a turnaround in the underlying business after 2 years of significant disruption. We registered both value and volume growth on the underlying business over the course of the year through excellence in managing our brand mix. This resulted in an impressive year on year 32% growth versus supply. This was achieved in spite of the application of price increases on 96% of our portfolio, a strategy that challenged our teams to ensure that they optimized their capabilities and capacities to drive value growth and the sustainability of the business. We also saw an improvement in the operating profit from ZMW16,637,000 to a ZMW19,007,000 in 2019. The Company witnessed a 30% increase in production versus the previous year. This outstanding growth figure was reinforced by Zambia exceeding the regional quality index (Q2S) through strict adherence to the highest safety standards, as well as a reduction in the overall manufacturing cost by 18% in comparison to the previous year. Outstanding results, for an outstanding team.

It is important to note however, that in spite of the strong performance, the further devaluation of the Zambian Kwacha and the persistence of illicit trade in tobacco products have continued to significantly impact our financing costs and the overall performance of the Company.

That said, the Company will continue to leverage off a sustainable and growing underlying business to transform the balance sheet and create long term value. We remain vested in ensuring excellence in the delivery of our products to our consumers, supplying the appropriate product mix and ensuring that BAT Zambia continues to create satisfying consumer moments.

Regulatory Environment & Illicit Trade

The Company will continue striving to exceed its targets whilst taking into consideration the potential impact of regulatory changes and regulatory developments in the near future. In this regard, it is important to note that the maintenance of a specific excise regime in 2019, has contributed to enhancing the predictability of the excise environment in Zambia – a development that facilitates the Company's ability to plan for growth and contribute more to the fiscus. This is a welcome development and it is our expectation that going forward, the adoption of a medium to long-term excise regime in the cigarette sector will positively contribute to the attainment of Zambia's aspirations for Tobacco Industry Development as espoused in the Seventh National Development Plan.

We remain open to providing input in all regulatory development processes in our industry, and trust that the relevant policy makers will in the creation of all policies, solutions and/or interventions intended to manage the growth of the tobacco industry, follow a comprehensive rule-making process, based on clear evidence.

I remain confident that our concerns on the need for the Zambian government to enhance enforcement efforts on illicit trade in cigarettes will result in the creation of a more conducive business environment. It is our hope and expectation that over the next 5 years, targeted enforcement on illicit trade in cigarettes will see a significant reduction in illicit trade from the estimated 30% market share it currently holds to more manageable levels that encourage further investments by legitimate manufacturers thereby delivering long-term sustainable growth.

Outlook

We believe the future of BAT Zambia is resting on a strong foundation. As such, we are excited about the challenges and opportunities that lie ahead. We have developed the right strategy, are following a robust and future oriented vision, and most importantly, have recruited the right employees capacitated with the appropriate skills and attitudes to enable us to keep growing the Company for many years to come.

Kimesh Naidoo
Managing Director Designate
18 March 2020

Corporate Governance Report

Introduction

The Board is committed to an open and disciplined governance process based on accountability, integrity, transparency and independence. These values are embodied in our Standards of Business Conduct which were amended in January 2020, to ensure that they continue to reflect best practice.

The Board of Directors

The Board has formally adopted the BAT Corporate Governance Booklet which stipulates inter alia, the functions, responsibilities and role of the Board collectively, the Chairman and Executive Directors. The Board is responsible for setting and reviewing the strategic direction of the Company and monitoring the implementation of the same, including the following;

- Overseeing the Company, including its control and accountability systems;
- Approving and monitoring the capital management strategy, including major acquisitions and divestitures;
- Monitoring the performance of the Executive Management; and
- Approving the annual operating budget and monitoring the operating and financial performance of the Company.

The Managing Director is responsible for the day to day management of the affairs of the Company, with such powers, direction and delegation authorized from time to time by the Board through specific Statement of Delegated Authorities.

The Board meets at least once every quarter to review and monitor the performance of the Company and Executive management. With respect to the previous year, Board attendance was as follows:

Name of Director	23 Feb 2019	26 Jul 2019	20 Sep 2019	6 Dec 2019
Michael Mundashi	Present	Present	Present	Present
Joseph Chikolwa	Present	Present	Present	Present
Godfrey Machanzi	Present	Present	Present	*
Kimesh Naidoo	n/a	n/a	Present	Present
Alejandro Riomayor	Present	Present	Present	-
Michael Ellis	Present	Present	Present	Present

*resigned; - absent.

Notes: Mr. Riomayor resigned from the Board on 31 January 2020. Mr. Machanzi resigned from the Board effective 30 September 2019. The Board approved by resolution the appointment of Mr. Naidoo as Managing Director designate with effect from 30 September 2019.

Director INDEPENDENCE

Independent Directors (sometimes known as outside Directors) are Directors who do not have a material or pecuniary relationship with the Company or related persons, except for Director fees paid in the normal course of business.

The following were the independent Directors that held office during the year:

Name	Year Of Appointment
Mr. Michael Mundashi	2015
Mr. Joseph Chikolwa	2015

Messrs. Godfrey Machanzi, Alejandro Riomayor and Michael Ellis were full time employees of British American Tobacco during the year and do not qualify to be called Independent Directors for the purposes of this report.

Board Committees

Audit Committee

The Audit Committee comprises two Non-Executive Directors. All its members are financially literate. The Audit Committee meets at least two times a year and is responsible for assisting the Board in fulfilling its corporate governance responsibilities in relation inter alia to the following:

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

At least once a year the Audit Committee meets privately with the external auditor.

Board Compensation Committee

The Board Compensation Committee is chaired by Mr. Joseph Chikolwa and comprises all the Directors. This Committee has the responsibility inter alia of considering and approving the remuneration of senior managers and determining Board fees.

Corporate Social Responsibility Committee

The Corporate Social Responsibility (CSR) Committee was chaired by Mr Godfrey Machanzi and all the Directors are members thereof. The Committee meets at least twice a year with the following objectives:

- To oversee the management of CSR Committee activities and monitoring of alignment with the Statement of Business Principles;
- To ensure that the Company's social and environmental performance is appropriate and effectively managed; and
- To ensure that social and environmental risks and issues or weakness of significance are identified, and appropriate and timeous actions are taken.

Corporate Governance Report (continued)

Board Effectiveness Evaluation and Assessement

The Board in the pursuit of best practice in the governance of the Company does at least once a year conduct a self-evaluation of how they have performed in different key aspects each with a grading criterion of significant non-compliance, minor non-compliance or full compliance.

This evaluation was conducted for the year ended and results noted with action plans agreed for areas identified as requiring improvement.

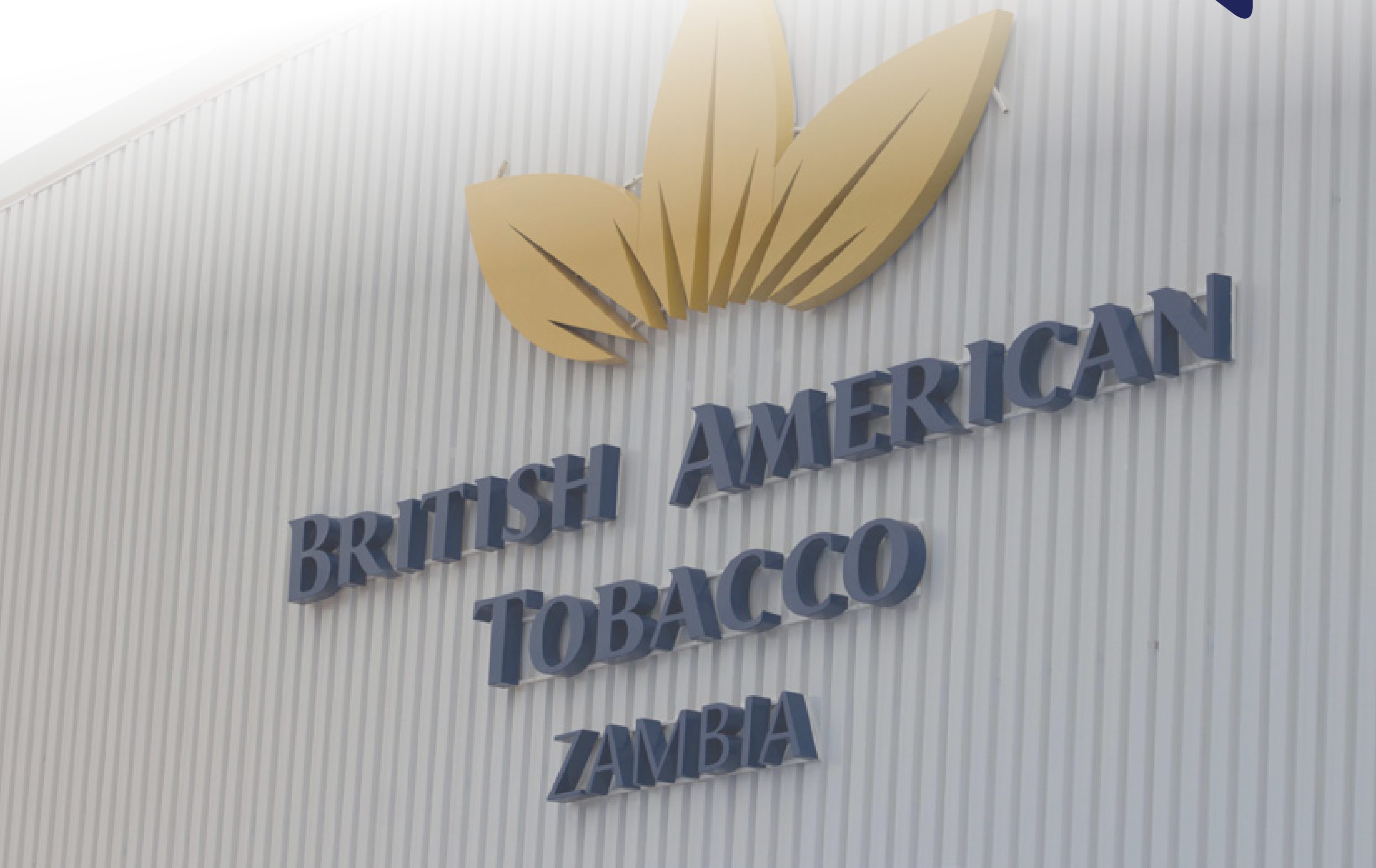
Accountability and Audit

The Board has reviewed the contents of the 2019 Annual Report and it is satisfied that the assessment given of the Company's position and prospects are balanced and understandable.

A summary of the Directors' responsibilities in respect of the financial statements is given on page 20. The Board is convinced that the Company has an effective system of internal controls which safeguards shareholder's investments and the Company's assets.

The Audit Committee has considered in conjunction with the external auditor, the accounting policies adopted in the Financial Statements and has examined the internal controls which have been put in place.

"The Company has an effective system of internal controls which safeguards shareholder's investments and the Company's assets..."



Report of the Directors

The Directors submit their report together with the audited financial statements of British American Tobacco (Zambia) plc ("the Company") for the year ended 31 December 2019, which disclose the state of affairs of the Company.

Principal activities

The principal activities of the Company are the manufacturing, marketing and distribution of cigarettes in Zambia. All the Company's activities fall within the tobacco industry.

Share Capital

The authorised share capital of the Company remained unchanged at 215,000,000 shares of K0.01 each. The issued and fully paid up share capital remained at 212,456,304 shares of K0.01 each.

Results and dividends

	2019 K'000	2018 K'000
Turnover	230,631	165,206
(Loss)/profit for the year	(23,260)	9,680

The Directors did not declare any interim dividend during the year (2018: nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019.

Number of employees and remuneration

The total remuneration of employees during the year amounted to K31,500,000 (2018: K30,441,000) as disclosed in note 9 of the financial statements and the number of employees as at the period end was 65 (2018: 67). The Directors are pleased to report that the newly acquired machinery for cigarette manufacture has been operated for most part of the year by fully trained Zambian nationals only. This achievement for the business is in line with Government's efforts and initiatives that promote job creation and skills transfer for the benefit of locals.

Environmental Health and Safety (EHS)

EHS continues to be a key focus area for the Company with its importance enshrined in the BAT Group Standards of Business Conduct and key business strategy pillars of productivity, being a winning organization and ensuring business sustainability. The Company is committed to ensuring that it continues to ***"Close the Gap to Zero"*** with regards to work related accidents and/ or illnesses.

The re-introduction of the factory translated to an increase in the Company's EHS Risk Profile; however, with support and involvement of all employees, the Directors are pleased to report that these risks were continually managed to As Low As Reasonably Possible ***"ALARP"*** levels. In addition, emphasis was placed on maintaining legal and corporate compliance. As such, the factory since attained ***"Zero Accident Site"*** status as it run for a full year without any Lost Time Injuries. The Company has also embarked on various waste management initiatives that are aimed at striving towards the overall goal of ***"Zero Waste to Landfill"*** as part of its environmental protection and sustainability agenda.

Gifts and donations

During the year the Company made donations of K10,000 (2018: K10,000) to charitable organisations and events.

Exports

The Company exported goods for resale of K14,647 during the year (2018: nil).

Research and development

The Company incurred K1,027,573 (2018: K155,118) on research and development during the year under review.

Auditor

The Company at the last Annual General Meeting of the members held on 30 April 2019 ratified the appointment of KPMG Chartered Accountants as external auditors of BAT Zambia for the financial year ending 31 December 2019. KPMG Chartered Accountants term of office will expire at the next Annual General Meeting.

Directors

The Directors who held office during the year and to the date of this report were:

Michael Mundashi	**Chairman** (Appointed 20 February 2015)
Joseph Chikolwa	**Non- Executive Director** (Appointed 20 February 2015)
Godfrey Machanzi	**Managing Director** (Resigned 30 September 2019)
Kimesh Naidoo	**Managing Director** (Appointed 30 September 2019)
Alejandro Riomayor	**Non- Executive Director** (Appointed 20 September 2018)
Michael Ellis	**Finance Director** (Appointed 20 September 2018)

None of the Directors had an interest in any contract entered into during the year.

The interests of the Directors of the Company in the issued share capital of British American Tobacco (Zambia) plc according to the register of shareholders were as follows:

Name	1-Jan-19	31-Dec-19	20-Feb-20
Joseph Chikolwa	1,400	1,400	1,400

Report of the Directors (continued)

The total remuneration paid to the Directors during the year was K5,993,000 (2018: K5,132,000) as disclosed in note 25 of the financial statements.

Going concern

The Company incurred a net loss for the year ended 31 December 2019 of K23,260,000 (2019: Profit K9,680,000) and as at that date its current liabilities exceeded its current assets by K10,139,000 (2018: current assets exceeded current liabilities by K52,543,000). The total liabilities of the Company exceeded total assets by K16,759,000 (2018: total assets exceeded total liabilities by K5,601,000.)

The loss for the year was mainly driven by the 19% devaluation of the Kwacha against the US Dollar during the year (2018: 20% devaluation).

Aligned to its business strategy, the Company has projected profits and positive cash flows for the years ending 31 December 2020 and 2021. Management believe that this is achievable based on the investment in the construction of a local manufacturing plant that will allow the Company to continue its competitiveness for volume and value growth in Zambia which will ultimately see the Company return to positive equity. In line with its plans and profit forecasts, the Company is expected to generate profits higher than the accumulated losses recorded as at 31 December 2019 by the second quarter of 2020.

The majority shareholder, British American Tobacco International Holdings (UK) Limited, has further pledged financial support to the Company in a letter of support for the purposes of its business operations. The US$10 million loan from British American Tobacco International Finance Dollar Limited is due in November 2021.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and the trade and other payables continue to be settled in the ordinary course of business.

Subsequent events

The Directors confirm that they are not aware of any material information or events after the balance sheet date which if omitted or misstated could influence the economic decisions of the users based on the financial statements.

By order of the Board

Zoe Chisanga Chiliboyi
Company Secretary
18 March 2020

> *" Aligned to its business strategy, the Company has projected profits and positive cash flows for the years ending 31 December 2020 and 2021..."*

Administration

Registered Office

Plot No.PH1 IND 53 & 54
LS-MFEZ, Chifwema Road
P O Box 31062
Lusaka, Zambia

Auditors

KPMG Chartered Accountants
6th Floor Sunshare Towers
Cnr Lubansenshi / Katima Mulilo Roads,
Olympia Park
P O Box 31282
Lusaka, Zambia

Tax Advisors

Deloitte and Touché
Abacus Square Stand 2374/B
Road Thabo Mbeki Road
P O Box 30030
Lusaka, Zambia

Bankers

Barclays Bank Zambia Plc
Elunda Park Plot no.4643 & 4644
Addis Ababa Roundabout
P/Bag E308
P O Box 30037
Lusaka, Zambia

Citi Bank Zambia Limited
Elunda Park Stand 4646
Corner Chika/Nasser Road
Addis Ababa Roundabout
P O Box 30037
Lusaka, Zambia

Stanbic Bank Zambia Limited
Stanbic House
Plot Number 2375
Addis Ababa Drive
P O Box 31955
Lusaka, Zambia

Transfer Secretaries

Sharetrack Zambia
Spectrum House
Stand 10, Great East Road,
Jesmondine
P O Box 37283
Lusaka, Zambia

Company Secretary

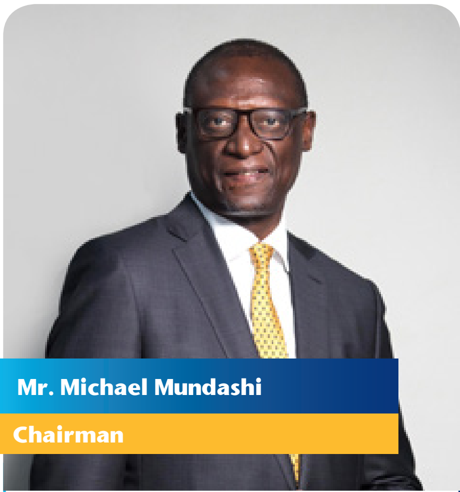
Zoe Chisanga Chiliboyi
Plot No.PH1 IND 53 & 54
LS-MFEZ,Chifwema Road
P O Box 31062
Lusaka, Zambia

Legal Advisors

D H Kemp & Co
No 8 Lungwebungu Road
Rhodes Park
P O Box 31000
Lusaka, Zambia

All queries regarding shareholding and dividend payments should be addressed to our transfer secretaries, Sharetrack Zambia.
Website: British American Tobacco Group: www.bat.com

Directorate and Secretariat



Mr. Michael Mundashi

Chairman

Mr. Mundashi is a lawyer by profession, with over 30 years post qualifying experience. He was admitted to the Bar in 1985. He has vast experience in tax, commercial and corporate law. He worked as the Chief Legal Advisor for the Zambia Revenue Authority, a position in which he was an advisor on review and interpretation of fiscal statutes and handling litigation on all cases on behalf of the Authority. He later served as the first Chairman of the Revenue Appeals Tribunal between 1998 and 2003. The Revenue Appeals Tribunal is an administrative court that hears appeals in the first instance in respect of grievances by tax payers against the Zambia Revenue Authority.

He is currently the Managing Partner of Mulenga Mundashi Legal Practitioners. He also serves on the Boards of Directors of Sanlam Life Assurance Zambia as Chairman, Nico Insurance Zambia Limited as a Non-Executive Director and Lusaka Trust Hospital.

Mr. Joseph Chikolwa

Non-Executive Director

Mr. Chikolwa is a seasoned banker who brings to the Board over 27 years of post-qualifying experience mostly obtained from the financial services industry. He has held various senior roles in the banking and financial services industry over the years, including that of Chief Executive Officer for Stanbic Zambia Limited, ZCCM Investments Holdings and Lusaka Stock Exchange (now known as "Lusaka Securities Exchange"). He was prior to joining the Lusaka Stock Exchange Executive Director for Corporate & Institutional Banking at Standard Chartered Bank Zambia Plc.

Currently Mr. Chikolwa is the Managing Director of Zambia National Building Society. He is also a Non-Executive Director for Prudential Life and National Housing Authority (NHA).

Mr. Kimesh Naidoo

Managing Director Designate

Mr. Naidoo is a qualified Chartered Accountant with the South African Institute of Chartered Accountants (SAICA), with over 16 years' experience in cross-functional management, financial management, audit, sales and distribution in the Fast-Moving Consumer Goods industry. He holds an Honours Bachelor's Degree of Accounting (Hons. B.Acc.) in Accounting, Taxation, Auditing, & Management Accounting from the University of Kwazulu Natal (Durban) and has worked in various companies including KPMG South Africa and Standard Bank. Prior to joining the Company, he occupied various senior management roles at Anheuser-Busch InBev (AB Inbev) in the Republic of South Africa for over 11 years where he then left as the Director: Customer Interaction Centre. Mr. Naidoo joined British American Tobacco South Africa in June 2019 and was subsequently appointed as the Managing Director Designate for British American Tobacco (Zambia) plc on 1 September 2019.

Directorate and Secretariat

Mr. Michael Ellis

Finance Director

Mr. Ellis is a qualified Chartered Accountant and joined British American Tobacco (Zambia) plc in September 2018 from British American Tobacco South Africa (Pty) Ltd where has held various senior roles in Finance and Business. Prior to joining the BAT group in 2013, he worked as a finance professional in London mainly in the financial services industry. Mr. Ellis holds a Bachelor of Accountancy degree from Stellenbosch University, a Bachelor of Commerce (Honours) Accounting Degree from the University of Kwazulu Natal (Durban) and an Advanced Certificate in Auditing. In addition, he is a member of the South African Institute of Chartered Accountants (SAICA) and an associate member of the Zambia Institute of Chartered Accountants (ZICA).

Mrs Zoe Chisanga Chiliboyi

Company Secretary

Mrs. Chiliboyi is an Advocate of the High Court for Zambia. She has four years experience in both the public and private sectors. Prior to joining the Company in 2018, she worked for both the University of Zambia and the Attorney General's Chambers. She holds a Bachelor of Laws degree from the University of Zambia and is a member of the Law Association of Zambia.

Mrs. Chiliboyi is currently the Legal and External Affairs Executive at British American Tobacco (Zambia) Plc and supports the Legal department in areas of commercial law, advocacy and compliance.

2019 Leadership Team

Kimesh Naidoo
Managing Director Designate

Godfrey Machanzi
Managing Director

Michael Ellis
Finance Director

Jerry Chirambo
Head of Operations

Chipego Zulu
Head of Legal and External Affairs

Mukubesa Maliande
Acting Head of Trade

Directors' Responsibilities in Respect of the Preparation of Financial Statements

The Company's Directors are responsible for the preparation and fair presentation of the financial statements of British American Tobacco (Zambia) plc, comprising the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Securities Act and the Companies Act of Zambia, 2017. In addition, the Directors are responsible for preparing the Directors' report.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the period ahead.

The auditor is responsible for reporting on whether the financial statements of British American Tobacco (Zambia) plc are fairly presented in accordance with the applicable financial reporting framework, described above.

Approval of the financial statements

The financial statements of British American Tobacco (Zambia) plc, as identified in the first paragraph, were approved by the Board of Directors on 18 March 2020 and are signed on its behalf by:

Michael Mundashi
Director

Kimesh Naidoo
Director

KPMG CHARTERED ACCOUNTANTS
6th Floor Sunshare Towers
Cnr Lubansenshi / Katima Mulilo Roads,
Olympia Park
P.O Box 31282
Lusaka, Zambia
Website www.kpmg.com

Independent Auditor's Report

To the Shareholders of British American Tobacco (Zambia) Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of British American Tobacco (Zambia) Plc ("the Company") set out on pages 24 to 53 which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of British American Tobacco (Zambia) Plc as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act and the Securities Act of Zambia.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Going concern
See note 26 Going concern

Key audit matter

The Company incurred a loss of K23.3 million during the year ended 31 December 2019. As at that date, the Company's current liabilities exceeded its current assets by K10.1 million and its total liabilities exceeded its total assets by K16.8 million.

As disclosed in Note 26 to the financial statements, in assessing the appropriateness of the use of going concern basis of accounting in the preparation of the financial statements, management has considered the key sources of liquidity and funding available to the Company.

Given the significant audit effort in assessing whether the Directors' evaluation of the ability of the Company to continue to operate as a going concern was appropriate, we have considered going concern to be a key audit matter.

How the matter was addressed

Our audit work included the following procedures :

- We assessed the reasonableness of assumptions used in Management's going concern assessment such as forecasts of future cash flows and profits;
- We evaluated the cash flow forecasts prepared by management, for the foreseeable future based on the understanding we obtained from our audit and assessed whether the forecasts were reasonable;
- We challenged the appropriateness of the key assumptions used by management in the Company's forecast of revenue and profit by comparing them to externally available information and actual results of the year under audit;
- We assessed the reliability of management's forecasts by comparing them to available actual results for the period subsequent to the reporting date;
- We assessed the reliability of management's previous forecasts by comparing it to the actual results in the year under audit;
- We inspected a letter of support from the Company's controlling shareholder wherein it pledged its continued support to the Company; and
- We assessed whether the financial statements adequately disclosed the directors' use of the going concern basis of accounting in the circumstances of the Company.

Other Information

The Directors are responsible for the other information. The other information comprises the Report of the Directors as required by the Companies Act of Zambia and the Directors' Responsibilities in respect of the Preparation of the Financial Statements and all other information included in the Annual report. Other information does not include the financial statements and our auditor's report thereon.

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

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act and the Securities Act of Zambia, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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.

- Obtainan 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 Company's internal control.

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 Company to cease to continue as a going concern.

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

KPMG

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

Report on Other Legal and Regulatory Requirements

Companies Act of Zambia

In accordance with section 259 (3) (a) of the Companies Act of Zambia (the Act), we consider and report that:

- There is no relationship, interest or debt we have with the Company; and
- There were no serious breaches of corporate governance principles or practices by the directors. This report is made on the basis of the corporate governance provisions of the Act, Part VII – Corporate Governance of the Companies Act of Zambia.

Securities Act of Zambia

In accordance with Rule 18 of the Securities (Accounting and Financial Requirements) Rules (SEC Rules), Statutory Instrument No.163 of 1993 we consider and report that:

- The statement of financial position and statement of profit or loss and other comprehensive income were in agreement with the Company's accounting records; and;
- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

KPMG

KPMG Chartered Accountants **18 March 2020**

Jason Kazilimani, Jr **AUD F/000336**
Partner signing on behalf of the Firm

Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

Statement of profit or loss and other comprehensive income

	NOTES	2019	2018
Revenue	5	230,631	165,206
Cost of sales		(139,331)	(94,163)
Gross profit		**91,300**	**71,043**
Other income	7	5,947	10,332
Distribution costs	8	(27,824)	(22,403)
Administrative expenses	8	(50,416)	(40,491)
Other expenses	8	-	(1,844)
Operating profit		**19,007**	**16,637**
Finance income	10	2,728	5,985
Finance cost	10	(46,833)	(13,760)
Loss/(profit) before tax		**(25,098)**	**8,862**
Income tax (expense) /credit	11	1,838	818
(Loss)/profit for the year		**(23,260)**	**9,680**
Items that are or may be reclassified subsequently to profit or loss			
Foreign Currency translation reserve		900	(900)
Other Comprehensive income net of tax		**900**	**(900)**
Total comprehensive (loss)/income for the year		**(22,360)**	**8,780**
Earnings per share (Attributable to equity holders)			
Basic and diluted earnings per share (Kwacha)	12	**(0.11)**	**0.05**

The notes on pages 28 to 53 are an integral part of these financial statements.

Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

Statement of financial position

	Notes	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	15	142,619	131,578
Deferred tax assets	16	2,738	355
Total non-current assets		**145,357**	**131,933**
Current assets			
Inventories	17	28,874	25,914
Trade and other receivables	18	29,988	81,356
Cash and cash equivalents	19	28,332	27,469
Total current assets		**87,194**	**134,739**
Total assets		**232,551**	**266,672**
Equity			
Share capital	14	2,125	2,125
Accumulated losses		(18,884)	4,376
Foreign currency translation reserve		-	(900)
Deficit in equity		**(16,759)**	**5,601**
Liabilities			
Non current liabilities			
Loans and borrowings	20	140,850	178,875
Lease liability	23	11,127	-
Total non-current liabilities		**151,977**	**178,875**
Current liabilities			
Current tax liabilities	11	70	1,143
Loans and borrowings	20	15,899	2,205
Lease liability	23	6,918	-
Trade and other payables	21	74,446	78,848
Total current liabilities		**97,333**	**82,196**
Total liabilities		**249,310**	**261,071**
Total equity and liabilities		**232,551**	**266,672**

The notes on pages 28 to 53 are an integral part of these financial statements.

The financial statements were approved for issue by the Board of Directors on 18 March 2020 and signed on its behalf by:

Michael Mundashi
Chairman

Kimesh Naidoo
Managing Director

Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Accumulated Losses	Foreign currency translation reserve	Total equity
Year ended 31 December 2018					
Balance at 1 January 2018		2,125	(5,304)	-	(3,179)
Comprehensive income					
Profit for the year		-	9,680	-	9,680
Other comprehensive income for the year		-	-	(900)	(900)
Total comprehensive income for the year		**-**	**9,680**	**(900)**	**8,780**
Balance at 31 December 2018		**2,125**	**4,376**	**(900)**	**5,601**
Year ended 31 December 2019					
Balance at 1 January 2019		**2,125**	**4,376**	**(900)**	**5,601**
Comprehensive income					
Loss for the year		-	(23,260)	-	(23,260)
Other comprehensive income for the year		-	-	900	900
Total comprehensive income for the year		**-**	**(23,260)**	**900**	**(22,360)**
Balance at 31 December 2019		**2,125**	**(18,884)**	**-**	**(16,759)**

Accumulated losses

Accumulated losses are the brought forward recognised income, net of expenses, of the Company, plus current year profit/ (loss) attributable to shareholders.

The notes on pages 28 to 53 are an integral part of these financial statements.

Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

Statement of cash flows

	Notes	2019	2018
Cash flows from operating activities			
Net cash generated from /(utilised in) operations	24	43,244	(67,826)
Interest received	10	1,614	3,210
Interest paid	10	(14,517)	(743)
Income tax (paid)/refunded	11	(1,618)	1,486
Net cash generated from/(utilised in) operating activities		**28,723**	**(63,873)**
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(262)	(47,543)
Proceeds from disposal of property, plant and equipment		267	415
Net cash generated from/(utilised in) investing activities		**5**	**(47,128)**
Cash flows from financing activities			
Net unclaimed dividend (paid)/refunded for previous years	13	(37)	300
Final 2015 dividend paid for major shareholder	13	-	(15,759)
Proceeds from loans and borrowings	20	-	163,416
Repayment of loans and borrowings	20	(53,353)	(10,247)
Net cash (utilised in)/generated from financing activities		**(53,390)**	**137,710**
(Decrease)/Increase in cash and cash equivalents		**(24,662)**	**26,709**
Movement in cash and cash equivalents			
Cash and cash equivalents at 1 January 2018		**27,469**	**(25,646)**
Effect of exchange rate flactuations on cash and bank		**25,525**	**26,406**
(Decrease)/Increase		**(24,662)**	**26,709**
Cash and cash equivalents at 31 December 2019	19	**28,332**	**27,469**

The notes on pages 28 to 53 are an integral part of these financial statements.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

1. Reporting entity

British American Tobacco (Zambia) plc ("the Company") was incorporated in Zambia under the Companies Act of Zambia as a limited liability Company and is domiciled in Zambia. The principal activities of the Company are the manufacturing, marketing and distribution of cigarettes in Zambia. All the Company's activities fall within the tobacco industry.

2. Summary of significant accounting policies

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

The financial statements were approved by the Board of Directors on 18 March 2020.

Details of the Company's accounting policies are included in Note 2.

(a) Basis of preparation

These financial statements are for an individual entity and are prepared in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act and the Securities Act of Zambia. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

This is the first set of the Company's financial Statements in which *IFRS 16 Leases* has been applied. Changes to significant accounting policies are described in note 2(b).

Functional and presentation currency
The financial statements are presented in Zambian Kwacha ("Kwacha"), which is the Company's functional and presentation currency. All amounts have been rounded to the nearest thousand Kwacha except, where otherwise stated.

(b) Changes in significant accounting policies

The Company has applied IFRS16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

IFRS 16 Leases
IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

2. Summary of significant accounting policies (continued)

(b) Changes in significant accounting policies (continued)

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 14.6%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at January 2019:

	Carrying amount at 31 December 2018	Remeasurement	IFRS 16 carrying amount at 1 January 2019
Property, plant and equipment	-	24,918	24,918
Lease liabilities	-	(24,918)	(24,918)

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed under IAS 17 in the financial statements at 31 December 2018) to the lease liabilities recognised at 1 January 2019:

Total operating lease commitments disclosed at 31 December 2018	**4,172**
Recognition exemptions	
Leases with remaining lease term of less than 12 months	(275)
Variable lease payments not recognised`	292
Operating lease liabilities before discounting	**4,189**
Discounted using incremental borrowing rate	(1,331)
Operating lease liabilities	**2,858**
Reasonably certain extension options	22,060
Total lease liabilities recognised under IFRS 16 at 1 January 2019	**24,918**

(c) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

Definition of a Business (Amendments to IFRS 3) (Effective 1 January 2020)
The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the Company.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture) (Effective date :Deferred)
The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the Company's financial statements.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (Effective 1 January 2020)
Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39 and IFRS 7 requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

2. Summary of significant accounting policies (continued)

(c) New standards and interpretations that are not yet effective and have not been early adopted (Continued)

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendment is not expected to have a material impact on the Company's financial statements.

IFRS 17 Insurance Contracts (Effective 1 January 2021)
This standard replaces IFRS 4 Insurance Contracts which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. The standard is not expected to have a material impact on the Company's financial statements.

Amendment to IAS 1 - Presentation of annual financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors (Effective 1 January 2020)
The amendment clarifies and aligns the definition of 'material' and provides guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The Company expects to adopt the amendment for the first time in the 2020 financial statements. It is unlikely that the amendment will have a material impact on the financial statements.

(d) Revenue from contracts with customers

Revenue comprises consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is measured based on the consideration specified in a contract with a customer. The Company presents revenue inclusive of excise duties because unlike value added tax, excise duty is not directly related to the value of sales. Excise duty is included in the cost of inventory as the amount is charged on inventory manufactured or purchased. It is not generally recognised as a separate item on invoices, increases in excise are not always directly passed on to customers, and the Company cannot reclaim the excise where customers do not pay for product received. The Company therefore considers excise as a cost and reflects it as a part of the total cost of sales. Consequently, any excise that is recovered in the sale price is included in revenue.

The Company follows the five-step model of IFRS 15 for revenue recognition. This includes the identification of a specific contract with the customer followed by the identification of the performance obligation in the contract. After that, the transaction price is determined and communicated to the customer. The allocated transaction price for the Company is always the determined transaction price as there is only one single performance obligation.

The Company offers credit terms of up to 30 days to selected customers and none of the Company's contracts contain a significant financing component.

Revenue is recognised as follows:

Revenue is recognised when control of the goods provided is transferred to the customer at a point in time. Control in this case is transferred when the Company delivers the products to the customer, the customer has accepted the products and collectability of the related receivable is reasonably assured. Sales of goods are recognised in the period in which the Company delivers products to the customer. At this point, the performance obligation is deemed to have been met by the Company.

(e) Functional currency and translation of foreign currencies

Transactions are recorded on initial recognition in Zambia Kwacha, being the currency of the primary economic environment in which the Company operates (the functional currency). Transactions in foreign currencies are converted into Zambian Kwacha using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate at the reporting date. Non- monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

(f) Property, plant and equipment

All categories of property, plant and equipment are measured at cost, which includes capitalised borrowing costs on initial recognition and are subsequently measured at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

2. Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Depreciation is calculated on the straight-line basis to write down the cost of each asset to its residual value over its estimated useful life. The useful lives of the various categories are for the current and comparative year, as follows:

Buildings	40 years	Plant and machinery	10 years	Motor vehicles	3 years
Computers	3 years	Furniture and fittings	6.67 years		

Assets in the course of construction are not depreciated.

The depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Estimated useful lives of the different classes of assets did not change from the last reporting date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining profit.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

(g) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

i. As a lessee
The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

2. Summary of significant accounting policies (continued)

(g) Leases (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities as a seperate line item in the statement of financial position.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

i. As a lessee
In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

(i) Share Capital

Ordinary shares are classified as 'share capital' in equity.

(j) Employee benefits

(i) Retirement benefit obligations
The Company operates a defined contribution retirement benefit scheme for its employees. The assets of the scheme are held in a separate fund which is funded by contributions from both the Company and employees and administered by African Life Financial Services (Zambia) Limited. The Company and all its employees also contribute to the National Pension Scheme Fund, which is a defined contribution scheme.

A defined contribution scheme is a pension benefit plan under which the Company pays fixed contributions into a separate entity (fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company's contributions to the defined contribution schemes are charged to profit or loss in the year as the related service is provided. The Company has no further obligation once the contributions have been paid.

(ii) Other entitlements
The estimated liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(iii) Other short term employment benefits
Salaries and wages, insurance and medical benefits and the National Pension Scheme Authority expenses form part of the other short term benefits currently awarded to employees and are all included in the total cost of employee benefits.

(k) Income tax

Income tax expense is the aggregate of the charge to profit or loss in respect of current income tax and deferred income tax. Tax is recognised in the statement of profit or loss unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

2. Summary of significant accounting policies (continued)

(k) Income tax (continued)

(i) Current tax
Current tax is the amount of income tax payable or receivable on the profit for the year determined in accordance with the Zambian Income Tax Act. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income tax, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. The applicable tax rate will be 0% for five years as the Investment Promotion and Protection Agreement (IPPA) which the Company has entered into with the Zambia Development Agency in view of the investment in the cigarettes manufacturing plant. Current tax assets and liabilities offset if certain criteria are met.

(ii) Deferred tax
Deferred tax is recognised, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred tax liability is settled. Deferred tax assets shall be reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Financial instruments

(i) Recognition and measurement
Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets
On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI -debt investment, FVOCI -equity investment or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortised cost or FVTPL. Financial liabilities not designated as FVTPL are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

2. Summary of significant accounting policies (Continued)

(l) Financial Instruments (continued)

(iii) Derecognition

Financial assets
The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities
The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Impairment

Non-derivative financial assets
The Company recognises loss allowances for expected credit losses (ECLs) on:

- Financial assets measured at amortised cost;

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not Increased significantly since initial recognition.

The Company also recognises loss allowances for ECLs on amounts due from related parties, which are disclosed as part of trade and other receivables.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:
- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset

The Company uses a provision matrix to measure the ECLs of trade receivables from individual customers.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

2. Summary of significant accounting policies (continued)

(l) Financial Instruments (continued)

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the debtor;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(m) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared.

3. Use of judgements and estimates

In preparing these financial statements, management has made judgements and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a). Judgements

The judgements and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Impairment of trade receivables
The impairment of financial assets is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting inputs into the impairment calculation such as the Company's historical loss records, existing marketing conditions and forward looking estimates at the end of each reporting period.

Extension options for leases
When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. Potential lease payments are not included in the lease liabilities when it is not reasonably certain the extension option will be exercised.

Going concern
Management's assessment of the Company's ability to continue as a going concern is based on estimates of future revenues and profits. Management exercises judgment in making these estimates and considers estimated future market conditions, the Company's current contracts and commitments at the date of the assessment.

Additional information about the judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements as stated above is included in the following notes:

- Note 18 – Trade and other receivables - Note 23 – Leases - Note 26 – Going concern

4. Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Company hedges its risks as and when they arise. Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

4. Financial risk management objectives and policies (continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the exposure of the Company to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company imports finished goods, raw materials for local cigarette production and services and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar, Great British Pound and the South African Rand. Foreign exchange risk arises from future commercial transactions and commitments, and recognised assets and liabilities. Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies.

Exposure to currency risk

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company for 2019 is as follows;

	USD	GBP	EUR	ZAR	ZMW	TOTAL
FINANCIAL ASSETS						
Cash and equivalents	103	-	-	-	28,229	28,332
Trade and other receivables (excluding prepayments)	-	2	-	2,122	26,737	28,861
Total assets	**103**	**2**	**-**	**2,122**	**54,966**	**57,193**
FINANCIAL LIABILITIES						
Trade and other payables (excluding statutory liabilities)	(15,300)	(2,799)	(870)	(4,044)	(41,446)	(64,459)
Loans and borrowings	(156,749)	-	-	-	-	(156,749)
Total liabilities	**(172,049)**	**(2,799)**	**(870)**	**(4,044)**	**(41,446)**	**(221,208)**
Net on-balance sheet position	**(171,946)**	**(2,797)**	**(870)**	**(1,922)**	**13,520**	**(164,015)**

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company for 2018 is as follows;

	USD	GBP	EUR	ZAR	ZMW	TOTAL
FINANCIAL ASSETS						
Cash and equivalents	128	-	-	-	27,341	27,469
Trade and other receivables (excluding prepayments)	52,557	2	-	1,986	25,601	80,146
Total assets	**52,685**	**2**	**-**	**1,986**	**52,942**	**107,615**
FINANCIAL LIABILITIES						
Trade and other payables (excluding statutory liabilities)	(15,300)	(8,839)	-	(796)	(44,303)	(69,238)
Loans and borrowings	(181,080)	-	-	-	-	(181,080)
Total liabilities	**(196,380)**	**(8,839)**	**-**	**(796)**	**(44,303)**	**(250,318)**
Net on-balance sheet position	**(143,695)**	**(8,837)**	**-**	**(1,190)**	**8,639**	**(142,703)**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

4. Financial risk management objectives and policies (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The following significant rates have been applied during the year:

	Average rate		Reporting date	
	2019	**2018**	**2019**	**2018**
USD	**12.91**	10.46	**14.09**	11.93
GBP	**16.49**	13.94	**18.66**	15.19
EUR	**14.46**	-	**15.81**	-
ZAR	**0.89**	0.79	**1.01**	0.83

Exchange rate sensitivity

A strengthening (weakening) of the Kwacha by 10 percent, as indicated below against the USD, EURO,GBP and ZAR at 31 December 2019 would have increased (decreased) equity and profit or loss by the amounts shown below. This computation is based on the foreign exchange rate variance that the Company considered reasonably possible at the reporting date. The computation assumes all the other variables remain constant.

	Strengthening		Weakening	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
31 December 2019				
USD	**17,195**	**17,195**	**(17,195)**	**(17,195)**
GBP	**280**	**280**	**(280)**	**(280)**
EUR	**87**	**87**	**(87)**	**(87)**
ZAR	**192**	**192**	**(192)**	**(192)**
31 December 2018				
USD	14,370	14,370	(14,370)	(14,370)
GBP	884	884	(884)	(884)
ZAR	(119)	(119)	119	119

(ii) Interest rate risk

The objectives of the Company's interest rate risk management policy are to lessen the impact of adverse interest rate movements on the earnings, cash flow and economic value of the Company and to safe guard against any possible breach of its financial covenants. Additional objectives are to minimise the cost of hedging and the associated counter party risk.

In order to manage its interest rate risk, the Company maintains a combination of both floating rate and fixed rate debt. The Company sets targets for the desired ratio of floating to fixed rate debt on both a gross and net basis as a result of regular reviews of market conditions and strategy by the finance team and the Audit Committee of the Board of Directors.

As at 31 December 2019, 100% of the borrowings were on floating rate basis (2018: 100% floating rate basis).

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

4. Financial risk management objectives and policies (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

IFRS 7 requires a sensitivity analysis that shows the impact on the profit or loss and on items recognised directly in other comprehensive income on hypothetical changes of interest rates in respect of financial assets and liabilities of the Company. All other variables are held constant although in practice markets rates rarely change in isolation. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 100 basis points movement in interest rates would have resulted in the post-tax loss being K1,549,350 lower or higher (2018: K1,788,750). The actual effect of these changes on items recognised in other comprehensive income is not material in either year.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations. Credit risk is managed by the credit controller. Credit risk arises from cash at bank and short-term deposits with banks, as well as trade and other receivables. The Company has exposure due to trade debtors which is significant, and this exposure is managed through monitoring of credit limits, obtaining collateral and regular monitoring of customer financial activities. The credit controller assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The utilisation of credit within the credit limit is regularly monitored.

The Company's maximum exposure to credit risk of financial assets at 31 December 2019 is equal to the carrying value shown on the statement of financial position and note 18 under trade receivables.

Collateral is held for 75% (2018:62%) of the trade receivables and no collateral is held for other receivables. Collateral is held in the form of bank guarantees and buildings. The Credit Controller regularly assesses the quality of receivables.

None of the financial assets are past due or impaired except for the following amounts in other receivables which are due within their agreed contractual terms (which is over 61 days from the date of the contract or agreement.)

Expected credit loss assessment for corporates as at 1 January and 31 December 2019

Following the adoption of IFRS 9 from 1 January 2018, the Company has adopted the simplified approach of determining ECLs and applies a provision matrix of 0.05% of invoice value to all external trade receivables which are still assumed to be recoverable at each reporting date.

The provision matrix is not a general provision against trade receivables, rather it is a provision against specific balances which are overdue, as a way of estimating the lifetime expected loss in relation to all the trade receivables.

The effect is to apply a standard rate of provision on initial recognition of trade debtors and increase such depending on aging, regardless of the final recovery.

The provision matrix takes into out account the nature of the business model, history of the portfolio of receivables and prevailing market and economic conditions in the business environment. Management will review this matrix at each reporting date to ensure that the provisions raised are adequate at every reporting date in line with the requirements of IFRS 9.

The provision will be booked regardless of whether insurance cover or guarantees are in place or not. For the avoidance of doubt, if any part of a loss on a debtor would be covered by a bank guarantee or insurance claim, then under IFRS 9, a provision is made as if the insurance cover did not exist.

Any items considered to be irrecoverable will be provided at 100%, and if a balance is considered to partially recoverable, then the part that is irrecoverable should be provided against.

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at 31 December 2019.The K13,000 (2018: K11,000) loss allowance as per IFRS 9 requirements in the table below is included in the total provision for the impairment loss of K93,836 (2018:122,000) as tabulated in note 18. Management are of the view that the additional K80,502 (2018: K111,000) provision would be required over and above the computed provision to cover possible credit risk emanating from the diversity of customers involved.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

4. Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

		2019		2018		
	Loss Rate	Gross carrying amount	Loss allowance	Gross carrying amount	Loss Allowance	Credit impaired
Current (not past due)	**0.05%**	**20,470**	**9**	**22,832**	**9**	No
1-30 days past due	**0.06%**	**6,850**	**4**	**2,697**	**2**	No
31-60 days past due	**0.07%**	**108**	**-**	**33**	**-**	No
61-90 days past due	**0.10%**	**116**	**81**	**111**	**111**	Yes
Total		**27,544**	**94**	**25,673**	**122**	

Included in the gross carrying amount are trade receivables of 25,139 (2018: 21,226) on which the loss allowance was calculated.\

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

		Contractual cashflows		
	Carrying amount	Total	Less than 1 year	Between 2 and 5 years
At 31 December 2019:				
Trade and other payables (excluding statutory liabilities)	64,459	64,459	64,459	-
Loans and borrowings	156,749	154,935	14,085	140,850
Total exposure	**221,208**	**219,394**	**78,544**	**140,850**
At 31 December 2018:				
Trade and other payables (excluding statutory liabilities)	69,238	69,238	69,238	-
Loans and borrowings	180,080	178,875	0	178,875
Total exposure	**249,318**	**248,113**	**69,238**	**178,875**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

4. Financial risk management objectives and policies (continued)

(d) Financial Instruments - Fair values and risk management

The following table shows the carrying amounts of financial assets and financial liabilities. The Company has not disclosed the fair values of financial instruments such as trade receivables, trade and other payables, because their carrying amounts are a reasonable approximation of fair value.

	Note	31 December 2019		31 December 2018	
		Carrying amount	Amortised cost	Carrying amount	Amortised cost
Financial assets not measured at fair value					
Trade and other receivables (excluding prepayments)	18	28,861	28,861	25,601	25,601
Cash and cash equivalents	19	28,332	28,332	27,469	27,469
		57,193	**57,193**	**53,070**	**53,070**
Financial liabilities not measured at fair value					
Trade and other payables (excluding statutory liabilities)	21	64,459	64,459	68,790	68,790
Loans and borrowings	20	156,749	156,749	181,080	181,080
		221,208	**221,208**	**249,870**	**249,870**

(e) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce liabilities.

The Company monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by adjusted equity. Net debt is calculated as total liabilities (as shown in the statement of financial position) less cash and cash equivalents.

Adjusted equity comprises all components of equity other than amounts accumulated in the currency translation, hedging and cost of hedging reserves.

The Company had a net debt position of K225 million as at 31 December 2019 (2018: K234 million) set out in the table below. The Company's policy is to keep the ratio below 50%.

	2019	2018
Total liabilities	258,841	261,071
Less: cash and cash equivalents	(28,332)	(27,469)
Net debt	**230,509**	**233,602**
Total equity	(29,028)	5,601
Less: currency translation reserve	-	(900)
Adjusted equity	**(29,028)**	**4,701**
Net debt to adjusted equity ratio	**(8)**	50

Notes to Financial Statements

For the year ended 31 December 2019
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5. Revenue

Revenue has been reported net of excise duty paid to the Zambia Revenue Authority as shown below:

	2019	2018
Revenue from contracts with customers	318,964	228,109
Excise duty	(88,333)	(62,903)
Turnover	**230,631**	**165,206**

Revenue from contracts with customers is disaggregated by major products lines. Refer to note 6 for further details.

6. Segmental analysis

As the chief decision maker, the Management Team reviews external revenues, cost of sales and gross profit to evaluate the segment performance and allocate resources. Distribution expenses, administrative expenses and other overheads are centrally managed and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability. No assets are allocated to these reporting segments. The four product segments of the Company's portfolio are the reportable segments of the Company as they form the focus of the Company's reporting systems and are the basis used by Management for assessing performance and allocating resources.

The analysis of revenue, cost of sales and gross profit by major product lines for the 12 months ended:

	Premium	Aspirational Premium	Value for Money	Low Value	Total
31 December	**2019**	**2019**	**2019**	**2019**	**2019**
Revenue	14,518	86,249	54,762	75,102	230,631
Cost of sales	8,048	36,207	20,117	74,959	139,331
Gross profit	**6,470**	**50,042**	**34,645**	**143**	**91,300**
31 December	**2018**	**2018**	**2018**	**2018**	**2018**
Revenue	19,927	64,146	57,029	24,104	165,206
Cost of sales	4,345	30,670	27,756	31,392	94,163
Gross profit	**15,582**	**33,476**	**29,273**	**(7,288)**	**71,043**

7. Other income

	2019	2018
Gain on disposal of property, plant and equipment	267	137
Miscellaneous income	5,680	10,195
Total	**5,947**	**10,332**

Notes to Financial Statements

For the year ended 31 December 2019
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8. Expenses by nature

Employee benefits expense (Note 9)	31,500	30,441
Depreciation on property, plant and equipment	5,185	2,686
Depreciation on right of use assets	7,550	-
Operating lease rentals expensed	355	8,626
Technical & advisory fees payable to related parties	26,883	21,274
Auditors' remuneration	510	971
Merchandising and promotion expenses	6,257	740
Total distribution, administration costs and other expenses	**78,240**	**64,738**

Operating lease rentals expensed in 2019 of ZMW 355,000 are in respect of short-term leases not included in the right of use asset

9. Employee benefits expense

The following items are included within employee benefits expense:

Salaries and wages	27,735	26,988
Insurance and medical benefits	1,303	1,145
Retirement benefit cost:		
-Defined contributions scheme	1,595	1,692
-National Pension Scheme Authority	867	616
Total	**31,500**	**30,441**

10. Finance income/(cost)

Interest Income on bank balances	1,614	3,210
Foreign exchange gain on financing activities	1,114	2,775
Finance income	**2,728**	**5,985**
Finance cost		
Interest expense	(14,517)	(743)
Interest expense on leasing arrangements	(3,084)	-
Foreign exchange loss on financing activities	(29,232)	(13,017)
Total	**(46,833)**	**(13,760)**

Notes to Financial Statements

For the year ended 31 December 2019
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11. income tax

		2019		2018
Current tax expense				
Current year		565		1,143
Prior Year over provision		(20)		-
		545		**1,143**
Deferred tax expense				
Current year		(2,383)		(360)
Prior Year over provision		-		(1,601)
		(2,383)		(1,961)
Income tax expense/(credit) in profit and loss		**(1,838)**		**(818)**
Reconciliation of effective tax rate Profit before income tax		**(25,098)**		**8,862**
Income tax using the Company's domestic tax rate	0%	-	0%	-
Non-deductible expenses	7%	(1,818)	9%	783
Prior Year (over)/under provision	0%	(20)	18%	(1,601)
Income tax credit	7%	**(1,838)**	9%	**(818)**

Current income tax liability/(assets) movement in the statement of financial position

	2019	2018
Balance as at 1 January	1,143	(1,486)
Charge for the year	565	1,143
Prior year over provision	(20)	-
Refund	-	1,486
Payments made during the year	(1,618)	-
At end of year	**70**	**1,143**

Unrecognised deferred tax assets

	2019	2018
Estimated tax losses on non-core operations available for utilisation against future taxable income	-	1,437
Unrecognised estimated tax losses on non-core operations carried forward	**-**	**1,437**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

12. (Loss)/earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Net (loss)/profit attributable to owners	(23,260)	9,680
Weighted average number of ordinary shares in issue (thousands)	212,456	212,456
Basic (loss)/earnings per share (Kwacha)	**(0.11)**	**0.05**

There were no potentially dilutive shares outstanding as at 31 December 2019 or 2018. Dilutive earnings per share are therefore the same as basic earnings per share.

13. Dividends per share

The Board of Directors will at the next Annual General Meeting of the shareholders recommend that no dividend be declared for the year ended 31 December 2019 (2018: Nil). Further, the Directors did not pay an interim dividend during the year (2018: Nil). The decision not to pay a dividend for the year ended 31 December 2019 has been arrived at after considering the financial results recorded during the period under review.

The table below shows the movements in the dividends during the year:

At the start of the year	**22,452**	**37,911**
Unclaimed dividend refunded for previous years	-	427
Final 2015 dividend paid to major shareholder	-	(15,759)
Amounts paid during the year:	(37)	(127)
Closing balance at the end of the year	**22,415**	**22,452**

14. Share capital

There were no changes to the share capital or par value of the shares during the year ended 31 December 2019

	Number of shares	Ordinary shares
Authorised		
Balance as at 1 January 2018 and 2019	215,000,000	2,150
Balance as at 31 December 2018 and 2019	**215,000,000**	**2,150**

	Number of shares	Ordinary shares
Issued and fully paid		
Balance as at 1 January 2018 and 2019	212,456,804	2,125
Balance as at 31 December 2018 and 2019	**212,456,804**	**2,125**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

15. Property, plant and equipment

	Buildings	Plant and Machinery	Computers	Furniture & Fittings	Motor Vehicles	Assets under construction	Total
Cost							
Balance as 1 January 2018	-	206	4,013	2,465	10,746	57,660	75,090
Additions	-	11	130	733	3,288	43,381	47,543
Capitilisation of borrowing costs	-	-	-	-	-	25,448	25,448
Re-allocation	-	-	-	25	-	(25)	-
Disposals	-	(68)	(60)	(1,040)	(1,259)	-	(2,427)
Balance as 31 December 2018	**-**	**149**	**4,083**	**2,183**	**12,775**	**126,464**	**145,654**
Recognition of right of use asset	2,686	22,232	-	-	-	-	24,918
Additions	-	-	-	262	-	-	262
Adjustment	-	-	-	-	-	(936)	(936)
Re-allocation	116,146	345	3192	1023	-	(120,706)	-
Disposals	-	-	(1,796)	-	(1,987)	-	(3,783)
De-recognition of right-of-use asset	(936)	-	-	-	-	-	(936)
Balance as 31 December 2019	**117,896**	**22,726**	**5,479**	**3,468**	**10,788**	**4,822**	**165,179**
Accumulated depreciation							
Balance as 1 January 2018	**-**	**76**	**(3,666)**	**(2,042)**	**(7,755)**	**-**	**(13,539)**
Charge for year	-	(28)	(271)	(142)	(2,245)	-	(2,686)
Disposals	-	16	52	822	1,259	-	2,149
Balance as 31 December 2018		**(88)**	**(3,885)**	**(1,362)**	**(8,741)**	**-**	**(14,076)**
Charge for year	(2,752)	(6,708)	(862)	(421)	(1,992)	-	(12,735)
Disposals	-	-	1,796	-	1,987	-	3,783
De-recognition of right-of-use asset	468	-	-	-	-	-	468
Balance as 31 December 2019	**(2,284)**	**(6,796)**	**(2,951)**	**(1,783)**	**(8,746)**	**-**	**(22,560)**
Carrying amount							
At 31 December 2018	-	61	198	821	4,034	126,464	131,578
At 31 December 2019	**115,612**	**15,930**	**2,528**	**1,685**	**2,042**	**4,822**	**142,619**

Notes to Financial Statements (continued)

15. Property, plant and equipment (continued)

Included in the above line items are right-of-use assets over the following:

	2019	2018
Buildings (note 23)	1,336	-
Plant and machinery(note 23)	15,562	-
Total NBV	**16,898**	**-**

Included in the balances for property, plant and equipment are fully depreciated assets with a cost of K7,944,987 (2018: K10,376,496) that are still in use.

Assets in course of construction

During the year, the Company completed construction of the building and reallocated the amount from assets under construction to the respective asset classifications. The following is still being classified as Assets Under Construction:

Factory building	2,248
Factory, plant & machinery	1,031
Computer equipment	1,483
Furniture & fittings	24
Total	**4,822**

16. Deferred tax

Deferred tax is calculated using the enacted income tax rate of 0% (2018: 0%). During the year ended 31 December 2017, the Company signed an Investment Promotion and Protection Agreement (IPPA) with the Zambia Development Agency in view of the investment in the cigarettes manufacturing plant in Zambia. The agreement signed is for a total investment of USD15,100,000. Under this agreement, the Company will be exempt from the payment of income tax on all it profits emanating from the local manufacture and sale of cigarettes for a period of five years effective November 2017. The preferential tax rate of zero percent under this exemption has been applied in the financial statements for the year 2019 in determining the value of deferred tax assets and liabilities.

The movement on the deferred tax (assets)/liability is as follows:

	2019	2018
At start of the year	**(355)**	**6**
Amounts recognised in profit or loss	**(2,383)**	**(361)**
Amount recognised in other comprehensive income	-	-
At end of year	**(2,738)**	**(355)**

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in the profit and loss account are attributable to the following items:

	1 January 2019	Movement for the year	31 December 2019
Deferred income tax liabilities			
Property, plant and equipment	(1)	5,785	5,784
Leases	-	209	209
	(1)	**5,994**	**5,993**
Deferred income tax assets			
Provision for bad debts	-	(20)	(20)
Other provisions	-	(653)	(653)
Tax losses	-	(2,997)	(2,997)
Unrealised exchange losses	-	(4,952)	(4,952)
Hedging tax loss - charged to equity	(354)	245	(109)
	(354)	**(8,377)**	**(8,731)**
Net deferred income tax assets	**(355)**	**(2,383)**	**(2,738)**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

16. Deferred tax (continued)

	1 January 2018	Movement for the year	31 December 2018
Deferred income tax liabilities			
Property, plant and equipment	6	(7)	(1)
	6	**(7)**	**(1)**
Deferred income tax assets			
Unrealised exchange losses	-	-	-
Hedging tax loss - charged to equity	-	(354)	(354)
	-	**(354)**	**(354)**
Net deferred income tax assets	**6**	**(361)**	**(355)**

The Company applies IAS 12 - Income Taxes, to temporary differences between the carrying amount of the assets and liabilities and their tax bases. Under IAS 12, a deferred tax asset should be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The Company's expectation as to the level of future taxable profits considers the Company's long term financial and strategic plans. Based on management team's profit forecasts, which indicate that the Company will have future taxable profits against which these assets can be utilised, management are of the view that the deferred tax asset is recoverable

17. Inventories

	2019	2018
Raw materials and consumables	24,539	19,896
Finished goods	4,371	5,735
Finished Goods - Purchased for resale	110	731
	29,020	26,362
Provision for raw materials and consumables	(146)	(448)
	28,874	**25,914**

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to K129,846,000 (2018: K83,176,000).

18. Trade and other receivables

Trade receivables	27,544	25,673
Less: Provision for impairment losses (note 4(b))	(94)	(122)
	27,450	25,551
Prepayments	1,127	1,209
Other receivables	9	50
Amounts receivable from related companies (Note 25)	1,402	54,546
	29,988	**81,356**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

18. Trade and other receivables (continued)

The creation and release of provision for impairment receivables have been included in administrative expenses in the statement of profit or loss and other comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company held security in the form of bank guarantees and title deeds for most of the credit customers as included in trade receivables.

The carrying amounts of these trade and other receivables approximate their fair values, due to their short-term nature, which makes the impact of discounting immaterial.

19. Cash and cash equivalents

	2019	2018
Cash in bank (in ZMW)	28,229	27,341
Cash in bank (in USD)	103	128
	28,332	**27,469**

20. Loans and Borrowings

Non-Current Liabilities

	2019	2018
Related party loan-Principal	140,850	178,875
	140,850	**178,875**

Current Liabilities

Related party loan-Principal	14,085	-
Interest payable on related party loan	1,814	2,205
	15,899	**2,205**

Movements in the balances of loans and borrowings

Opening balance	**181,080**	-
Draw Down	-	163,416
Interest accrued	1,814	2,205
Repayments during the year	(53,353)	(10,247)
Differences on exchange	27,208	25,706
Closing balance as at 31 December (Note 25)	**156,749**	**181,080**

On November 1, 2018, the Company entered into a loan agreement with British American Tobacco International Finance Dollar Limited for USD5,000,000. The loan bears interest at 3-month LIBOR plus a margin of 5%, is unsecured and is repayable on 1 November 2020. During the year USD4,000,000 was repaid on this loan. On the same date, the Company entered into another loan agreement with British American Tobacco International Finance Dollar Limited for USD10,000,000. The loan bears interest at 3-month LIBOR plus a margin of 5%, is unsecured and is repayable on 1 November 2021.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

21. Trade and other payables

	2019	2018
Trade payables	5,723	4.749
Excise duty and Value Added Tax	9,987	10,058
Amounts due to related companies (note 25)	22,610	21,395
Other payables and accrued expenses	13,711	20,194
Unclaimed dividend due to minorities	8,232	8,269
Dividend payable to major shareholders	14,183	14,183
	74,446	**78,848**

The carrying amounts of trade and other payables approximate their fair values, due to their short-term nature which makes the impact of discounting immaterial.

22. Contingent liabilities

(i) Tax audits
The Company is and has been subject to a number of tax audits covering, amongst others; excise tax, value added taxes, corporate taxes, withholding taxes and payroll taxes over the period. The costs of known tax obligations were settled before the year end as presented in these accounts and are in accordance with relevant accounting policies.

(ii) Other
In a letter dated 10 February 2020, the Lusaka Securities Exchange (LuSE) directed the Company to comply with sections 3.37 as read with section 4.28 of the LuSE Listing Rules, failure to which a daily fine would be imposed on the Company. The fine would subsist until the Company achieves compliance with the free float requirement. Sections 3.37 and 4.28 of the LuSE Listing Rules require atleast 25% of each class of the issuer's equity securities to be held by the public.

Management has since written to LuSE to explain the steps taken by the Company to achieve compliance which include a reduction in its share price. Management is of the view that the Company is not in breach of the LuSE listing rules as the Company has taken all the relevant steps to encourage prospective buyers to subscribe to the shares offered to the public. In the view of Management, an outflow of resources in relation to this fine is therefore not likely.

23. Leases

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised in the statement of financial position:

Right-of use asset	*No of right-of use assets leased*	*Range of remaining term*	*Average remaining lease term*	*No of leases with extension options*	*No of leases with options to purchase*	*No of leases with variable payments linked to an index*	*No of leases with termination options*
Buildings	2	1-2 yrs	1 yr	2	-	2	2
Plant & Machinery	1	3 yrs	3 yrs	1	1	1	1

Right-of-use assets

The Company leases two residential houses and plant and machinery from British American Tobacco South Africa (Pty) Limited. The Company is restricted from entering into any sub-lease arrangements for all the leases. The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

	Cost	Depreciation	Net Book Value
Buildings (note 15)	**1,750**	**(414)**	**1,336**
Plant & Machinery (note 15)	**22,232**	**(6,670)**	**15,562**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

23. Leases (continued)

Lease liabilities
Lease liabilities are presented in the statement of financial position as follows:

	2019	2018
Current	6,918	-
Non-current	11,127	-
	18,045	**-**

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2019 is as follows:

	Within 1 year	1-2 years	2-3 years	Total
Minimum lease payment due	9,041	9,041	3,257	21,339

	2019	2018
Lease payments	21,339	-
Finance charges	(3,294)	-
Net present values	**18,045**	**-**

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2019	2018
Short term leases	355	8,626

The Company leases an industrial storage unit from a third party for a period of less than one year. The duration of the lease term is rolling month to month.

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

24. Cash (utilised in)/generated from operations

Reconciliation of loss after income tax to cash generated from operations:

	2019	2018
(Loss)/profit after income tax	(23,260)	9,680
Adjustments for:		
Income tax expense (Note 11)	(1,838)	(818)
Interest income (Note 10)	(1,614)	(3,210)
Interest expense (Note 10)	14,517	743
Depreciation (Note 15)	12,735	2,686
Capitalised borrowing costs (Note 15)	-	(25,448)
(Profit)/Loss on sale of property, plant and equipment (Note 7)	(267)	(137)
Changes in working capital:		
- trade and other receivables	51,368	(45,911)
- inventories	(2,960)	35,615
- trade and other payables (excluding dividend payable)	(5,437)	(41,026)
Cash generated from / (utilised in) operations	**43,244**	(67,826)

25. Related party transactions

The Company is controlled by British American Tobacco International Holdings (UK) Limited incorporated in the United Kingdom. There are other companies that are related to British American Tobacco (Zambia) plc through common shareholdings or common Directorships. The following transactions were carried out with related parties:

(i) Purchase/(sale) of goods and services	2019	2018
From fellow subsidiaries:		
British American Tobacco South Africa (Pty) Ltd	25,400	26,459
British American Tobacco Kenya Limited	103,452	62,918
British American Shares Services GSD Limited	13,206	11,212
British American Tobacco Holdings Limited	6,638	6,368
BATMark Limited	-	-
American Cigarettes Company	4,790	3,789
British American Tobacco Investments Limited	5,339	4,964
British American Tobacco Shared Services (Europe) SRL	3,140	1,915
British American Tobacco Mozambique LDA	(15)	-
	161,950	**117,625**

(ii) Key management compensation		
Salaries	10,196	7,055
Other short-term employment benefits	1,147	1,898
	11,343	**8,953**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

25. Related party transactions (continued)

(iii) Directors' remuneration	**2019**	**2018**
Fees for services as a Director	176	176
Other emoluments (included in key management compensation above)	5,817	4,956
	5,993	**5,132**

(iv) Receivable from related parties

British American Tobacco South Africa (Pty) Ltd	1,318	6,786
British American Tobacco Kenya Limited	66	47,700
British American Tobacco Shared Services (Europe) SRL	-	58
British American Tobacco Mozambique LDA	16	-
BATMark Limited	2	2
	1,402	**54,546**

(v) Loans and Borrowings

British American Tobacco International Finance Dollar Limited (BATIF Dollar - note 20)	156,749	181,080
	156,749	**181,080**

(vi) Payable to related parties

British American Tobacco South Africa (Pty) Ltd	7,667	-
British American Tobacco Kenya Limited	9,437	12,169
British American Shared Services GSD Limited	2,144	4,523
British American Tobacco Shared Services (Europe) SRL	1,052	-
British American Tobacco Holdings Limited	1,210	1,290
American Cigarettes Company	728	652
British American Tobacco Investments Limited	372	2,761
	22,610	**21,395**

Notes to Financial Statements

For the year ended 31 December 2019
(All amounts are in thousands of kwacha unless otherwise stated)

26. Going concern

The Company incurred a net loss for the year ended 31 December 2019 of K23,260,000 (2019: Profit K9,680,000) and as at that date its current liabilities exceeded its current assets by K10,139,000 (2018: current assets exceeded current liabilities by K52,543,000). The total liabilities of the Company exceeded total assets by K16,759,000 (2018: total assets exceeded total liabilities by K5,601,000.)

The loss for the year was mainly driven by the 19% devaluation of the Kwacha against the US Dollar during the year (2018: 20% devaluation).

Aligned to its business strategy, the Company has projected profits and positive cash flows for the years ending 31 December 2020 and 2021. Management believe that this is achievable based on the investment in the construction of a local manufacturing plant that will allow the Company to continue its competitiveness for volume and value growth in Zambia which will ultimately see the Company return to positive equity. In line with its plans and profit forecasts, the Company is expected to generate profits higher than the accumulated losses recorded as at 31 December 2019 by the second quarter of 2020.

The majority shareholder, British American Tobacco International Holdings (UK) Limited, has further pledged financial support to the Company in a letter of support for the purposes of its business operations. The US$10 million loan from British American Tobacco International Finance Dollar Limited is due in November 2021.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and the trade and other payables continue to be settled in the ordinary course of business.

27. Subsequent events

The Directors confirm that they are not aware of any material information or events after the balance sheet date which if omitted or misstated could influence the economic decisions of the users based on the financial statements.

Principal Shareholders

The principal shareholders in the Company and the respective number of shares held at 31 December 2019 were as follows:

	Number of shares	% of shareholding
British American Tobacco International Holdings (UK) Limited	165,885,883	78.08%
Others	11,570,345	5.45%
Stanbic Nominees Zambia Limited	11,562,859	5.44%
Public Service Pensions Fund Board	8,000,000	3.77%
National Pension Scheme Authority	6,394,439	3.01%
Local Authority Superannuation Fund	4,300,000	2.02%
Madison Pension Trust Fund	1,058,064	0.50%
Standard Chartered Zambia Securities Services Nominees Limited	741,000	0.35%
Elizabeth Anne Gunn	694,656	0.33%
Suspense BATZ	576,036	0.27%
Charles Philip Youngson	498,816	0.23%
Thomas Madandaulo D Mtine	449,280	0.21%
Reynolds C Bowa	379,826	0.18%
V P and P Parmar	345,600	0.16%
Total	**212,456,804**	**100%**

Distribution of shareholding	Number of Shareholders	Number of shares	% of shareholding
Less than 500 shares	196	42,270	0.02%
501-5,000	841	1,527,156	0.72%
5,001-10,000	84	642,136	0.30%
10,001-100,000	184	5,320,955	2.50%
100,001-1,000,000	30	7,723,042	3.64%
Over 1,000,000	7	197,201,245	92.82%
Total	**1,342**	**212,456,804**	**100.00%**

Notice

NOTICE IS HEREBY GIVEN that the Fifty Eighth Annual General Meeting of the Shareholders of British American Tobacco (Zambia) Plc ("the Company"), will be held at the Radisson Blu Hotel, Great East Road, Lusaka, on Thursday 26 March 2020 starting at 10:00 hours for the purpose of transacting the following business:

1. Minutes of the Previous Meeting
To confirm and sign off the minutes of the Fifty Seventh Annual General Meeting held on Tuesday 30 April 2019.

2. Financial Statements and Reports
To receive and adopt the audited financial statements for the year ended 31 December 2019, together with the reports of the Directors and Auditors thereon.

3. Amendment of Articles of Association
To consider and if deemed fit to approve the amendment of the Articles of Association by the insertion of the following, with or without modification as article 59 (3):

Article 59 (3)
The Board may appoint a person who satisfies the requirements for election as a Director, in terms of the Companies Act No. 10 of 2017 as read together with the Articles of Association to fill any casual vacancy and serve as a Director of the Company provided such a Director shall retire at the next Annual General Meeting and shall be eligible for election in terms of Article 59 (2) at the Annual General Meeting.

4. Directorate
4.1. To authorise the Directors to fix their remuneration for the year ending 31 December 2020.
4.2. To elect Directors in place of those that have resigned in accordance with the provisions of section 85 (1) of the Companies Act No.10 of 2017.
4.3. The profiles of Directors to be elected are included in the Annual Report under Board of Directors.

5. Auditors
To authorise the Directors to determine the remuneration of the auditors for the past audit and to appoint auditors for the year to 31 December 2020

6. Dividends
To recommend that no dividend be declared for the year ended 31 December 2019 (2019: Nil).

7. To transact any other business that may properly be transacted at the Annual General Meeting.

A shareholder is entitled to appoint any person (whether a member of the Company or not) to attend and/or speak and vote in his or her stead.

Proxy forms must be lodged at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.

Formalised notices of the Annual General Meeting will be sent to all shareholders in compliance with Rule 14 of the Securities (Registration of Securities) Rule, 1993.

By order of the Board

Zoe Chisanga Chiliboyi
Company Secretary
18 March 2020

FORM OF PROXY

I,..., being the registered holder of ordinary shares in British American Tobacco (Zambia) p.l.c., hereby appoint:

.... of...

or failing him............................... of...

or failing him............................... of..

as my proxy to vote on my behalf at the fifty eighth Annual General Meeting of the Company to be held at Radisson Blu Hotel, Great East Road Lusaka, on Thursday 26th March 2020 starting at 10:00 hours and at any adjournment thereof.

Signed this.................................. day of 2020

Signature:...

Address:...

Please Note: Proxies must be in the hands of the Secretary of the Company at Plot No.PH1 IND 53 & 54 Lusaka South Multi Facility Economic Zone, Chifwema Road Lusaka 48 hours before the time set for the meeting.

I hereby direct my proxy as named above to vote as follows on the matters included in the agenda for the meeting:

No.	Resolution	For	Against
1	To confirm and sign off the minutes of the Fifty Seventh Annual General Meeting held on Tuesday 30 April 2019.		
2	To receive and adopt the audited financial statements for the year ended 31 December 2019, together with the reports of the Directors and Auditors thereon.		
3	To consider and if deemed fit to approve the amendment of the Articles of Association by the insertion of the following, with or without modification as article 59 (3): Article 59 (3) The Board may appoint a person who satisfies the requirements for election as a Director, in terms of the Companies Act No. 10 of 2017 as read together with the Articles of Association to fill any casual vacancy and serve as a Director of the Company provided such a Director shall retire at the next Annual General and is eligible for election in terms of article 59 (2) at the Annual General Meeting.		
4	To authorize the Directors to fix their remuneration for the year ending 31 December 2020.		
5	To elect Directors in place of those that have resigned in accordance with the provisions of section 85 (1) of the Companies Act No. 10 of 2017		
6	To authorize the Directors to determine the remuneration of the auditors for the past audit and to appoint auditors for the year to 31 December 2020		
7	To transact any other business that may properly be transacted at the Annual General Meeting		

Notes

Notes

British American Tobacco

ZAMBIA

British American Tobacco Zambia Plc
Plot No.PH1 IND 53 & 54
LS-MFEZ, Chifwema Road
P.O Box 31062
Lusaka, 10101
Zambia