BRITISH AMERICAN TOBACCO (ZAMBIA) P.L.C.

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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Directorate

Mr. Michael Mundashi-Chairman (Appointed 20 February 2015)

Mr Mundashi is a Lawyer by profession with over 30 years post qualifying experience. He was admitted to the Bar in 1985 after a brief stint as an intern with the law firm of Messer's DH Kemp and Company.He has vast experience in Commercial law particularly specializing in insurance and taxation. He worked as the Chief Legal advisor for the Zambia Revenue Authority handling litigation on all Zambian taxes 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. His currently the Managing Partner of Mulenga Mundashi Kasonde Legal Practitioners. He also serves on four other Boards of Directors of which he is Chairman of two, Standard Chartered Bank Plc and Lusaka Trust Hospital.

Mr Joseph Chikolwa- Non Executive Director (Appointed 20 February 2015)

Mr Chikolwa is a seasoned banker who brings to the Board over 27 years of post qualifying experience mostly obtained from the Financials services Industry. He has held various senior roles in the Banking and Financial services services industry over the years including that of Chief Executive Officer for Stanbic Zambia Limited, ZCCM Investments Holdings and Lusaka Stock Exchange. He was prior to joining the Lusaka Stock Exchange Executive Director for Corporate Banking at Standard Chartered Bank Plc.

Currently Mr. Chikolwa is the Managing Director of Zambia National Building Society. He is also the current Board Chairman of Pay serve Zambia Limited and Millchem Zambia Limited among the four Boards of Directors he sits on.

Mr Alexandre Carpenter-Non Executive Director (Appointed 8 September 2016)

Mr Alexandre Carpenter is a Brazilian economist that has been working for BAT over the last 21 years. He has been working in Brazil, Mexico and over the last 4 years in Cuba as Country Manager of BAT. Since August 2016 he started working in Mozambique as GM of a cluster that is responsible for Mozambique, Zambia, Zimbabwe and Malawi. His appointment will be the subject of ratification at the 2017 Annual General Meeting.

Mr Godfrey Machanzi-Managing Director (Appointed 1 February 2016)

Mr Godfrey Machanzi has over 15 years' experience in British American Tobacco. He has held many senior management roles with the most recent being General Manager for the BAT Business in Botswana, Namibia, Lesotho and Swaziland. He has also worked in various roles covering 10 countries in Southern Africa.

Mr Machanzi holds a Bsc in Mechanical Engineering from University of Zimbabwe, a Post Grad in Engineering from Augsburg Germany, and a Master's in Business Administration from Stellenbosch University South Africa.

Mr Nigel Curran-Finance Director (Appointed 1 April 2016)

Mr Nigel Curran has been with British American Tobacco Group for the past 7 years. Prior to his appointment as Finance Director and Director of BAT Zambia, Mr. Curran worked for British American Tobbacco South Africa where he held various senior roles in Finance and Business Projects.

Mr Curran is a qualified Chartered Accountant and holds a Bachelor of Accountancy with Honours degree from Stellenbosch University and an Advanced Certificate in Auditing. He is a graduate of the GIBS Leadership Development Programme (Cum Laude) of the University of Pretoria. In addition, Mr Curran is a member of the South African Institute of Chartered Accountants (SAICA) and the Golden Key International Honour Society, in recognition of outstanding Scholastic Achievement and Excellence.

Mr Valentine Kabonga-Company Secretary (Appointed 16 December 2013)

Mr Valentine Kabonga joined BAT Zambia in October 2013. He is a Chartered Accountant with 14 years progressive professional experience obtained mostly from the financial services sector. Prior to joining BAT Zambia, he worked for the Zambia Revenue Authority and the Development Bank of Zambia among others. His last role before joining BAT Zambia was that of Chief Financial Officer for United Bank for Africa Zambia where he served for 3 years.

Mr Kabonga holds a Bachelor of Accountancy degree from the Copperbelt University. He also holds an Inspector of Taxes certificate awarded by the Zambia Revenue Authority. He is a member of the Association of Chartered Certified Accountants (ACCA) of the United Kingdom and a fellow of the Zambia Institute of Chartered Accountants (ZICA).

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

Chairman's Report

Welcome to our Annual Report for 2016. 2016 was a particularly challenging year. However, your Company continued to show resilience, despite multiple headwinds.

Year in Review

2016 was a unique year in the history of Zambia. The economy registered a GDP growth of 3% which is the lowest rate in almost 2 decades. Zambia has been under severe external stressors over the last few years including the global commodity price slump that affected copper exports, and the weather shock that affected the entire sub-region. The regional drought resulted in electricity challenges that also have a direct impact on our business. Our consumers also took some strain due to the rapid erosion of domestic purchasing power from substantial exchange rate pass-through on commodity prices, which saw inflation peaking at 22.9% in February. The tight credit conditions which have brought currency stability have however also negatively impacted growth in small and medium sized businesses. In 2016, the company had a full year under the new excise regime and our consumers are still adjusting to the new pricing that was implemented in January. On a positive note, the elections in the second half of the year saw President Edgar Chagwa Lungu of the Patriotic Front re-elected and a new Government put in place thereby bringing to an end political uncertainty that existed prior to the elections and immediately thereafter.

Illicit Trade

Illicit trade remains one of the single biggest challenges for the business. In the year under review the challenge became further pronounced as the new excise resulted in higher prices being implemented on our brands. We saw the growth in two types of illicitly traded tobacco products. Suspect Price Products with tax stamps have been on the increase in the country. These products carry tax stamps but retail at prices that are below the tax obligations that the products attract. The second group contains smuggled products that do not carry tax stamps. We continue to work with Government to ensure sustainability of the industry that operates within the confines of the law and the preservation of Government revenue.

Financial Results

The Company recorded a drop in turnover of 14% ending the year with K169.1 million when compared to the previous period which recorded K196.9 million. The reduction in turnover was as a result of the volume loss of 42% due to the forced price increase across the portfolio in an effort to maintain profitability in light of the new excise regime. Turnover represents revenue excluding excise duties.

An operating profit of K 30.7 million (2015: K58.7 million) was recorded during the year under review translating into a drop of 48%. The drop in operating profit was mainly driven by the volume loss as mentioned above, the increase in excise duties and the increase in operating costs including product costs, due to the depreciation of the local currency against major convertible currencies.

million (2015: K83.7 million). This represents a 133% reduction. It is expected that the cash position will return to a positive in the coming year after the conversion of the additional stock into turnover. Earnings per share for the year reduced by 44%, from K0.18 per share in 2015 to K0.10 per share in 2016, following the decrease in profit from operations.

Dividends

In view of the financial results recorded during the period under review, the Board of Directors recommended that a final dividend of K0.05 per share be declared for the year ended 31 December 2016. This takes the total dividend per share for the year to K0.09, which represents a decrease of 50% when compared to the same period last year.

Contributions to the Government Treasury

The Company's contribution to the Zambian Government treasury in taxes including Excise, Corporate Tax, VAT, PAYE and Withholding Tax, increased from K200.9 in 2015 to K240.2 million in 2016, representing an increase of 19% compared to the same period prior year. The increase was mainly driven by excise duty which was changed at the start of the year to K200 minimum specific payable per one thousand cigarettes from K90 in 2015. The advalorem component of 145% of CIF remained applicable in 2016. However, we are delighted that this component has been removed in 2017.

Corporate Governance

In September 2016, Cremildo Ferrao resigned from the Board to pursue other interests outside the group. We take this opportunity to thank him for his diligent contribution to the board over the last two years and wish him well in his future endeavors.

Alexandre Carpenter has been appointed onto the board as his replacement subject to ratification at the AGM. Alexandre has many years' experience in BAT covering many different markets. He is the current head of the MOZZIM Business Cluster in BAT covering Mozambique, Zambia, Zimbabwe and Malawi. Prior to this he was the head of BAT Cuba were he successfully commissioned a new factory. We welcome him to the Board.

New Legal and Regulatory Requirements

In December 2016, the Securities Act of Zambia was enacted, which is applicable to listed entities and therefore to the Company. It contains a requirement for the auditor of a listed company or company whose securities are registered with the Commission to, in the audit report of the company, issue a statement as to the existence, adequacy and effectiveness or otherwise of the internal control system of the company.

The Act did not specify the relevant internal control framework to use in this assessment, and no transitional guidance has been provided by the regulator as at the date of this report. The Company was therefore unable to engage their auditors to perform the work which would be required to issue this statement for the year ended 31 December 2016. This is reflected in a separate paragraph in the audit report.

Outlook

Let me express my thanks and appreciation to my fellow Directors on the Board, to management and the entire BAT Zambia team for the innovation and resilience demonstrated through this challenging year.

We remain very confident in our future in Zambia and remain resolute to deliver shareholder value in the long term.

Plans are underway to ensure we position the business to compete effectively in the local market and give our consumers the brands they continue to trust and love.

As we move ahead, I am confident that our strategic initiatives combined with our pool of exceptional people and our access to the Global BAT resources will allow us to deliver continued growth in the years ahead.

Michael Mundashi
Chairman
24 February 2017

Managing Director's Report

2016 was a very unique year for British American Tobacco Zambia plc ("BAT Zambia" or "the Company") as we had the first full year under the new excise regime. The excise implemented in Jan 2016 saw a staggering 122% increase in the minimum excise charged on BAT Brands. This resulted in the Company increasing prices by up to 100% for our products. This price increase was implemented in a season where our consumers were under considerable pressure driven by the high inflation and generally low disposable income. It is in this context that we are proud to announce an operating profit of K 30.7mn million and declare a final dividend of ZMW0.05 per share for the year ended 31 December 2016, despite a challenging environment. We have solid plans as well as exceptionally talented people and strong brands that will ensure we remain Zambia's best company at satisfying consumer moments in tobacco and beyond.

BUSINESS PERFORMANCE

In 2016, BAT Zambia recorded a 42% decrease in sales volume when compared to 2015. This was as a result of our excise driven pricing in the context of increased low priced competition and the growth of illicit cigarettes. We introduced expansions in our distribution, focused programs in our trade, and brand activities that allowed us to contain some of the impacts. We also aggressively managed our costs, deployed innovative solutions to manage our forex exposures and carefully invested in our portfolio to ensure we protected our bottom line. We also placed great focus on, and succeeded in, retaining our premium share of market to ensure long term value retention.

The low price segment continued to grow in 2016 to become the largest segment in our portfolio as well as the largest segment in the category. We have placed sufficient focus on this to ensure we compete with low priced legal and illicit competition but at the same time provide opportunities to up-trade to our more premium segments.

The illicit trade in cigarettes increases when taxes in one country increase compared to its neighbours and Zambia becomes yet another example of this reality. The 122% increase in Excise in January 2016 as well as the challenges in enforcement has created an environment where illicit products are killing the legal market. The situation is extremely severe and we continue to engage Government to place greater focus into this problem.

Consumers remain under pressure with less disposable income as a result of the rise in inflation and general cost of living. We will, as always, continue to prudently manage the evolution of our portfolio for long term sustainability.

We want to always be there for the consumer – and the moments that matter to them. In this spirit we launched an exciting new product, Pall Mall Red in January 2016. This brings a full flavour offering to our Value for Money Segment. This is also a positive line extension to the

Brand House that will give our consumers increased choice and greater pleasure in their smoking moments.

PRODUCTIVITY

Our journey continues in implementing standardised global systems and processes. These consistent ways of operating have already created efficiency and agility in our business. We consolidated our Finance, HR and IT systems to the global best practice and have already seen great value and increased controls that benefit our operation. The journey will continue in 2017.

SUSTAINABILITY

Sustainability is a key pillar of our strategy. It ensures that we secure the future of our business in Zambia and beyond. We always strive to create value for or consumers, customers, shareholders and our society. It is with this mind-set that we focus on developing and training not just our staff, but our trade partners and customers to elevate the level of business acumen in our country. We conducted train sessions for our distribution partners in 2016 and we also invested in more than 300 Small Businesses across the country and have watched them grow and thrive.

We uphold high standards of corporate behaviour and our Standards of Business Conduct together with our Guiding Principles set out what we require of our company and our employees, in terms of responsible corporate behaviour and personal integrity. There is a strong governance system that ensures that we adhere to this.

We continue our investment in education via our scholarship scheme with the University of Zambia School of Agricultural Sciences where we sponsored commendable or high achieving students in crop science. We also signed a Memorandum of Understanding "MoU" with the University of Zambia for an internship program. We continued with our partnership with Matero Old People's home where we installed a solar system.

Our fight against youth smoking remains a crucial part of our activities and this year we drove an education campaign for traders in the informal markets to highlight their responsibility to prevent underage smoking. We also drove a nationwide trade campaign to educate the trade on illicit products, how to identify them and what the dangers are of dealing in them.

REGULATORY

We have clear alignment with government in that our category needs to be regulated. We support effective, evidence-based regulation that meets public health objectives, does not impede our ability to compete and respects our legal rights. We remain committed to giving our input into the regulatory development journey and stand ready to have further engagements to find pragmatic solutions that will work in Zambia.

We will continue to lead the industry in proactively and openly engaging with regulators and the wider society on regulatory issues, and seek to collaborate with government and other organisations to combat illicit trade.

WINNING ORGANIZATION

Our employees remain our key assets and we continue to invest in their training and development locally and internationally. Our investment in them allows our business to operate at the highest international levels in a locally relevant style. We have already seen how effective this is as our teams were able to navigate effectively in the year of high volatility and uncertainty.

We continue our investment in a graduate development programme as a source of future talent. Through this programme we attract inspired and confident graduates who are ready to bring independent thinking whilst working collectively within diverse teams.

BAT Zambia is a great place to work. Our entire team brings their difference into our collective and we openly learn and share. We rely on the collaborative thinking and freedom through responsibility to make things happen everywhere we go.

LOOKING AHEAD

2016 was a challenging year and we anticipate that 2017 will also be challenging. The excise increase implemented in January 2017 will create pressure on our bottom line. We expect increased pressure from illicit trade and growth of the Low segment.

We however have very solid plans that will have long term benefit for the business. I remain very confident that with our strategy, strong brands, exceptional people and continued focus on efficiency, we will deliver value to our shareholders in the short and long term.

On behalf of management of the Company, we would like to thank our employees and shareholders for their support throughout this tough year. We thank our committed and professional Board for its guidance.

Finally, to our consumers, We thank you for your loyalty in 2016. We look forward to many more wonderful moments together in 2017. And beyond.

Godfrey Machanzi (Mr)
Managing Director
24 February 2017

FINANCIAL HIGHLIGHTS

K' 000	2016	2015	2014	2013	2012
Turnover	169 139	196 912	194 987	204 286	196 566
Operating profit	30 681	58 653	75 913	101 596	78 239
Profit before taxation	34 070	61 941	76 413	102 214	79 793
Profit for the year	21 023	39 187	47 281	65 631	51 042
Total Assets	129 672	105 015	89 842	103 201	94 047
Current liabilities	111 583	81 257	49 436	44 214	47 576
Total equity	18 089	23 758	40 406	58 987	46 471
Kwacha					
Dividend per share	0.09	0.18	0.22	0.31	0.24
Basic and diluted earnings per share	0.10	0.18	0.22	0.31	0.24

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 December 2016, 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	18th Feb 2016	21st Jul 2016	23rd Sep 2016	1st Dec 2016
Michael Mundashi	√	√	√	√
Joseph Chikolwa	√	√	-	√
Cremildo Ferrao	√	√	*	*
Godfrey Machanzi	√	√	√	√
Nigel Curran	n/a	√	√	√
Alexandre Carpenter	n/a	n/a	√	√
Clara Mlambo	*	*	*	*

*resigned; - absent.

Notes: Mr. Cremildo Ferrao resigned from the Board effective 8 September 2016. The Board wishes Mr Ferrao well in his future endeavours and thanks him for his contribution to the Zambia business during his tenure as a Board member. Mr Alexandre Carpenter was appointed to replace Mr. Ferrao as Non-Executive Director effective 8 September 2016. Mr. Carpenter joins the Board following his substantive appointment as General Manager for the Mozambique, Zimbabwe, Malawi and Zambia cluster. Mrs. Clara Mlambo resigned from the board effective 31 January 2016, as reported in the previous annual report.

In terms of section 206(10) of the Companies Act Cap 388, Mr. Carpenter's appointment shall be confirmed at the forth coming Annual General Meeting.

During the year under review, the business also appointed a new Finance Director in Mr. Nigel Curran. Mr. Curran was appointed as Finance Director and Director of the Board of BAT Zambia plc effective 1 April 2016. His appointment to the Board was confirmed at the Annual General Meeting that was held on 27th April 2016.

In terms of section 206 (5) of the Zambia Companies Act Cap 388, at least one third of the directors must submit themselves for re-election each year at the Annual General Meeting.

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

Mr. Godfrey Machanzi, Mr. Nigel Curran and Mr. Alexandre Carpenter are full time employees of British American Tobacco and do not qualify to be called Independent Directors for the purposes of this report.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises of 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 is 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.

BOARD EFFECTIVENESS EVALUATION AND ASSESSMENT

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 2016 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 16. 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.

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 2016, which disclose the state of affairs of the Company.

Principal activities

The principal activities of the Company are the 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

	2016 K'000	2015 K'000
Turnover	169,139	196,912
Net profit for the year	21,023	39,187

The net profit for the year has been added to retained earnings. During the year an interim dividend of K0.04 (2015: K0.08) per share was paid. The directors recommend the approval of a final dividend of K0.05 (2015: K0.10) per share.

Number of employees and remuneration

The total remuneration of employees during the year amounted to K17,907,000 (2015: K15,486,000) and the number of employees as at the period end was 37 (2015:37).

The Company has policies and procedures to safeguard the occupational health, safety, and welfare of its employees.

Gifts and donations

During the year the Company made donations of K 20,975 (2015: K15,000) to charitable organisations and events.

Exports

The Company did not export any goods during the year (2015: nil).

Research and development

The Company did not incur any expenses on research and development during the year under review (2015: K254,000).

Auditor

The Company at the last Annual General Meeting of the members held on 27th April, 2016 ratified the appointment of KPMG Zambia as external auditors of BAT Zambia for the financial year ended 31 December 2016. KPMG Chartered Accountants's 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
Clara Mfambo	- Managing Director (Resigned 31 January 2016)
Godfrey Machanzi	- Managing Director (Appointed 1 February 2016)
Cremildo Ferrão	- Non Executive Director (Resigned 8 September 2016)
Joseph Chikolwa	- Non Executive Director
Nigel Curran	- Finance Director (Appointed 1 April,2016)
Alexandre Carpenter	- Non Executive Director (Appointed 8 September 2016)

In compliance with section 206(10) of the Zambia Companies Act Cap 388, the appointment of Mr. Alexandre Carpenter will be the subject of ratification and confirmation at the next Annual General Meeting.

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) p.l.c. according to the register of shareholders were as follows:

Name	1-Jan-16	31-Dec-16	24-Feb-17
Joseph Chikolwa	1,400	1,400	1,400

The total remuneration paid to the Directors during the year was K2,711,000 (2015: K2, 890,000).

By order of the Board

Valentine Kabonga
Company Secretary

24 February 2017

Directors' responsibilities in respect of the preparation of the annual financial statements

The Company's directors are responsible for the preparation and fair presentation of the annual financial statements of British American Tobacco (Zambia) p.l.c, comprising the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period 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 Companies Act of Zambia. 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 year ahead.

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

Approval of the financial statements

The annual financial statements of British American Tobacco (Zambia) p.l.c, as identified in the first paragraph, were approved by the Board of directors on 24 February 2017 and are signed on its behalf by:

....	....
Authorised Director	Authorised Director
Mr. Michael Mundashi	**Mr. Godfrey Machanzi**
Chairman	Managing Director

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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 22 to 48, which comprise the statement of financial position at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of 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 present fairly, in all material respects, the financial position of British American Tobacco (Zambia) Plc at 31 December 2016, 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 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 have fulfilled our other responsibilities under those ethical requirements. 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. These matters were 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 these matters.

Accounting for Derivative Financial Instruments	
Refer to notes 2 (o) and 21	
Key audit matter	***How the matter was addressed***
The company entered into foreign currency contracts during the year to hedge forecast purchases of inventory denominated in US dollars. The open foreign currency contracts at year end have given rise to a derivative financial liability	Our audit procedures included, among others: • Testing relevant key controls around cash flow hedge accounting documentation (at the shared service centre level) including the following: - Access to the hedge target ratio table (which monitors effectiveness of derivative instruments to enable classification

amounting to ZMW 9.2 million. Due to the relatively immature market for such derivative instruments in Zambia, there is a risk that the extensive documentation requirements to apply cash flow hedge accounting may not be met, and that the incorrect accounting treatment is applied. Accordingly, the accounting for derivative financial instruments was a key focus area for the audit.	as hedging instruments) is restricted to appropriate users to ensure it is properly maintained; - Reconciliations between the treasury and accounting systems are performed regularly and appropriately reviewed; and - Local management appropriately receive and approve detail of proposed hedge treatments. • Assessing the adequacy of hedge documentation and process in terms of the requirements of IAS 39: *Financial Instruments: Recognition and Measurement* (IAS 39) to determine whether the accounting treatment was appropriately applied. • Recalculating the balance recognised at year end and the other comprehensive income movements during the year, based on the terms of the contracts in place. • Evaluating the adequacy of the financial statements disclosures, in line with the requirements of IAS 39.

Other Information

The directors are responsible for the other information. The other information comprises the Annual Report. The 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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

In accordance with Section 173(3) of the Companies Act of Zambia, we report that, in our opinion, the required accounting records and registers have been properly kept in accordance with the Act.

KPMG

In accordance with section 149 of the Securities Act of Zambia, we report as follows:

In terms of relevant International Standards applicable to audit, review and other assurance engagements we were unable to accept and perform an engagement on the existence, adequacy and effectiveness or otherwise of the internal control system of the Company, as required by section 149 of the Securities Act, for the Act does not specify which internal control framework to use in assessment of the Company's internal control. We have not performed any audit, review or other assurance engagement in relation to these matters and accordingly we do not express any assurance opinion or conclusion thereon.

KPMG

KPMG Chartered Accountants **24 February 2017**

Jason Kazilimani, Jr *AUD F/000336*

Partner

(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of profit or loss and other comprehensive income

	NOTES	2016	2015
Revenue	5	**286,918**	**324,586**
Turnover		169,139	196,912
Excise duty		117,779	127,674
Cost of sales	5	**199,737**	**208,005**
Other cost of sales		81,958	80,331
Excise duty		117,779	127,674
Gross profit		**87,181**	**116,581**
Other income	7	492	3,741
Distribution costs	8	(15,945)	(15,338)
Administrative expenses	8	(35,298)	(27,556)
Other expenses		(5,749)	(18,775)
Operating profit		**30,681**	**58,653**
Finance income	10	7,905	3,908
Finance cost	10	(4,516)	(620)
Profit before tax		34,070	61,941
Income tax expense	11	(13,047)	(22,754)
Profit and other comprehensive income for the year		21,023	39,187
Items that are or may be reclassified subsequently to profit or loss			
Cashflow hedges - effective portion		(9,244)	(13,990)
Cashflow hedges reclassified to profit and loss		13,990	-
Related tax		(1,661)	4,896
Other comprehensive income net of tax		3,085	(9,094)
Total comprehensive income for the year		24,108	30,093
Earnings per share			
(Attributable to equity holders)			
Basic and diluted earnings per share (Kwacha)	12	0.10	0.18

The notes on pages 26 to 48 are an integral part of these financial statements.

(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of financial position

	Notes	2016	2015
Non-current assets			
Property, plant and equipment	15	3,336	3,611
Deferred income tax	16	4,380	6,178
Total non-current assets		7,716	9,789
Current assets			
Inventories	17	73,680	26,103
Trade and other receivables	18	40,501	20,239
Cash and bank balances		7,775	48,884
Total current assets		121,956	95,226
Total assets		**129,672**	**105,015**
Equity			
Share capital	14	2,125	2,125
Retained profits		21,973	30,727
Cashflow hedge reserve		(6,009)	(9,094)
Total equity		18,089	23,758
Liabilities			
Current liabilities			
Borrowings	19	11,102	-
Trade and other payables	20	89,035	61,366
Derivative financial instruments	21	9,244	13,990
Current income tax	11	2,202	5,901
Total current liabilities		111,583	81,257
Total equity and liabilities		**129 672**	**105 015**

The notes on pages 26 to 48 are an integral part of these financial statements.

The financial statements on pages 22 to 48 were approved for issue by the Board of Directors on 24 February 2017 and signed on its behalf by:

Michael Mundashi
Chairman

Godfrey Machanzi
Managing Director

(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Retained earnings	Cashflow hedge reserve	Total
Year ended 31 December 2015					
At start of year		2,125	38,281	-	40,406
Comprehensive income					
Profit for the year		-	39,187	-	39,187
Other comprehensive income for the year		-	-	(9,094)	(9,094)
Total comprehensive income for the year		-	39,187	(9,094)	30,093
Transaction with owners					
Dividends					
- Final for 2014		-	(29,744)	-	(29,744)
- Interim for 2015	13	-	(16,997)	-	(16,997)
Total transactions with owners		-	(46,741)	-	(46,741)
At end of year		2,125	30,727	(9,094)	23,758
Year ended 31 December 2016					
At start of year		2 125	30 727	(9 094)	23,758
Comprehensive income					
Profit for the year		-	21,023	-	21,023
Other comprehensive income for the year		-	-	3,085	3.085
Total comprehensive income for the year		-	21,023	3,085	24,108
Transaction with owners					
Dividends					
- Final for 2015	13	-	(21,279)	-	(21,279)
- Interim for 2016	13	-	(8,498)	-	(8,498)
Total transactions with owners		-	(29,777)	-	(29,777)
At end of year		2,125	21,973	(6,009)	18,089

The notes on pages 26 to 48 are an integral part of these financial statements.

(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of cash flows

	Notes	2016	2015
Operating activities			
Cash generated from operations	24	(27,5491)	83,731
Interest received		1,006	1,269
Interest paid		(31)	-
Income tax paid	11	(16,609)	(25,799)
Net cash generated from operating activities		(43,183)	59,201
Investing activities			
Purchase of property, plant and equipment	15	(1,627)	(2,123)
Proceeds from disposal of property, plant and equipment		248	3,697
Net cash (used in)/generated from investing activities		(1,379)	1,574
Cash flow from financing activities			
Unclaimed dividend paid for previous year		(1,129)	(403)
Final dividend paid for previous year		(4,657)	(29,744)
Interim dividend paid for current year		(1,863)	(16,997)
Net cash used in financing activities		(7,649)	(47,145)
(Decrease)/increase in cash and cash equivalents		(52,211)	13,630
Movement in cash and cash equivalents			
At start of year		48,884	35,254
(Decrease)/increase		(52,211)	13,630
At end of year	19	(3,327)	48,884

The notes on pages 26 to 48 are an integral part of these financial statements.

Notes to the financial statements

1 General information

British American Tobacco (Zambia) p.l.c. is incorporated in Zambia under the Zambia Companies Act as a limited liability company, and is domiciled in Zambia. The address of its registered office is:

20992 Kafue Road
P O Box 31062
Lusaka 10101
Zambia

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.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Zambia Kwacha (K), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgements and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. 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.

New Standards and Interpretations

(i) New and amended standards adopted by the Company

There were no standards adopted by the Company for the first time for the financial year beginning 1 January 2016 with a material impact on the Company.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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

IFRS 9 ***Financial Instruments***

On 24 July 2015, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The full impact of the change in standard to the Company is still being assessed, but will include changes in the measurement bases of the Company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which may result in an increase in the provision for bad debts recognised by the Company. The impact is not likely to be significant as the Company does not offer extended credit terms and only has large value trades with well known customers.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

IFRS 15 ***Revenue from contracts with customers***

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have some impact on the Company, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

2 **Summary of significant accounting policies (continued)**

(a) **Basis of preparation (continued)**

Changes in accounting policy and disclosures (continued)

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

IFRS 16 *Leases*

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial Position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.

The Directors have assessed the potential impact of the new standards IFRS 9 *Financial Instruments,* IFRS 15 *Revenue from contracts with customers and* IFRS 16 *Leases* on the financial statements of the Company. They are of the view that the full extent of the impact can only be determined through the conducting of an additional assessment through an independent third party with the requisite knowledge and experience in carrying out such assessments. Management intends to have appointed the independent third party for this assignment and concluded the assessment before the end of the first quarter of 2017. Management is confident that the Company will be fully compliant with the requirements of the identified new standards before their respective effective dates.
There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(b) **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the company's activities. In compliance with IFRS, the Company presents revenue inclusive of excise duties which is levied on inventory purchases. It is not generally recognised as a separate item on invoices, and increases in excise are not always directly passed on to customers. The Company cannot reclaim the excise duty where customers do not pay for product received. Consequently, any excise that is recovered in the sale price is included in revenue. As the excise duty is levied by authorities, the Company is unable to manage the quantum of the duty. Therefore the Company views turnover (revenue less excise duty) as a meaningful measure of the Company's performance.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 **Summary of significant accounting policies (continued)**

(b) **Revenue recognition (continued)**

Revenue is recognised as follows:

i. Sales of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(c) **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 Zambia Kwacha using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses are presented in the profit and loss account within 'finance income or cost', excluding those recognised on qualifying hedging instruments (refer to note 2(o)).

(d) **Property, plant and equipment**

All categories of property, plant and equipment are stated at cost on initial recognition and are subsequently measured at historical cost and accumulated impairment losses, if any, less accumulated depreciation. 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.

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, as follows:

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

The 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.

2 **Summary of significant accounting policies (continued)**

(e) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method, and includes transport, handling costs and excise duties levied on inventory purchases. Net realisable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

(g) Trade receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. Increases/decreases in allowances are recognised in profit or loss.

(h) Trade payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(i) Share capital

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

(j) Cash and cash equivalents

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

(k) 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 the statement of profit or loss and comprehensive Income in the year in which they fall due. The company has no further obligation once the contributions have been paid.

2 **Summary of significant accounting policies (continued)**

(k) **Employee benefits (continued)**

(ii) Other entitlements

The estimated liability for employees' accrued annual leave entitlement at the balance sheet reporting date is recognised as an expense accrual.

(l) **Income tax**

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

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. Current tax assets and liabilities offset if certain criteria are met.

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 balance sheet 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.

(m) **Financial assets**

(i) Classification

The Company classifies financial assets under the loans and receivables category. The classification depends on the purpose for which the financial assets were acquired. The Directors determine the classification of the financial assets at initial recognition. The Company had no financial assets at fair value through profit or loss and no available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date, which is the date on which the entity commits to purchase or sell the asset. Investments are initially recognized at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortized cost using the effective interest method.

2 **Summary of significant accounting policies (continued)**

(m) **Financial assets (continued)**

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(iv) Impairment of financial assets

Assets carried at amortized cost

The Company assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the entity may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

—for derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the Income Statement. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the Income Statement in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the statement of profit or loss in the same periods as the hedged item;

2 **Summary of significant accounting policies (continued)**

(o) **Financial liabilities and equity**

Classification as debt or equity

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the commercial agreement.

Financial liabilities

Financial liabilities are classified as borrowed funds, other liabilities and amounts due to related parties. Borrowed funds, other liabilities and amounts due to related parties are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest is a rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all its liabilities. Equity instruments are recorded at proceeds received, net of direct issue costs.

Derecognition of financial liabilities

Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Derivative financial assets and liabilities

Derivative financial assets and liabilities are initially recognised, and subsequently measured, at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised as follows:

- for derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the statement of profit or loss. The changes in fair value of these derivatives are also recognised in the statement of profit or loss;

- for derivatives that are designated as hedges of net investments in foreign operations, the changes in their fair values are recognized directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the statement of profit or loss. Where non-derivatives such as foreign currency borrowings are designated as net investment hedges, the relevant
- exchange differences are similarly recognised. The accumulated gains and losses are reclassified to the statement of profit or loss when the foreign operation is disposed of; and

2 **Summary of significant accounting policies (continued)**

- for derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognized in the statement of profit or loss in the period in which they arise.

In order to qualify for hedge accounting, the Company is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained and is expected to remain, highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable
forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the statement of profit or loss in the same manner as for cash flow hedges as described above. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognized in other comprehensive income, are immediately reclassified to the statement of profit or loss.

Derivative fair value changes recognised in the statement of profit or loss are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance costs.

(q) **Dividends**

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

3 **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The carrying amount of impaired receivables is set out in Note 4.

4 **Financial risk management objectives and policies (continued)**

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.

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 and services and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar, 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.

At 31 December 2016, if the Kwacha had weakened/strengthened by 10% against the United States Dollar with all other variables held constant, post tax profit and equity for the year would have been K3,563,000 (2015:K2,990,000) higher/lower, mainly as a result of United States Dollar trade payables and bank balances.

(ii) Price risk and Interest rate risk

The Company does not hold any financial instruments subject to price risk or interest rate risk.

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 limit, 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 2016 is equal to the carrying value shown on the statement of financial position.

Collateral is held for 97% of customers (2015:97%) dealt with (the other customers being key customers with whom risk is considered very limited) and no collateral is held for other receivables. Collateral is held in the form of bank guarantees and land and buildings. The Credit Controller regularly assesses the quality of receivables.

(all amounts are in thousands of Kwacha unless otherwise stated)

4 Financial risk management objectives and policies (continued)

None of the financial assets are past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the month in which they are invoiced).

	2016	2015
Past due but not impaired:		
- by up to 30 days	1,973	6,293
- by 31 to 60 days	-	35
- above 61 days	186	246
Total past due but not impaired	2,159	6,574
Impaired	232	232
Receivables individually determined to be impaired:		
Carrying amount before provision for impairment loss	232	232
Provision for impairment loss	(232)	(232)
Net carrying amount	-	-
Trade Receivables	29,323	19,907
Less: Provision for impairment loss	(232)	(232)
Net carrying amount	29,091	19,674
Reconciliation of movement in provision for impairment loss		
Balance at beginning of year	232	1,402
Utilised during the year	-	(927)
Created/(released) during the year	-	(243)
Balance at the end of the year	232	232

4 Financial risk management objectives and policies (continued)

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2016:				
– trade and other payables (excluding statutory liabilities)	89,029	-	-	-
At 31 December 2015:				
– trade and other payables (excluding	58,205	-	-	-

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order 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 debt.

The Company monitors capital on the basis of the gearing ratio. The ratio is calculated as a net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The Company had no debt as at 31 December 2016 (2015: Nil)

(all amounts are in thousands of Kwacha unless otherwise stated)

5 Revenue and cost of sales

The presentation of revenue and cost of sales has been amended in the current year so that appropriate compliance with IAS 18: Revenue is achieved, and the financial statements provide more reliable and relevant information to the users of financial statements. Refer to note (2b) for the updated accounting policy. There is no impact on the statement of financial position or earnings per share numbers.

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. 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 for the 12 months to 31 December 2016

	Premium 2016	Aspirational Premium 2016	Value for Money 2016	Low Value 2016	Total 2016
Revenue	25,325	120,685	61,465	79,443	286,918
Cost of sales	15,795	65,906	44,653	73,383	199,737
Gross Profit	9,530	54,779	16,812	6,060	87,181

The analysis of revenue, cost of sales and gross profit for the 12 months to 31 December 2015.

	Premium 2015	Aspirational Premium 2015	Value for Money 2015	Low Value 2015	Total 2015
Revenue	19,327	175,621	81,102	48,536	324,586
Cost of sales	14,298	104,294	45,226	44,187	208,005
Gross Profit	5,029	71,327	35,876	4,349	116,581

(all amounts are in thousands of Kwacha unless otherwise stated)

7 Other Income

	2016	2015
Gain on disposal of property, plant and equipment	168	3,524
Miscellaneous income	324	217
	492	3,741

8 Expenses by nature

	2016	2015
Excise duties	117,779	127,674
Other cost of sales	81,958	80,331
Cost of goods sold	70,634	74,652
Royalties	11,324	5,679
Employee benefits expense (Note 9)	17,907	15,486
Depreciation on property, plant and equipment (Note 15)	1,822	1,904
Operating lease rentals expensed	2,955	2,289
Receivables – provision for impairment losses (Note 4)	-	(243)
Technical and Advisory Fees	15,581	13,602
Auditors' remuneration	165	186
Merchandising and promotion expenses	5,469	8,492
Other expenses included in captions	13,093	19,953
Total cost of sales, distribution costs, administrative costs and other expenses	256,729	269,674

9 Employee benefits expense

The following items are included within employee benefits expense:

	2016	2015
Salaries and wages	15,825	14,004
Insurance and medical benefits	621	527
Retirement Benefit Cost:		
-Defined contributions scheme	1,152	617
-National Pension Scheme Authority	309	338
	17,907	15,486

(all amounts are in thousands of Kwacha unless otherwise stated)

10 Finance income/(cost)

	2016	2015
Finance income		
Interest income on cash balances	1,006	1,269
Net foreign exchange gain on financing activities	6,899	2,639
Net Finance Income	7,905	3,908
Finance cost		
Interest expense	(31)	-
Net foreign exchange loss on financing activities	(4,485)	(620)
	(4,516)	(620)

11 Income tax expense

	2016	2015
Current income tax - current year charge	12,910	23,216
Deferred tax - origination and reversal of temporary differences	137	(462)
Income tax expense in profit or loss	13,047	22,754
Amount recognised in other comprehensive income	1,661	(4,896)

The tax on the company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows

	2016	2015
Profit before income tax	34,070	61,941
Tax calculated at the statutory income tax rate of 35% (2015 - 35%)	11,925	21,679
Tax effect of:		
Expenses not deductible for tax purposes (including donations, fines, entertainment)	1,122	1,075
Income tax expense	13,047	22,754

(all amounts are in thousands of Kwacha unless otherwise stated)

11 **Income tax expense (continued)**

Current income tax movement in the statement of financial position

	2016	2015
At start of year	5,901	8,484
Current income tax charge	12,910	23,216
Payments during the year	(16,609)	(25,799)
At end of year	2,202	5,901

Income tax assessments have been agreed with Zambia Revenue Authority (ZRA) up to and including the year ended 31 December 2015. Quarterly tax payments for the year ended 31 December 2016 were made by the statutory due dates during the year.

12 **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.

	2016	2015
Net profit attributable to owners	21,023	39,187
Weighted average number of ordinary shares in issue (thousands)	212,456	212,456
Basic and diluted earnings per share (Kwacha)	0.10	0.18

There were no potentially dilutive shares outstanding as at 31 December 2016 or 2015. Dilutive earnings per share are therefore the same as basic earnings per share.

13 **Dividends per share**

At the annual general meeting to be held on 31 March 2017, a final dividend in respect of the year ended 31 December 2016 of K0.05 per share amounting to a total of K10,622,800 (2015: K21,245,630) is to be proposed. During the year an interim dividend of K0.04 per share, amounting to a total of K8,498,252 (2015: K16,997,000) was paid. The total dividend for the year is therefore K0.09 (2015: K0.18), amounting to a total of K19,121,067 (2015: K38,242,000).

Payment of dividends is subject to withholding tax at the rates applicable to the legal residence of each shareholder. The table below shows the movements in the dividends payable during the year:

	2016	2015
At the start of the year	6,423	6,827
Declared during the year	29,777	46,741
Amounts paid during the year	(7,649)	(47,145)
Closing balance at the end of the year	28,551	6,423

(all amounts are in thousands of Kwacha unless otherwise stated)

14 Share capital

There were no changes to the share capital or par value of the shares during the year ended 31 December 2016.

	Number of shares	Ordinary shares
Authorised		
Balance as at 1 January 2016	215,000,000	2,150
Balance as at 31 December 2016	215,000,000	2,150

	Number of shares	Ordinary shares
Issued and fully paid		
Balance as at 1 January 2016	212,456,304	2,125
Balance as at 31 December 2016	212,456,304	2,125

15 Property, Plant and Equipment

	Plant and machinery	Computers	Furniture and fittings	Motor Vehicles	Total
Cost	K'000	K'000	K'000	K'000	K'000
Balance as 1 January 2015	441	3,162	1,027	9,072	13,702
Additions	206	84	458	1,375	2,123
Re-allocation	(311)	680	(426)	57	-
Disposals	(296)	-	-	(426)	(722)
Balance as 31 December 2015	**40**	**3,926**	**1,060**	**10,078**	**15,104**
Additions	-	314	336	977	1,627
Re-allocation	166	(195)	1,050	(1,021)	-
Disposals	-	-	-	(649)	(649)
Balance as 31 December 2016	**206**	**4,045**	**2,446**	**9,385**	**16,082**
Accumulated depreciation and impairment					
Balance as 1 January 2015	(169)	(3,069)	(405)	(6,590)	(10,233)
Disposals	208	-	-	436	644
Charge for year	(39)	(351)	(92)	(1,422)	(1,904)
Balance as 31 December 2015	-	**(3,420)**	**(497)**	**(7,576)**	**(11,493)**
Depreciation charge for year	(24)	(214)	(205)	(1,379)	(1,822)
Disposals	-	-	-	569	569
Re-allocation	(24)	194	(1,182)	1,012	-
Balance as 31 December 2016	**(48)**	**(3,440)**	**(1,884)**	**(7,374)**	**(12,746)**
Carrying amount					
At 31 December 2015	40	506	563	2,502	3,611
At 31 December 2016	**158**	**605**	**562**	**2,011**	**3,336**

Included in the balances for property, plant and equipment are fully depreciated assets with a cost of K9,343,500 (2015: K8, 241,000) that are still in use.

(all amounts are in thousands of Kwacha unless otherwise stated)

16 Deferred income tax

Deferred tax is calculated using the enacted income tax rate of 35% (2015: 35%). The movement on the deferred income tax account is as follows:

	2016	2015
At start of the year	(6,178)	(820)
Amounts recognised in profit or loss	137	(462)
Amount recognised in other comprehensive income	1,661	(4,896)
At end of year	(4,380)	(6,178)

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

	1 January 2016	Movement for the year	31 December 2016
Year ended 31 December 2016			
Deferred income tax liabilities			
Property, plant and equipment	157	48	205
Unrealised exchange gain	513	857	1,370
	670	905	1,575
Deferred income tax assets			
Unrealised exchange losses	-	(519)	(519)
Hedging tax loss-charged to equity	(4,896)	1,661	(3,235)
Other deductible temporary differences	(1,952)	(249)	(2,201)
	(6,848)	893	(5,955)
Net deferred income tax assets	(6,178)	1,798	(4,380)

	1 January 2015	Movement for the year	31 December 2015
Year ended 31 December 2015			
Deferred income tax liabilities			
Property, plant and equipment	189	(32)	157
Unrealised exchange gain	-	513	513
	189	481	670
Deferred income tax assets			
Unrealised exchange losses	(238)	238	-
Hedging tax loss-charged to equity		(4,896)	(4,896)
Other deductible temporary differences	(771)	(1,181)	(1,952)
	(1,009)	(5,839)	(6,848)
Net deferred income tax assets	(820)	(5,358)	(6,178)

There are no unrecognised deferred tax assets as at 31 December 2016 (2015: nil).

(all amounts are in thousands of Kwacha unless otherwise stated)

17 Inventories

	2016	2015
Finished goods	73,680	26,103

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to K34,381,000 (2015: K74,652,000). There were no write offs or reversals of provisions for write offs of inventory in the current period.

18 Trade and other receivables

	2016	2015
Trade receivables	29,323	19,907
Less: Provision for impairment losses	(232)	(232)
	29,091	19,675
Prepayments	990	228
Other receivables	10,420	336
	40,501	20,239

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 a majority of the credit customers as included in trade receivables.

The carrying amounts of these trade and other receivables approximate their fair values.

19 Cash and cash equivalents

	2016	2015
Bank overdrafts	(11,102)	-
Cash in bank or on hand	164	48,884
Cash in bank (in USD)	7,611	-
	(3,327)	48,884

Included in cash and cash equivalents is an overdraft that was contracted during the year to finance the purchase of finished goods. As at 31 December 2016, ZMW2.90 million remained unutilised out of a total available of ZMW14.0 million. The overdraft facility will expire within ninety (90) days from 31 December 2016.

(all amounts are in thousands of Kwacha unless otherwise stated)

20 Trade and other payables

	2016	2015
Trade payables	5,064	16,552
Excise duty and Value Added Tax	6	3,144
Amounts due to related companies (Note 25)	41,719	18,701
Other payables and accrued expenses	13,695	16,546
Unclaimed dividend due to minorities	10,403	6,423
Dividend payable to holding company	18,148	-
	89,035	61,366

The carrying amounts of trade and other payables approximate their fair values.

21 Derivative Financial Instruments

	2016	2015
Cashflow hedges	9,244	13,990

Forward foreign currency contracts

Foreign currency contracts have been used to hedge both internal and external forecast transactions. The cash flow hedges are principally in respect of purchases of inventory. The timing of the expected cash flows in respect of derivatives designated as cash flow hedges is broadly expected to be comparable to the time periods when the hedged items will affect profit and loss. The timing of the expected cash flows are all expected to be within one year.

The fair value of the derviatives are measured utilising quoted prices which are considered level 1 inputs (exchange rates) and other observable market data which is considered level 2 (interest rates and yield curves).

22 Contingent liabilities

(i) Guarantees

At 31 December 2016 the Company had no guarantee. (2015:nil).

(ii) Legal proceedings

The Company had several pending legal proceedings at 31 December 2016. The Directors having obtained appropriate legal advice are of the opinion that there will be no material losses arising from the pending legal proceedings against the Company.

(all amounts are in thousands of Kwacha unless otherwise stated)

23 Commitments

Operating lease commitments

Operating expenditure contracted by the Company at the end of the reporting date but not recognised in the financial statements is as follows:

	2016	2015
Not later than one year	3,595	3,126
Later than 1 year and not later than 5 years	-	14,489
	3,595	17,615

The amount disclosed for the current year of K3,595,000 relates to expenditure contracted under various lease for rental of office space and residential accommodation for qualifying members of staff. All contracts are due to be renewed within 12 months from the end of the current financial year.

24 Cash Generated from Operations

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

	2016	2015
Profit after income tax	21,023	39,187
Adjustments for:		
Income tax expense (Note 11)	13,047	22,754
Interest income (Note 10)	(1,006)	(1,269)
Interest expense (Note 10)	31	-
Depreciation (Note 15)	1,822	1,904
Profit on sale of property, plant and equipment	(168)	(3,524)
Changes in working capital:		
- trade and other receivables	(20,262)	3,431
- inventories	(47,577)	430
- trade and other payables (excluding dividend payable and derivatives)	5,541	20,818
Cash generated from operations	(27,549)	83,731

(all amounts are in thousands of Kwacha unless otherwise stated)

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) p.l.c. through common shareholdings or common directorships. The following transactions (on a normal payment term basis) were carried out with related parties:

(i) *Purchase of goods and services*

From fellow subsidiaries:	2016	2015
British American Tobacco South Africa	10,441	14,046
British American Tobacco Kenya	55,445	56,902
British American Shares Services GSD - UK	6,645	4,121
BATMark Limited	44	-
American Cigarettes Company (Royalties)	8,477	5,679
British American Tobacco Southern Africa Market	1,859	3,401
British American Shares Services AME	-	269
British American Tobacco Investments Limited	3,801	5,106
British American Tobacco SS (Europe) SRL	3,669	1,497
	90,381	91,021

(ii) *Key management compensation*

	2016	2015
Salaries	3,176	5,183
Other short-term employment benefits	936	695
	4,112	5,878

(iii) *Directors' remuneration*

	2016	2015
Fees for services as a director	152	124
Other emoluments (included in key management compensation above)	2,559	2,766
	2,711	2,890

(iv) *Payable to related parties*

		2016 ZMW		2015 ZMW
British American Tobacco South Africa	$ 395	3,883	$ 97	1,064
British American Tobacco Kenya	$2,113	20,795	$ 952	10,475
British American Shares Services GSD - UK	£ 173	2,164	£ 7	106
British American Tobacco Holdings UK	£ 230	2,884	-	-
BATMark Limited	£ 3	43	£ 6	93
American Cigarettes Company	-	8,606	-	4,172
British American Tobacco Southern Africa Market	-	-	$ 124	1,363
British American Shares Services AME	-	-	$ 16	179
British American Tobacco Investments Limited	-	-	$ 92	1,013
British American Tobacco Mozambique	$ 140	1,377	$ 21	236
British American Tobacco SS (Europe) SRL	$ 206	1,967	-	-
		41,719		18,701

(all amounts are in thousands of Kwacha unless otherwise stated)

26 Financial Instruments by category

	2016	2015
As at 31 December :	Loans and receivables	Loans and receivables
Assets as per statement of financial position		
Trade and other receivables (excluding prepayments)	39,511	20,466
Cash and cash equivalents	7,775	48,884
	47,286	69,350
Liabilities as per statement of financial position	Other financial liabilities at amortised cost	Other financial liabilities at amortised cost
Bank overdraft	11,102	-
Trade and other payables (excluding statutory liabilities)	89,029	58,205
	100,131	58,205
Derivative Financial Instruments as per Statement of financial position	Derivative Financial Instruments payable	Derivative Financial Instruments payable
Derivatives (3rd party) payable	9,244	13,990

Principal Shareholders

The principal shareholders in the company and the respective number of shares held at 31 December 2016 were as follows:

	Number of shares	% of shareholding
British American Tobacco International Holdings (UK) Limited	165,885,883	78.08%
Others	12,752,557	6.00%
Standard Chartered Zambia Securities Services Nominees Limited	11,708,306	5.51%
Public Service Pensions Fund Board	8,000,000	3.77%
National Pension Scheme Authority	6,394,439	3.01%
Local Authority Superannuation	4,300,000	2.02%
Madison Pension Trust Fund	850,731	0.40%
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%
V P and P PARMAR	345,600	0.16%
	212,456,304	100%

Number of Distribution of shareholders	Number of Shareholders	Number of shares	% of shareholding
Less than 500 shares	190	39,786	0.02%
501-5,000	859	1,562,936	0.74%
5,001-10,000	92	705,611	0.33%
10,001-100,000	190	5,386,451	2.54%
100,001-1,000,000	39	9,531,664	4.49%
Over 1,000,000	8	195,229,856	91.89%
Total	1,378	212,456,304	100.00%

NOTICE IS HEREBY GIVEN that the Fifty Fifth Annual General Meeting of the Shareholders of British American Tobacco (Zambia) p.l.c. ("the Company"), will be held at Taj Pamodzi Hotel, Church Road Lusaka, Zambia on Friday 31 March 2017 at 1100 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 Fourth Annual General Meeting held on Wednesday 27 April 2016.

2. Financial Statement and Reports

   To receive and adopt the audited financial statements for the year ended 31 December 2016, together with the reports of the Directors and Auditors thereon.

3. Dividend

   To approve the final dividend of K 0.05 per share (interim dividend of K0.04 per share amounting to a total of K 19.12 million) for the year ended 31st December 2016.

4. Directorate

   4.1. To approve the remuneration of Directors for the year ended 31 December 2016;

   4.2. To re-elect Directors in place of those retiring in accordance with the provisions of section 206 (5) of the Companies Act Cap 388;

   4.3. To ratify the appointments and note the resignations happened during the course of the year;

   4.4. The profiles of Directors to be re-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 2016.

6. 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.

Notice is hereby given that subject to the approval of the final dividend at the Annual General Meeting, the register of members will be closed on Friday, 28 April 2016 and the warrants in payments will be posted on or before 30 June 2016.

By order of the Board

Valentine Kabonga

Company Secretary

24 February 2017