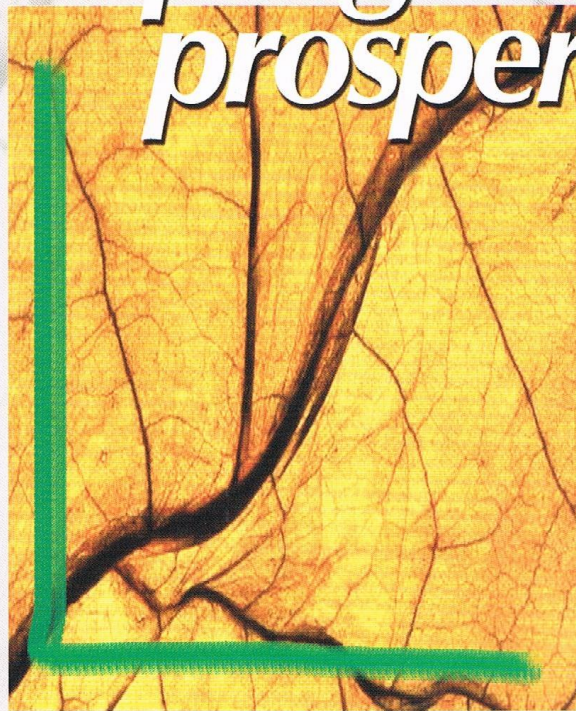


TCC

*progress &
prosperity*



A N N U A L R E P O R T 2 0 0 3

Tanzania Cigarette Company Limited

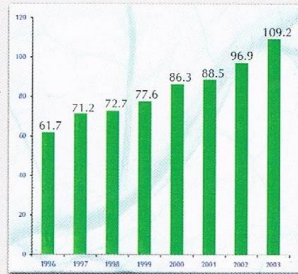
Tanzania Cigarette Company

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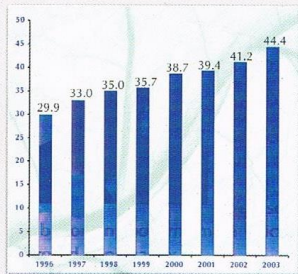
HIGHLIGHTS FOR 2003

Sales turnover 1996 - 2003 (Tsh. billion)



Sales turnover up by Tsh. 12.3 billion or 13% from Tsh. 96.9 billion in 2002 to Tsh. 109.2 billion in 2003.

Excise duty and VAT 1996 - 2003 (Tsh. billion)



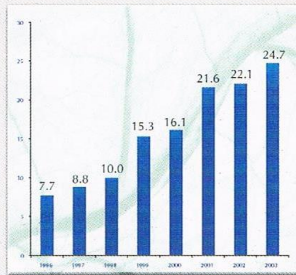
Tax payments in the form of excise duty and VAT up by Tsh. 3.2 billion or 8% from Tsh. 41.2 billion in 2002 to Tsh. 44.4 billion in 2003.

Operating profit 1996 - 2003 (Tsh. billion)



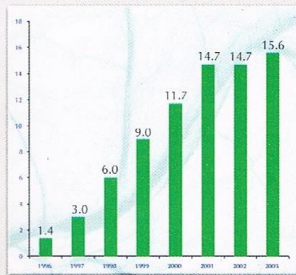
Operating profit up by Tsh. 3.0 billion or 14% from Tsh. 21.5 billion in 2002 to Tsh. 24.5 billion in 2003.

Profit before tax 1996 - 2003 (Tsh. billion)



Profit before tax up by Tsh. 2.6 billion or 12% from Tsh. 22.1 billion in 2002 to Tsh. 24.7 billion in 2003.

Ordinary dividend declared 1996 - 2003 (Tsh. billion)

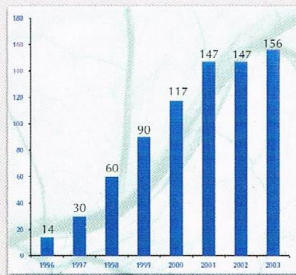


Ordinary dividend declared up by Tsh. 0.9 billion or 6% from Tsh. 14.7 billion in 2002 to 15.6 billion in 2003.

Note: Special dividend declared

FY 2001: Tsh. 8.0 billion.
 FY 2002: Tsh. 16.0 billion.
 FY 2003: Tsh. 6.3 billion.

Ordinary dividend per share 1996 - 2003 (Tsh.)



Ordinary dividend per share up by Tsh. 9 or 6% from Tsh. 147 in 2002 to Tsh. 156 in 2003.

Note: Special dividend declared per share

FY 2001: Tsh. 80.
 FY 2002: Tsh. 160.
 FY 2003: Tsh. 63.

FROM THE CHAIRMAN

I am pleased to announce that 2003 was another record year for Tanzania Cigarette Company (TCC). The Company achieved the highest sales turnover, operating profit, tax and ordinary dividend payments in its history.

Business environment

2003 was a challenging year for TCC. Discretionary incomes continued to be low, constraining demand for our products. Margins were under pressure from the combined effect of a 5% excise tax increase and a 6% Shilling depreciation against the US Dollar. New industry regulations became effective June 2003. The presence of contraband and counterfeit Sportsman and Sweet Menthol undermined legal sales of cigarettes, Government revenues and TCC's brand equity.

2003 performance



Sales turnover increased 13% to Tsh 109 billion from Tsh 96.9 billion in 2002, driven by strong domestic and export volumes of key brands. Operating profit rose 14% to Tsh 24.5 billion from Tsh 21.5 billion in 2002 and profit after tax increased 12% to Tsh 23.6 billion from Tsh 21.1 billion in 2002. Ordinary dividend per share increased 6% to Tsh 156 from Tsh 147 in 2002. A special dividend per share of Tsh 63 was also declared for 2003. In addition to substantial import, payroll and other direct and indirect taxes, the Company contributed a record Tsh 44.4 billion in excise duties and VAT.

We also continued to invest for future growth. The Company invested Tsh 2.5 billion in modern, more efficient machinery and productivity rose 18%. Quality levels also improved significantly.

We increased our marketing visibility countrywide. In addition, we rolled out new advertising campaigns for Embassy and Winston and restructured our branch network to improve product distribution. A program to enhance our marketing and sales infrastructure is on going.

In 2003, twenty-one of our employees began working in Germany with TCC's parent company, Japan Tobacco International (JTI). They joined other JTI employees from all over the world to work on a major global project to improve and modernize our business processes and management information systems. Project implementation is scheduled for June 2004.

As a responsible corporate citizen, TCC contributed almost Tsh 100 million to support various community projects throughout the country. In addition, implementation of our Environmental Health and Safety program, a key corporate social responsibility program, began March 2003 and is on-going.

FROM THE CHAIRMAN (continued)**Plans for 2004**

TCC will continue to focus on producing quality products more efficiently, building brand equity and strengthening our brand portfolio with credible brands in new consumer segments. We will also focus on enhancing and expanding product distribution in the domestic and export markets, developing our employees to deliver on our strategies and programs and exploring new market opportunities.

I must however caution that the outlook for 2004 is marked with a number of uncertainties, including the strength of the economy, exchange rates, excise taxation and the competitive environment. A strong economy and a stable exchange rate, coupled with a conducive excise tax regime and fair competition, will positively impact our performance. Conversely, adverse changes will negatively impact it.

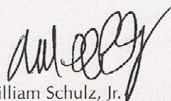
We anticipate the East African Community Trade Protocol will be signed in early 2004 and welcome this initiative, its opportunities and challenges.

To encourage fair competition, I urge the Government to significantly increase penalties for contraband/counterfeit activities. Current penalties of Tsh 10,000 to Tsh 175,000 are too low to deter these illegal activities. We also strongly recommend the introduction of a tax stamp scheme for cigarettes into Zanzibar. This should help seal off a major loophole for untaxed cigarettes and generate significant tax revenues for the Zanzibar Government. In addition, the existing specific excise tax structure must be maintained. A change to ad valorem excise structure from the existing specific excise structure will lead to under declaration of duties by unethical manufacturers and importers and create an unfair competitive environment for legal sales of cigarettes. In 2003, Kenya and Uganda moved to a specific excise tax structure for cigarettes to protect tax revenues and positive results are being achieved. Furthermore, we encourage the Government to work with the industry to add specifics to the new tobacco law.

Subject to the above, I am optimistic about the company's performance for 2004. You will be updated mid-year when we publish our half-year results.

Conclusion

Finally, it has been my privilege to chair the TCC Board during the year. On behalf of the Board of Directors, I take this opportunity to extend our appreciation and thanks to the many stakeholders that have contributed to TCC's success: the tobacco farmers and processors, suppliers, distributors, retailers, employees, the Government and its agencies, our parent company JTI and you the shareholders. We need and depend on your continued support.



William Schulz, Jr.
Chairman and Chief Executive Officer

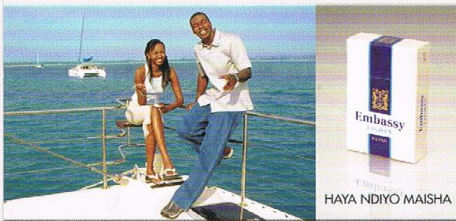
BUSINESS REVIEW

Sales and Marketing

Total sales turnover increased 13% to Tsh 109 billion in 2003 from Tsh 96.9 billion in 2002, driven by strong domestic and export sales of key brands.

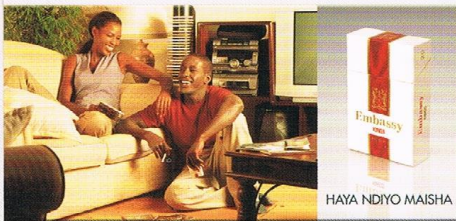
Domestic sales and marketing

Domestic sales of Tsh 104.1 billion in 2003 were driven by increased cigarette distribution throughout the country, together with an improved brand mix, supported by a number of innovative and creative marketing programs and initiatives.



We increased our marketing visibility countrywide and rolled out new advertising campaigns for Embassy and Winston. We also restructured our branch network to improve product distribution and a program to enhance our marketing and sales infrastructure is on going.

Prices remained unchanged in 2003, except for Embassy and Crescent and Star brands, which were modestly increased in August 2003. This was despite a 5% excise tax increase in June and a 6% depreciation of the Shilling against the US Dollar, which pushed up our US Dollar denominated imported raw materials.



During the year, we worked closely with relevant Government agencies to stem the increased inflow of untaxed cigarettes and counterfeit Sportsman and Sweet Menthol cigarettes. Untaxed cigarettes, low penalties for contraband and counterfeit offenders and lack of a tax stamp scheme in Zanzibar to distinguish legal from illegal cigarettes are a major concern. We will work with the Government to address these concerns as soon as possible. We welcome the recent initiatives by the Tanzanian, Kenyan and Ugandan Revenue Authorities to jointly address contraband activities in East Africa.

Domestic environment

The Tanzania economy remains largely agrarian, with 80% of the population and 50% of GDP dependent on agriculture. Disposable incomes remain low, at less than US\$ 1 per day, constrained by poor weather conditions in parts of the country, low agricultural output and depressed world market commodity prices.

In June 2003, a new law regulating the cigarette industry (The Tobacco Regulation - Control Act, 2003) became effective. We welcome and fully support this new law as it is in line with our core principles.



BUSINESS REVIEW (continued)

The objectives of the new law are to ensure that the population is adequately informed about the risks of smoking, exposure to second hand tobacco smoke and the benefits of quitting smoking; to ensure that tobacco products are modified to reduce harm as far as is technologically and practically possible; and to promote a climate that will lead to a smoking-free atmosphere. We recognise that we produce a controversial but legal product and have developed five core-guiding principles, which define our attitude to smoking. These are:

- 1) **Openness about the risk of smoking.** We support efforts to advise smokers about the risks of smoking. No one should smoke without the knowledge of the risks of smoking;
- 2) **Transparency about our product.** We acknowledge and take responsibility to tell smokers what we put into our cigarettes;
- 3) **Endeavouring to reduce the risks of smoking.** We do not believe that smoking risks can be completely eliminated, but there are ways in which we may be able to reduce the risk of smoking. We are committed to developing cigarettes that have potential to reduce the risks of smoking;
- 4) **Youth smoking prevention.** Minors should not smoke;
- 5) **Accommodation of smokers and non-smokers.** People who do not smoke are often irritated by tobacco smoke. Cigarettes littering spoils the environment and can cause fire and smoking in a crowd can be dangerous. At all times smokers should show courtesy to non-smokers and to society. We advocate reasonable solutions to accommodate smokers and non-smokers.

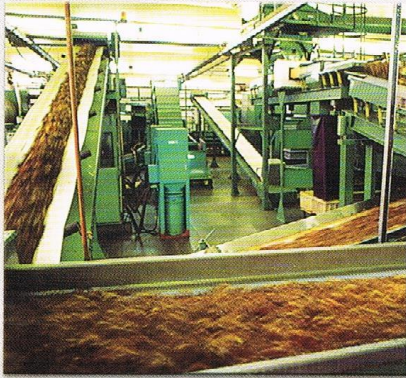
We are also guided by and strictly adhere to a set of International Marketing Standards (IMS). The IMS were developed in cooperation with a number of responsible global tobacco companies. They restrict broadcast and electronic media marketing to adults, limit the size of billboards and their location from schools attended by minors and limit advertising in print media to those whose readership is over 75% adult. They also restrict false advertising content, require all advertising to carry a health warning and restrict promotional offers, programs and sponsorship activities to adults.

To be fully effective, the Tobacco Regulation Act needs to be more specific on certain aspects and we will work with industry stakeholders to achieve this. We are however concerned that the Tobacco Regulations Committee, as provided for in the new law to advise on and monitor its implementation, is not yet operational.

Export sales

Exports continued to show strong growth momentum. Export sales were at a record high of Tsh 5.1 billion, up 16% over 2002. Our major export markets were the Democratic Republic of Congo and Mozambique.

BUSINESS REVIEW (continued)

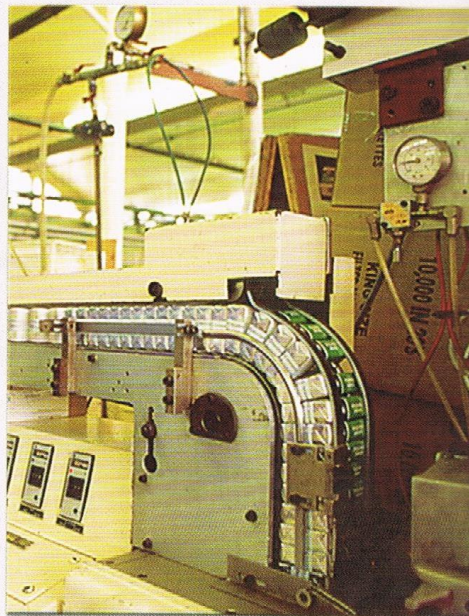
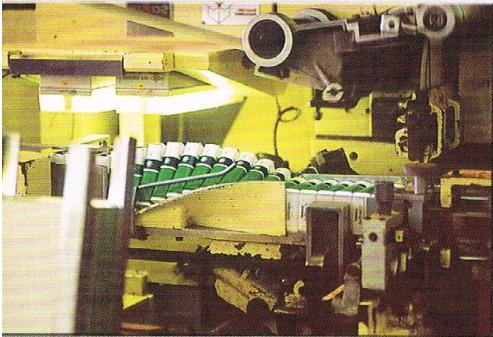


Manufacturing and Operations

Quality products, coupled with efficient production are key cornerstones in meeting consumer satisfaction at affordable prices. The Company achieved significant improvements in quality, efficiency and productivity.

Our product quality is world class. Overall quality improved significantly over 2002. The Company invested Tsh 2.5 billion in more efficient production machinery and equipment and productivity and machine efficiency were up 18% and 7% respectively. Employees at all levels actively contributed high quality suggestions for operational improvements, resulting in improved processes, product quality and savings.

Our manufacturing operations successfully moved from ISO 9002:94 to 9000:2000 and was ISO 9001:2000 certified in December 2003.



BUSINESS REVIEW (continued)

Human Resources

Our ability to deliver consistent good performance in a dynamic and increasingly challenging business environment depends on the quality of our employees. Continuous training and development of employees was a high priority in 2003. In addition to on-the-job training, many employees attended internal and external training. Twenty-one employees began working in Germany in November 2003 with JTI colleagues from all over the world on a global program to enhance our business processes and management information systems.

Our commitment to providing a positive working environment continued in 2003. We began refurbishing branch offices, installing new office equipment and furniture and upgrading sales force infrastructure.

Our existing HIV program was extended to cover employees for life and we will continually seek ways to improve the program by benchmarking against similar programs in other leading companies in East Africa.

In an effort to enhance industrial relations and the welfare of our employees, management and the Workers Union successfully concluded a Voluntary Agreement.

Corporate Social Responsibility

As a responsible corporate citizen, TCC recognizes and appreciates the need to give back to the community. This is an important aspect of our corporate social responsibility (CSR). In 2003, we supported a number of CSR projects throughout the country with a focus on education and primary health care. Total investment in CSR projects was close to Tsh 100 million.

TCC actively participated in the Private Sector Initiative. This initiative aims at developing and expanding the role of the corporate private sector in Tanzania in increasing the opportunities for small business to contribute to, and participate in the growth of the Tanzanian economy.

We also consider responsiveness to environmental issues to be part of our social responsibility. In an ever-changing business climate, companies are forced to reshape priorities to cater for new expectations. Today employees expect assurance of their health and safety. Investors and the public expect assurance not only on corporate governance, but also on environmental and social issues to ensure a sustainable future. To meet stakeholders' demands, TCC adopted a new global Environment, Health and Safety program and began implementation in March 2003. The program aims to minimize waste, recycle, cut emissions, reduce energy consumption and better manage potentially hazardous situations, such as accidents and fire in the work place. By December 2004 the program will include registration and implementation of Environmental Standard ISO 14001.

REPORT OF THE DIRECTORS **For the year ended 31 December 2003**

The Directors present their report and the audited financial statements for the year ended 31 December 2003.

ACTIVITIES

The Group's principal activities continue to be the manufacture, distribution, sale, marketing and export of cigarettes.

RESULTS

The Group and Company results for the year are set out on page 15. Group net profit for the year of Tshs. 23,560 million has been transferred to retained earnings (page 17).

DIVIDENDS

The Directors have declared a total gross ordinary dividend of Tshs. 15.6 billion (2002: Tshs. 14.7 billion) or Tshs. 155.78 per share. An interim gross dividend of Tshs. 7.8 billion or Tshs. 77.89 per share was paid in September 2003. Therefore the final gross ordinary dividend will be Tshs. 7.8 billion or Tshs. 77.89 per share.

The Directors have also declared a gross special dividend of Tshs. 6.3 billion (2002: Tshs. 16.0 billion) or Tshs. 63.16 per share.

The total of the gross ordinary dividend and the gross special dividend for 2003 is Tshs. 21.9 billion or Tshs. 218.94 per share. (2002: Tshs. 30.7 billion or Tshs. 307.21 per share). The interim gross ordinary dividend paid in September 2003 was Tshs. 7.8 billion or Tshs. 77.89 per share. Therefore the total of the final gross ordinary dividend and final gross special dividend will be Tshs. 14.1 billion or Tshs. 141.05 per share.

The total of the final ordinary dividend and final special dividend net of 5% withholding tax will be Tshs. 13.4 billion or Tshs. 134.00 per share. This will be paid to all shareholders registered at the Dar es Salaam Stock Exchange (DSE) at the date announced through public notice.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2003

DIRECTORS

The Directors of the Company at the date of this report who, except as otherwise stated, served throughout the period are:

William Schulz, Jr.	Chairman and Chief Executive Officer	American	(appointed 4 April 2003)
Gray Mgonja	Director (Non –Executive)	Tanzanian	
Naftal Nsemwa	Director (Non- Executive)	Tanzanian	
David Thorn	Director (Executive)	British	
Juergen Rademacher	Director (Executive)	German	
James Riordan	Director (Non – Executive)	Irish	

The following Directors retired from the Board during the year:

Natwar Gotecha	Chairman and Chief Executive Officer	British	(retired 4 April 2003)
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REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2003

DIRECTORS' INTERESTS

The Directors do not hold any material interest in the issued share capital of the Company. Executive Directors of Tanzanian nationality are permitted to receive share options from the Employee Share Option Scheme.

SOLVENCY

The state of affairs of the Company as at 31 December 2003 is set out on page 16 of these financial statements. The Directors consider the Company to be solvent, within the meaning ascribed by the Companies Ordinance (Cap. 212).

RELATED PARTY TRANSACTIONS

Details of transactions and balances with related parties are included in note 15 to the financial statements.

CONTRACTS WITH RELATED PARTIES

The Technical Services Agreement between JT International and the Company signed in January 2000, continued during the year.

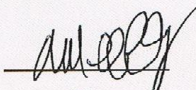
CONTINGENT LIABILITIES

The Company is currently involved in litigation with various third parties with respect to commercial, labor and tax disputes. Details are set out in note 17 to the financial statement.

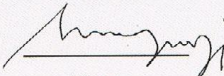
AUDITORS

A resolution to re-appoint the auditors, Deloitte & Touche, will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD



Director



Director

12 March 2004

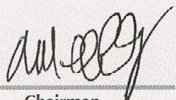
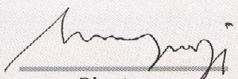
Date

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Ordinance (Cap. 212) requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results of the group for that year. It also requires the Directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the group.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with Tanzania Financial Accounting Standards and in the manner required by the Companies Ordinance (Cap. 212). The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

 <hr/> Chairman	12 March 2004 <hr/> Date
 <hr/> Director	12 March 2004 <hr/> Date

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANZANIA CIGARETTE COMPANY LIMITED

We have audited the financial statements on pages 15 to 30 for the year ended 31 December 2003 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of Directors and Auditors

As described on page 13, the Directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with approved auditing standards, including Tanzania Auditing Standards issued by the National Board of Accountants and Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion:

- (a) proper books of account have been kept by the Company and the Company financial statements are in agreement therewith;
- (b) the financial statements give a true and fair view of the state of affairs of the Company and the group as at 31 December 2003 and of their profit and cash flows for the year then ended in accordance with Tanzania Financial Accounting Standards and comply with the Companies Ordinance (Cap 212), 1932.

Deloitte and Touche
Certified Public Accountants (T)

**12 March, 2004,
DAR ES SALAAM**

INCOME STATEMENT
For the year ended 31 December 2003

	Notes	Group		Company	
		2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
Gross turnover		109,226	96,875	109,226	96,875
Excise duty and VAT		<u>44,406</u>	<u>41,174</u>	<u>44,406</u>	<u>41,174</u>
Net turnover		64,820	55,701	64,820	55,701
Cost of sales		<u>22,455</u>	<u>18,551</u>	<u>22,455</u>	<u>18,551</u>
Gross profit		42,365	37,150	42,365	37,150
Selling and distribution costs		8,882	7,811	8,882	7,911
General and administrative costs		8,924	7,856	8,912	7,677
Other operating expenses/(income)		<u>48</u>	<u>(53)</u>	<u>48</u>	<u>(24)</u>
Operating profit	2	24,511	21,536	24,523	21,586
Net finance income	3	<u>176</u>	<u>570</u>	<u>176</u>	<u>570</u>
Profit before taxation		24,687	22,106	24,699	22,156
Taxation charge/(credit)	4	<u>1,127</u>	<u>1,039</u>	<u>1,127</u>	<u>(133)</u>
Net profit for the year		<u>23,560</u>	<u>21,067</u>	<u>23,572</u>	<u>22,289</u>
Earnings per share (Tshs.)	5				
- Basic		235.60	210.67		
- Diluted		<u>235.60</u>	<u>210.67</u>		
Dividend per ordinary share (Tshs.)		<u>219</u>	<u>307</u>		

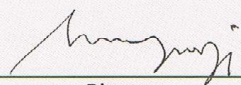
BALANCE SHEET
As at 31 December 2003

	Notes	Group		Company	
		2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
ASSETS					
Non current assets					
Property, plant and equipment	6	20,273	20,128	20,273	20,128
Investments	7	<u>300</u>	<u>585</u>	<u>834</u>	<u>1,119</u>
		<u>20,573</u>	<u>20,713</u>	<u>21,106</u>	<u>21,247</u>
Current assets					
Inventories	8	14,582	13,893	14,582	13,893
Trade and other receivables	9	3,216	2,253	3,216	2,253
Taxation recoverable		886	-	886	-
Bank balances and cash		<u>23,149</u>	<u>23,010</u>	<u>23,144</u>	<u>23,003</u>
		<u>41,833</u>	<u>39,156</u>	<u>41,828</u>	<u>39,149</u>
Total assets		<u>62,406</u>	<u>59,869</u>	<u>62,935</u>	<u>60,396</u>
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	10	2,000	2,000	2,000	2,000
Revaluation reserve		4,369	4,369	4,369	4,369
Retained earnings		26,095	24,426	26,632	24,954
Proposed dividends	11	<u>14,105</u>	<u>16,421</u>	<u>14,105</u>	<u>16,421</u>
		46,569	47,216	47,106	47,744
Non current liabilities					
Deferred tax liability	12	1,491	2,082	1,491	2,082
Current liabilities					
Trade and other payables	13	<u>14,346</u>	<u>10,571</u>	<u>14,338</u>	<u>10,570</u>
Total equity and liabilities		<u>62,406</u>	<u>59,869</u>	<u>62,935</u>	<u>60,396</u>

The financial statements on pages 15 to 30 were approved by the Board of Directors on 12 March 2004 and were signed on their behalf by:



Director



Director

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2003

GROUP	Share capital Tshs. M	Revaluation reserve Tshs. M	Retained earnings Tshs. M	Proposed dividend Tshs. M	Total Tshs. M
At 1 January 2002	2,000	4,369	34,007	7,895	48,271
Net profit for the year	-	-	21,067	-	21,067
Dividend payable	-	-	(14,300)	(7,895)	(22,195)
Proposed dividend	-	-	(16,421)	16,421	-
Translation adjustment	-	-	73	-	73
At 31 December 2002	2,000	4,369	24,426	16,421	47,216
Net profit for the year	-	-	23,560	-	23,560
Dividend payable	-	-	(7,789)	(16,421)	(24,210)
Proposed dividend	-	-	(14,105)	14,105	-
Translation adjustment	-	-	3	-	3
At 31 December 2003	<u>2,000</u>	<u>4,369</u>	<u>26,095</u>	<u>14,105</u>	<u>46,569</u>
COMPANY					
At 1 January 2002	2,000	4,369	33,386	7,895	47,650
Net profit for the year	-	-	22,289	-	22,289
Dividend payable	-	-	(14,300)	(7,895)	(22,195)
Proposed dividend	-	-	(16,421)	16,421	-
At 31 December 2002	2,000	4,369	24,954	16,421	47,744
Net profit for the year	-	-	23,572	-	23,572
Dividend payable	-	-	(7,789)	(16,421)	(24,210)
Proposed dividend	-	-	(14,105)	14,105	-
At 31 December 2003	<u>2,000</u>	<u>4,369</u>	<u>26,632</u>	<u>14,105</u>	<u>47,106</u>

CASH FLOW STATEMENT
For the year ended 31 December 2003

	Notes	Group		Company	
		2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
Operating activities					
Cash generated from operation	14.1	30,350	26,348	30,352	26,424
Interest received		326	284	326	284
Taxation paid		<u>(3,175)</u>	<u>-</u>	<u>(3,175)</u>	<u>-</u>
Net cash from operating activities		<u>27,501</u>	<u>26,632</u>	<u>27,503</u>	<u>26,708</u>
Investing activities					
Loan repayments		285	150	285	150
Proceeds on disposal of property, plant and equipment		470	58	470	26
Purchase of property, plant and equipment		<u>(3,957)</u>	<u>(3,609)</u>	<u>(3,957)</u>	<u>(3,609)</u>
Net cash used in investing activities		<u>(3,202)</u>	<u>(3,401)</u>	<u>(3,202)</u>	<u>(3,433)</u>
Financing activities					
Dividends paid	14.3	<u>(24,160)</u>	<u>(22,174)</u>	<u>(24,160)</u>	<u>(22,174)</u>
Net cash used in financing activities		<u>(24,160)</u>	<u>(22,174)</u>	<u>(24,160)</u>	<u>(22,174)</u>
Net increase in bank balances and cash		139	1,057	141	1,101
Bank balances and cash at beginning of year		<u>23,010</u>	<u>21,953</u>	<u>23,003</u>	<u>21,902</u>
Bank balances and cash at end of year		<u>23,149</u>	<u>23,010</u>	<u>23,144</u>	<u>23,003</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Tanzania Financial Accounting Standards. The principal accounting policies adopted remain unchanged from the previous year and are set out below:

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified where appropriate, to include the revaluation of certain property, plant and equipment.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary, TCC (Kenya) Limited, made up to 31 December 2003.

All significant intercompany transactions and balances between the two companies have been eliminated on consolidation.

Turnover

Gross turnover comprises the invoiced value of sales and is recognised when goods are delivered.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials and consumable stores are determined based on weighted average cost method. Cost of finished goods and work in progress are valued at direct raw material cost and include a portion of manufacturing overhead expenses, determined on a weighted average basis. Net realizable value represents the estimated selling price, less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Property, plant and equipment

Property, plant and equipment is stated at cost or as professionally valued less accumulated depreciation.

Depreciation is calculated on the straight-line basis at rates that will write-off the cost or valuation of the assets to their residual values over their estimated useful lives. The following annual depreciation rates are used:

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

ACCOUNTING POLICIES (Continued)

	%
Leasehold land and permanent buildings	2.0
Temporary buildings	33.3
Plant and machinery	5.0 – 20.0
Other equipment	10 - 33.3
Motor vehicles	25 - 33.3
Advertising equipment	25.0
Capital work in progress	Nil

Property, plant and equipment were last revalued in 1994 and the revaluation surplus recorded in the financial statements. Since 1994 the company adopted a policy not to revalue property, plant and equipment and to record additions at cost.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Foreign currency translation

Foreign currency transactions are converted into Tanzania Shillings at the average monthly exchange rates. Assets and liabilities in foreign currencies have been translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the income statement.

Investments

Investments are stated at cost and provision is only made where, in the opinion of the directors, there is a permanent diminution in value. Where there has been a permanent diminution, in the value of an investment, it is recognised as an expense in the income statement in the period in which diminution is identified.

Trade and other receivables

Trade and other receivables are anticipated realisable value. An estimate is made for doubtful debts receivable based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified.

Trade and other payables

Trade and other payables are stated at their nominal value.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003

ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash, deposits held at call with banks and other short term highly liquid investments which are readily convertible to known amounts of cash with maturities of less than three months net of any overdrafts.

Retirement benefits obligations

The group makes statutory contributions to the National Social Security Fund (NSSF) and Parastatal Pensions Fund (PPF). The group's obligations in respect of these contributions are 10% of the employees gross emoluments in respect of NSSF members and 15% of the employees' gross emoluments in respect of PPF members. The group's contributions in respect of these retirement benefits obligations are charged to the income statement in the period to which they relate.

Taxation

Current taxation is provided for on the basis of the results shown in the financial statements adjusted in accordance with tax legislation.

Deferred taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2003

	Group		Company	
	2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
2. OPERATING PROFIT				
Operating profit has been arrived at after charging:				
Directors' fees	7	18	7	18
Auditor's remuneration:				
Audit fees	61	59	60	57
Other services	30	19	30	19
Staff costs	5,935	5,205	5,935	5,205
Depreciation	2,978	2,980	2,978	2,975
Technical service fees	2,870	2,734	2,870	2,734
Loss on disposal of property, plant and equipment	288	-	288	-
And after crediting:				
Profit on disposal of property, plant and equipment	-	48	-	19
Included within staff costs are:				
NSSF and PPF contributions	387	332	387	332
	Number	Number	Number	Number
Number of persons employed at the year end	693	689	693	689
	Tshs. M	Tshs. M	Tshs. M	Tshs. M
3. NET FINANCE INCOME				
Net foreign exchange (loss)/gain	(150)	286	(150)	286
Interest receivable	326	284	326	284
	176	570	176	570
4. TAXATION				
Current taxation at 30%	7,869	7,049	7,869	7,049
Tax holiday (note 4.1)	(5,580)	(7,049)	(5,580)	(7,049)
	2,289	-	2,289	-
Prior years overprovision	(571)	-	(571)	-
Deferred taxation (credit)/charge	(591)	1,039	(591)	(133)
	1,127	1,039	1,127	(133)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2003

4. TAXATION (CONTINUED)

4.1 Tax holiday

The Company's five year tax holiday in Tanzania, granted under the National Investment Promotion & Protection Act (NIPPA) 1990, commenced on 1 August 1998 and expired on 31 July 2003. A tax charge of Tshs 2,289 to current taxation has been provided for the period from 1 August 2003 to 31 December 2003 on the basis of the results for that period.

	Group		Company	
	2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
4.2 Reconciliation of tax based on accounting profit to tax charge/ (credit)				
Accounting profit before tax	<u>24,687</u>	<u>22,106</u>	<u>24,699</u>	<u>22,156</u>
Tax charge at 30%	7,407	6,632	7,410	6,646
Tax holiday	(5,580)	(7,049)	(5,580)	(7,049)
Income subject to lower rate of tax or not subject to tax	(147)	-	(147)	-
Disallowable expenditure	346	284	346	270
Prior years overprovision	(571)	-	(571)	-
Deferred tax adjustment	(331)	-	(331)	-
Deferred tax asset not recognised (note 4.3)	<u>3</u>	<u>1,172</u>	<u>-</u>	<u>-</u>
Taxation charge/(credit)	<u>1,127</u>	<u>1,039</u>	<u>1,127</u>	<u>(133)</u>

4.3 Deferred tax asset not recognised

The deferred tax asset has not been recognised in the financial statement of the subsidiary company TCC (Kenya) Limited because the company ceased operations and it is uncertain that there will be sufficient future profits against which the accumulated tax losses can be utilised. The deferred tax asset mainly comprised tax losses available for future relief.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

5. EARNINGS PER SHARE

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

	Group	
	2003	2002
Profit attributable to ordinary shareholders (Tshs.M)	23,560	21,067
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (Tshs.)	<u>235.60</u>	<u>210.67</u>

There were no potentially dilutive shares outstanding at 31 December 2003 or 2002.

6. PROPERTY, PLANT AND EQUIPMENT
Group and Company

	Leasehold property Tshs. M	Plant and machinery Tshs. M	Other equipment Tshs. M	Motor vehicles Tshs. M	Capital work in progress Tshs. M	Total Tshs. M
Cost						
At 1 January 2003	9,026	20,936	2,400	2,714	2,144	37,220
Additions	184	120	295	708	2,650	3,957
Transfers	1,113	1,441	30	-	(2,584)	-
Disposals	<u>(29)</u>	<u>(2,552)</u>	<u>(256)</u>	<u>(344)</u>	<u>-</u>	<u>(3,181)</u>
At 31 December 2003	<u>10,294</u>	<u>19,945</u>	<u>2,469</u>	<u>3,078</u>	<u>2,210</u>	<u>37,996</u>
Depreciation						
At 1 January 2003	1,921	11,430	1,615	2,126	-	17,092
Charge for the year	248	2,123	232	375	-	2,978
Eliminated on disposals	<u>(23)</u>	<u>(1,825)</u>	<u>(220)</u>	<u>(279)</u>	<u>-</u>	<u>(2,347)</u>
At 31 December 2003	<u>2,146</u>	<u>11,728</u>	<u>1,627</u>	<u>2,222</u>	<u>-</u>	<u>17,723</u>
Net book value						
At 31 December 2003	<u>8,148</u>	<u>8,217</u>	<u>842</u>	<u>856</u>	<u>2,210</u>	<u>20,273</u>
At 31 December 2002	<u>7,105</u>	<u>9,506</u>	<u>785</u>	<u>588</u>	<u>2,144</u>	<u>20,128</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

	Group		Company	
	2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
7. INVESTMENTS				
Investment in subsidiary	-	-	534	534
Loan receivable	<u>300</u>	<u>585</u>	<u>300</u>	<u>585</u>
	<u>300</u>	<u>585</u>	<u>834</u>	<u>1,119</u>

Investment in subsidiary

Investment in subsidiary represents the cost of shares in TCC (Kenya) Limited, a wholly-owned subsidiary, which is incorporated in Kenya under the Kenya Companies Act. The principal activities of the subsidiary are the importation, distribution and wholeselling of tobacco products. However, the Company has not been trading since 31 December 2002. The investment in subsidiary has been fully provided for in the books.

Loan receivable

Loan receivable of Tshs 300 million represents the balance on a loan of original amount of Tshs 820 million to a trust established for the employees' share option scheme – The Registered Trustees of the TCC Employees' Share Option Scheme (ESOS). The loan is interest free and is repaid in installments in amounts and at times that the Trust determines, based on the value of its assets compared to its obligations to the employees in accordance with the scheme.

	Group		Company	
	2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
8. INVENTORIES				
Raw materials	9,618	9,235	9,618	9,235
Work in progress	105	65	105	65
Consumable stores	2,044	2,560	2,044	2,560
Goods in transit	1,337	858	1,337	858
Finished goods	<u>2,192</u>	<u>2,478</u>	<u>2,192</u>	<u>2,478</u>
	15,296	15,196	15,296	15,196
Provision for obsolete inventories	<u>(714)</u>	<u>(1,303)</u>	<u>(714)</u>	<u>(1,303)</u>
	<u>14,582</u>	<u>13,893</u>	<u>14,582</u>	<u>13,893</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

	Group		Company	
	2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
9. TRADE AND OTHER RECEIVABLES				
Trade receivables	1,705	1,725	1,705	1,725
Amounts due from related companies	834	21	834	21
Prepayments and other receivables	<u>982</u>	<u>813</u>	<u>982</u>	<u>813</u>
	3,521	2,559	3,521	2,559
Provision for doubtful receivables	<u>(305)</u>	<u>(306)</u>	<u>(305)</u>	<u>(306)</u>
	<u>3,216</u>	<u>2,253</u>	<u>3,216</u>	<u>2,253</u>

	2003 Tshs. M	2002 Tshs. M
10. SHARE CAPITAL		
Authorised:		
125,000,000 Ordinary shares of Tshs. 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid:		
100,000,000 Ordinary shares of Tshs. 20 each	<u>2,000</u>	<u>2,000</u>

There were no movements in the share capital of the Company during the year. The Company has one class of ordinary shares which carries no right to fixed income. The ownership structure of the Company is as set out below:

	2003 Ordinary shares Million	2002 Ordinary shares Million	2003 Holding %	2002 Holding %
Resident shareholders:				
United Republic of Tanzania	2.5	5.5	2.5	5.5
Unit Trust of Tanzania	3.0	0.0	3.0	0.0
General public	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>
	25.0	25.0	25.0	25.0
Non-resident shareholders				
JT International Holding B. V.	<u>75.0</u>	<u>75.0</u>	<u>75.0</u>	<u>75.0</u>
Total ordinary shares in issue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

	Group		Company	
	2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
11. DIVIDENDS				
Paid:				
Interim dividend	7,789	6,300	7,789	6,300
First special dividend	-	8,000	-	8,000
	<u>7,789</u>	<u>14,300</u>	<u>7,789</u>	<u>14,300</u>
Proposed:				
Final dividend	7,789	8,421	7,789	8,421
Second special dividend	6,316	8,000	6,316	8,000
	<u>14,105</u>	<u>16,421</u>	<u>14,105</u>	<u>16,421</u>
	<u>21,894</u>	<u>30,721</u>	<u>21,894</u>	<u>30,721</u>

12. DEFERRED TAX

The net deferred tax liability is attributable to the following:

Accelerated capital allowances	<u>1,491</u>	<u>2,082</u>	<u>1,491</u>	<u>2,082</u>
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The movement on the deferred tax account is as follows:

Balance at 1 January	2,082	1,108	2,082	2,215
(Credited)/charged to income statement (note 4)	(591)	1,039	(591)	(133)
Other movement (Note 14.2)	-	(65)	-	-
Balance at 31 December	<u>1,491</u>	<u>2,082</u>	<u>1,491</u>	<u>2,082</u>

13. TRADE AND OTHER PAYABLES

Trade payables	5,163	1,225	5,155	1,225
Accrued liabilities	6,054	4,578	6,054	4,578
Amounts due to related companies	9	1,388	9	1,388
Excise tax and VAT payable	2,482	2,789	2,482	2,789
Dividends payable	571	521	571	521
Other payables	<u>67</u>	<u>70</u>	<u>67</u>	<u>69</u>
	<u>14,346</u>	<u>10,571</u>	<u>14,338</u>	<u>10,570</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

14. NOTES TO THE CASH FLOW STATEMENT

	Group		Company	
	2003 Tshs. M	2002 Tshs. M	2003 Tshs. M	2002 Tshs. M
14.1 Reconciliation of operating profit to cash generated from operations				
Operating profit	24,511	21,536	24,523	21,586
Adjustments for:				
Depreciation	2,978	2,980	2,978	2,975
Loss/(profit) on disposal of property, plant and equipment	288	(48)	288	(19)
Net exchange loss/(gain)	(150)	286	(150)	286
Other non-cash items (note 14.2)	<u>79</u>	<u>8</u>	<u>76</u>	<u>-</u>
	27,706	24,762	27,715	24,828
Working capital changes:				
(Increase)/decrease in inventories	(689)	749	(689)	749
(Increase)/decrease in trade and other receivables	(150)	(107)	(150)	(107)
Movement in amounts due (from)/to related companies	(2,192)	667	(2,192)	667
(Decrease)/increase in trade and other payables	<u>5,675</u>	<u>277</u>	<u>5,668</u>	<u>287</u>
Cash generated from operations	<u>30,350</u>	<u>26,348</u>	<u>30,352</u>	<u>26,424</u>
14.2 Non - cash items				
Assets written-off	76	-	76	-
Deferred tax movement	-	(65)	-	-
Translation adjustment	<u>3</u>	<u>73</u>	<u>-</u>	<u>-</u>
	<u>79</u>	<u>8</u>	<u>76</u>	<u>-</u>
14.3 Dividends paid				
Dividend payable at 1 January	521	500	521	500
Dividend payable in the year	24,210	22,195	24,210	22,195
Dividend payable at 31 December	<u>(571)</u>	<u>(521)</u>	<u>(571)</u>	<u>(521)</u>
	<u>24,160</u>	<u>22,174</u>	<u>24,160</u>	<u>22,174</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

15. RELATED PARTY TRANSACTIONS

Group and Company

Contracts with related parties

A technical and know-how services agreement with JT International Holding B.V. the parent company for the provision of technical and know-how services to the Company has been in place since 1 January 2000. Amounts payable under this agreement are included under purchase of goods and services below. The charge for the period is Tshs 2,870 (year 2002: Tshs 2,734).

Other transactions with related parties

	2003	2002
	Tshs. M	Tshs. M
i. Sales of goods		
JT International Companies	<u>253</u>	<u>45</u>
ii. Purchase of goods and services		
JT International Companies	<u>4,722</u>	<u>3,995</u>

Outstanding balances with related companies as at the year end are shown on the balance sheet and in notes 9 and 13.

	Group		Company	
	2003	2002	2003	2002
	Tshs. M	Tshs. M	Tshs. M	Tshs. M

16. CAPITAL COMMITMENTS

Capital expenditure authorised but not contracted for	340	-	340	-
Capital expenditure authorised and contracted for	<u>841</u>	<u>1,698</u>	<u>841</u>	<u>1,698</u>
	<u>1,181</u>	<u>1,698</u>	<u>1,181</u>	<u>1,698</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2003

17. CONTINGENT LIABILITIES

Litigation

The Company is currently involved in a number of civil actions. It is not possible to predict the outcome of these actions, however the Directors are of the opinion that the total contingent liability is approximately Tshs. 130 million. Full provision has been made in these financial statements for this amount.

Tax claim

As at 12 March 2004, there is a claim by the Tanzania Revenue Authority (TRA) that the Company's tax holiday expired on 10 September 2002, being the fifth anniversary of the Tanzania Investment Act, 1997 and that the Company is liable to corporation tax related to the period from 10 September 2002 to 31 July 2003 (estimated at Tshs 7 billion).

As at 12 March 2004, there is a claim by the Tanzania Revenue Authority (TRA) that the Company's tax holiday does not apply to withholding tax on Technical Service fees payable to JT International Holding B.V.

The Company maintains that it is entitled to a full five-year tax holiday expiring on 31 July 2003, and on the advice of external legal counsel is challenging the claims.

It is not possible to predict the outcome of these claims however, the Directors are of the opinion that no additional liability in excess of what has been provided in the financial statements will arise from these claims.

18. POST BALANCE SHEET EVENTS

At the date of signing the financial statements, the Directors are not aware of any events which could have material impact on the disclosures contained in these financial statements.

19. INCORPORATION

The Company is incorporated in Tanzania under the Companies Ordinance (Cap. 212).

20. ULTIMATE PARENT COMPANY

The parent company is JT International Holding B.V. and the ultimate parent company is Japan Tobacco Inc.

21. COMPARATIVES FIGURES

Where necessary, comparative figures have been restated to conform with changes in presentation in the current year.

22. CURRENCY

These financial statements are presented in millions of Tanzania Shillings (Tshs. M).

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 39th Annual General Meeting of the Members of Tanzania Cigarette Company Limited in respect of the year ended December 31, 2003 will be held at the Royal Palm Hotel, Dar es Salaam Tanzania, on Thursday April 8, 2004 at 11.00 hours.

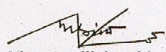
AGENDA :

1. Confirmation of the Minutes of the previous Annual General Meeting.
2. Matters Arising.
3. Adoption of Accounts:
To receive, consider and adopt Director's Report and the Accounts for the Financial Year ended December 31, 2003.
4. To adopt the Declaration of Dividend.
5. To Appoint the Auditors for the next financial year.
6. Resignation and Appointment of Directors.
7. Remuneration of the Directors.
8. Any Other Business.

Notes:

1. A member wishing to attend the meeting must come with a copy of his/her depository receipt or share certificate and his/her identification card.
2. A member entitled to attend and vote at the meeting is entitled to appoint a **PROXY** to attend and vote in his/her stead in accordance with the provisions of the Company's Articles. A proxy form must be deposited at the Registered Office of the Company so as to arrive not later than 10.00 hours Wednesday, April 7, 2004.

BY ORDER OF THE BOARD


Vintan Willgis Mbiro
COMPANY SECRETARY
13 March, 2004

Plot NO. 20 Nyerere Road
P.O. Box 40114
Dar es Salaam.



PROXY

To:
The Company Secretary
Tanzania Cigarette Company Limited
P.O. Box 40114
Dar es Salaam.

I/We

.....

.....

..... of P.O. Box.....

.....

member/ members of Tanzania Cigarette Company Limited appoint

.....

.....

..... of P.O. Box

.....

as my/our Proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, April 8, 2004, at the Royal Palm Hotel, Dar es Salaam, or at any adjournment thereof.

As witness my/our hand/s this.....Day of2004.

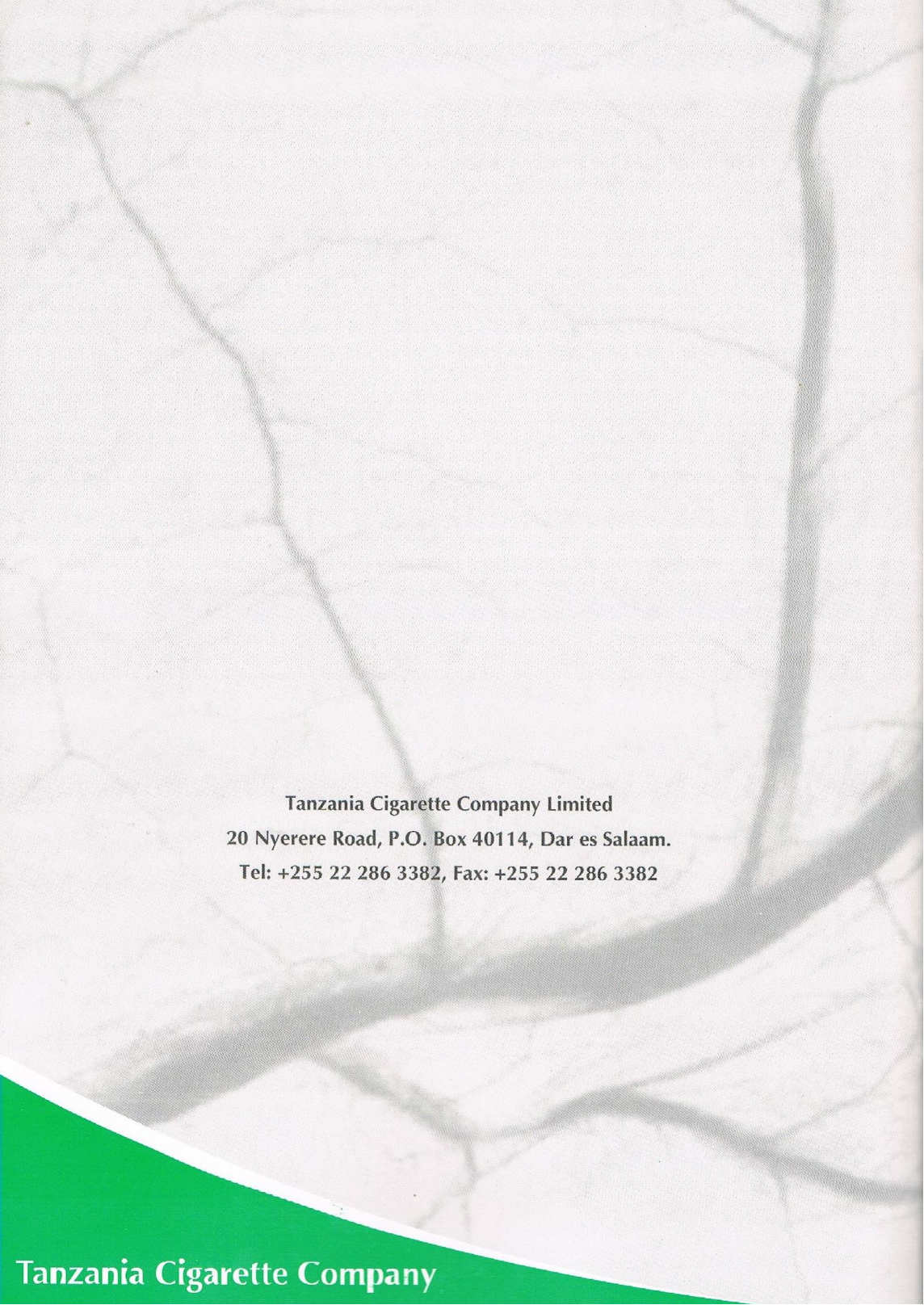
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(Signature)

Note:

- 1. Affix Revenue Stamp of Tshs. 500/=
- 2. If a member is a corporation the Proxy must be either under seal or under the hand of an officer or attorney duly authorized.

TCC



Tanzania Cigarette Company Limited
20 Nyerere Road, P.O. Box 40114, Dar es Salaam.
Tel: +255 22 286 3382, Fax: +255 22 286 3382

Tanzania Cigarette Company