

Annual Report

for the year ended December 31, 2017

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Financial highlights

Financial highlights

Consolidated five year financial summary

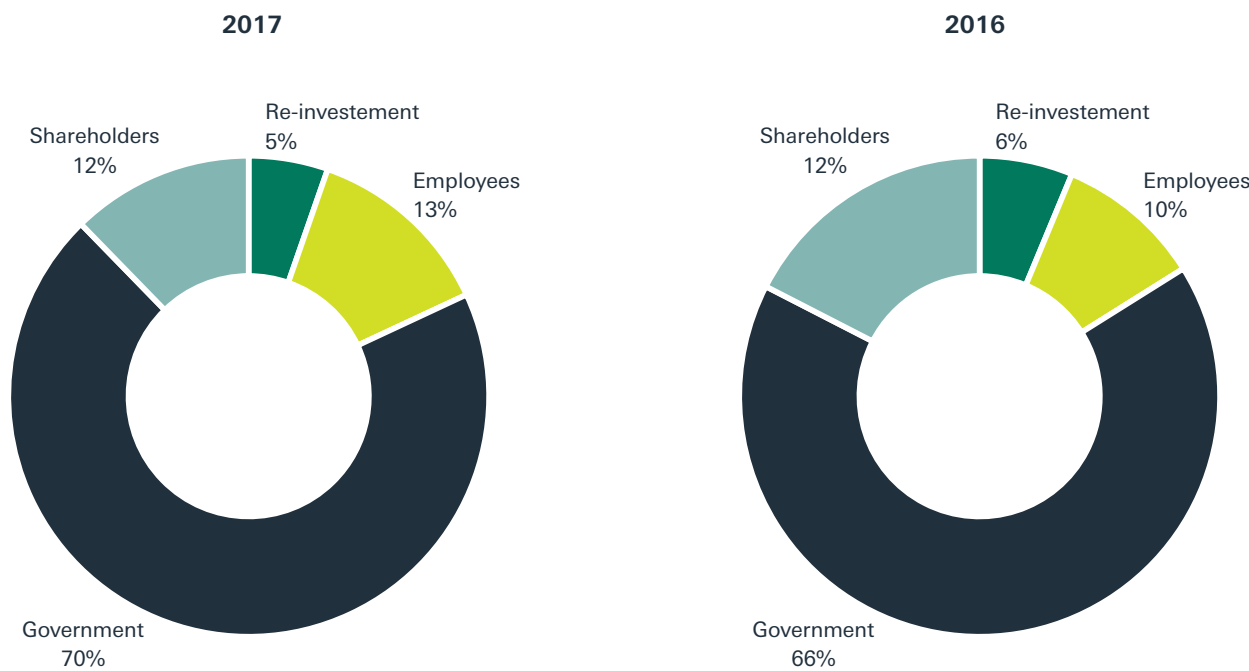
	2013 TZS M	2014 TZS M	2015 TZS M	2016 TZS M	2017 TZS M
For the year:					
Gross Turnover	445,633	461,720	496,675	499,457	485,832
VAT	60,450	62,493	64,940	66,403	67,254
Revenue	385,184	399,227	431,735	433,054	418,578
Excise duty	94,582	115,317	131,185	132,092	138,829
Net sales	290,601	283,910	300,550	300,962	279,749
EBITDA	125,797	109,721	112,840	108,159	76,723
Depreciation and amortization	15,788	14,955	15,710	12,890	12,007
Gross Profit	186,610	171,536	178,997	170,892	158,148
Operating income	110,009	94,765	97,130	95,269	64,716
Net Finance (income) expense	(2,128)	(3,495)	(2,263)	(3,365)	(1,201)
Corporate tax	34,079	29,661	31,585	29,964	20,558
Net income	78,058	68,600	65,711	68,669	45,357
At year end:					
Net Property, plant and equipment	100,078	94,884	87,474	89,353	96,765
Total assets	248,749	247,258	229,972	257,212	259,802
Interest bearing debts	0	0	0	0	0
Total Liabilities	67,980	68,842	55,632	70,496	76,907
Total shareholders' equity	180,769	178,416	174,340	186,716	182,895
For the year:					
Net cash generated by operating activities	105,869	92,754	66,419	61,507	62,674
Net cash used in investing activities	(19,432)	(9,371)	(7,535)	(14,261)	(19,497)
Net cash used in financing activities	(75,000)	(70,000)	(70,000)	(60,000)	(50,000)
Cash Flow for the year	11,437	13,383	(11,116)	(12,754)	(6,823)
Dividend per share (TZS)	750	650	600	600	400
Earning per share (TZS)	781	686	657	687	454
Profitability:					
Return on equity	44%	39%	37%	38%	25%
EBITDA margin	43%	39%	38%	36%	27%
Operating income margin	38%	33%	32%	32%	23%
Total assets turnover	1.23	1.15	1.26	1.17	1.08
Stability:					
Current ratio	274%	279%	346%	289%	254%
Debt ratio (total liabilities/total assets)	27%	28%	24%	27%	30%

Financial highlights

Value added

	2017 TZS M	%	2016 TZS M	%
Gross turnover	485,832		499,457	
Operating expenditures - suppliers	(160,426)		(155,674)	
Total Value added	325,406	100.0	343,783	100.0
Value distributed as follows:				
To Employees - remuneration	41,401	12.7	33,765	9.8
To Government - vat,excise duties	206,083	63.3	198,495	57.7
To Government - corporate tax	20,558	6.3	29,964	8.7
To shareholders - dividends	40,000	12.3	60,000	17.5
To Reinvestment:				
Depreciation and amortisation	12,007	3.7	12,890	3.7
Retained income	5,357	1.6	8,669	2.5
Total distributions	325,406	100.0	343,783	100.0

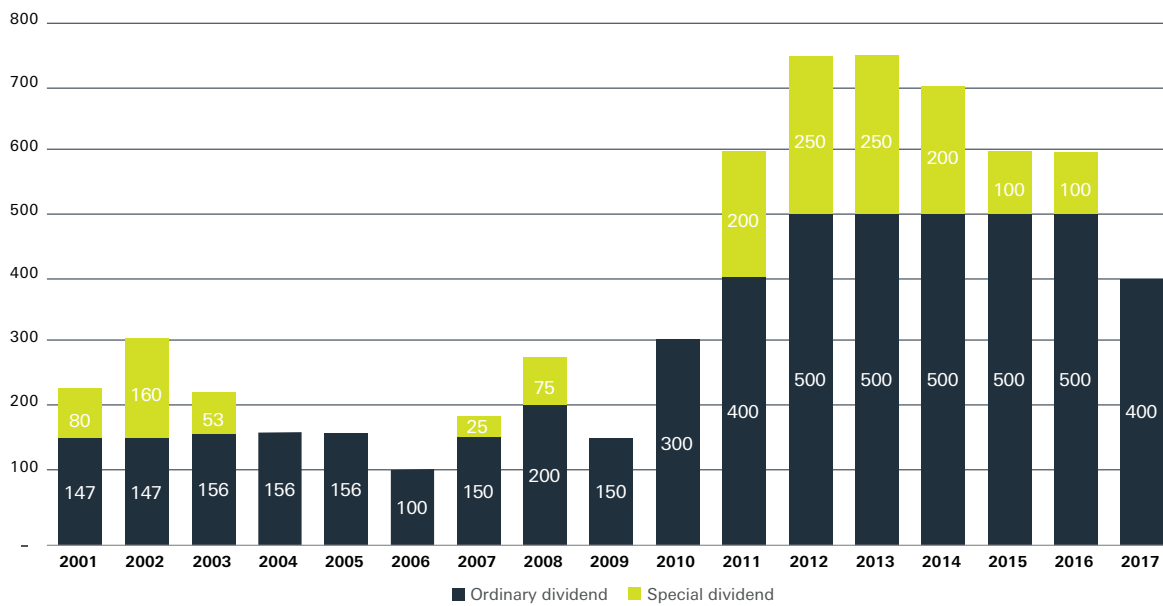
Value distributed (%)



Financial highlights

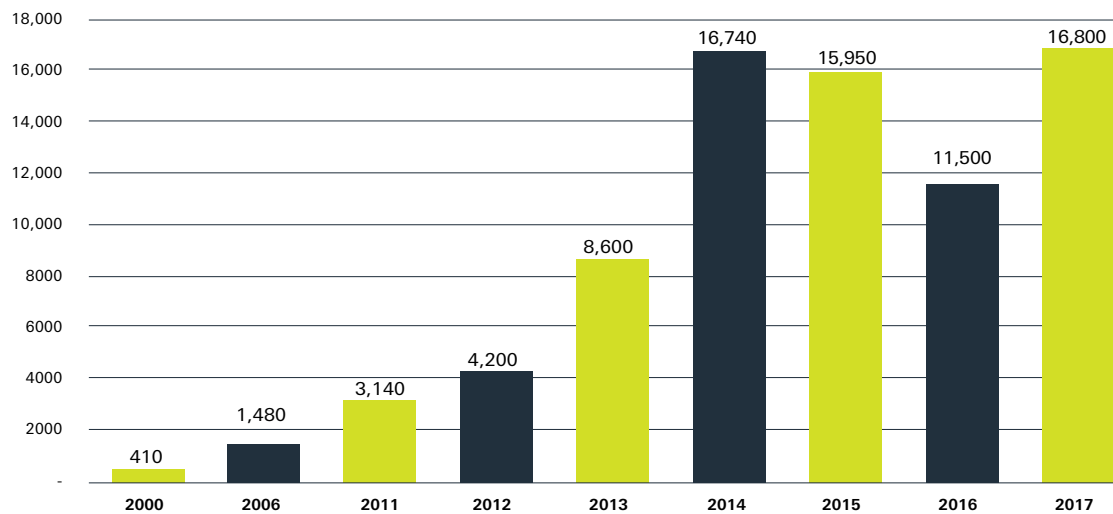
Dividend history

Dividend per share for the respective financial year (TZ/share): 2001-2017



Share price evolution

Share price evolution(TZ/share): 2000-2017





TCC at a glance

Our vision and mission

Our vision is to be the most successful and responsible Company in East Africa.

Our mission is to grow volume while defending our market share, by delivering quality brands, maximizing consumer and customer satisfaction through innovation, engaged employees, integrity and excellence in execution.

TCC at a glance

Our values



Enterprising

We have the courage to do things differently. We work together to achieve our long-term goal. This leads to new ideas resulting in fresh perspectives and innovation. This is fueled by our creative energy and agile minds.



Open

We believe in openness and transparency in everything we do. Diverse cultures inspire us, knowledge informs us and integrity guides us. This means making the right decisions, earning us the reputation as the trusted voice of authority within our industry.



Challenging

We strive for continuous improvement. This means embedding quality into everything we do and never accepting second best. We set the standards that become benchmarks for the entire industry. This enables us to challenge the status quo and be ahead of the market - a leader not a follower.

TCC at a glance

Our history



2011

Company marks its 50th anniversary

2000

TCC is listed in the Dar es Salaam Stock Exchange. Japan Tobacco International (JTI) increases its shareholding in TCC from 51% to 75%.

1999

Japan Tobacco Inc. (JT) acquires the non US Tobacco operations of R.J. Reynolds Tobacco and consequently TCC.

1995

TCC is privatized. R.J. Reynolds Tobacco of USA acquires 51% stake in TCC.

1975

The Government acquires the remaining 40%. The Company is renamed Tanzania Cigarette Company Limited (TCC).



1967

TCC is nationalized. The Government acquires 60% stake from British American Tobacco (BAT).

1961

Factory is officially opened by Mwalimu Julius K. Nyerere on December 4.

TCC kwa muhtasari

Dira na Dhamira yetu

Dira yetu ni kuwa Kampuni yenye mafanikio zaidi na inayowajibika zaidi Afrika Mashariki.

Dhamira yetu ni kukuza wingi wa bidhaa huku tukitetea mgao wetu wa soko, kuzali-sha bidhaa bora nakuendelea kuwaridhisha walaji na wateja kwa uwezo wetu wote, kupitiia ubunifu, wafanyakazi walioshirikishwa, uadilifu na umahiri katika utendaji.

Maadili yetu



Ujasiri

Tuna ujasiri wa kufanya mambo kwa namna tofauti. Tunashirikiana kufikia lengo letu la muda mrefu. Hali hii inaibua mawazo mapya yanayoleta ubunifu na mitazamo mipya. Hii inachochewa zaidi na nguvu yetu ya ubunifu na fikra zenye mwamko wa kukabili mabadiliko.



Uwazi

Tunaamini katika kuzingatia uwazi na ubayana katika kila kitu tunachofanya. Tamaduni za aina tofauti zinatupa ari, maarifa yanatuongezea ujuzi na uadilifu unatuongoza. Hii inamaanisha kufanya maamuzi sahihi, kutupa heshima kama sauti yenye mamlaka inayoaminika katika sekta yetu.



Changamoto

Hii ina maana kuweka ubora kwenye kila kitu tunachofanya na kamwe hatukubali kuwa wa pili. Tunaweka viwango vinavyokua vigezo linganishi kwa sekta yote. Hii inatuwezesha kuupa changamoto utendaji halisi wa sasa na kuongoza kwenye soko - kiongozi na si mfuasi.

Historia yetu



2011

Kampuni iliadhimisha miaka yake 50.

2000

TCC iliorodheshwa kwenye Soko la Hisa la Dar es Salaam. Japan Tobacco International (JTI), iliongeza hisa zake za TCC kutoka 51% hadi 75%.

1999

Japan Tobacco Inc. (JT) ya Tokyo ilinunua shughuli za makampuni zilizomilikiwa na R.J. Reynolds Tobacco zilizokua nje ya Marekani, ikiwemo TCC.

1995

TCC ilibinafsishwa kwa R.J. Reynolds Tobacco ya Marekani ambayo ilinunua 51% ya hisa za TCC.

1975

Serikali ilichukua 40% ya hisa zilizobaki. Kampuni ikabadilishwa jina na kuwa Tanzania Cigarette Company Limited (TCC).

1967

Serikali ilitaifisha Kampuni na kuchukua 60% ya hisa kutoka kwa British American Tobacco (BAT).

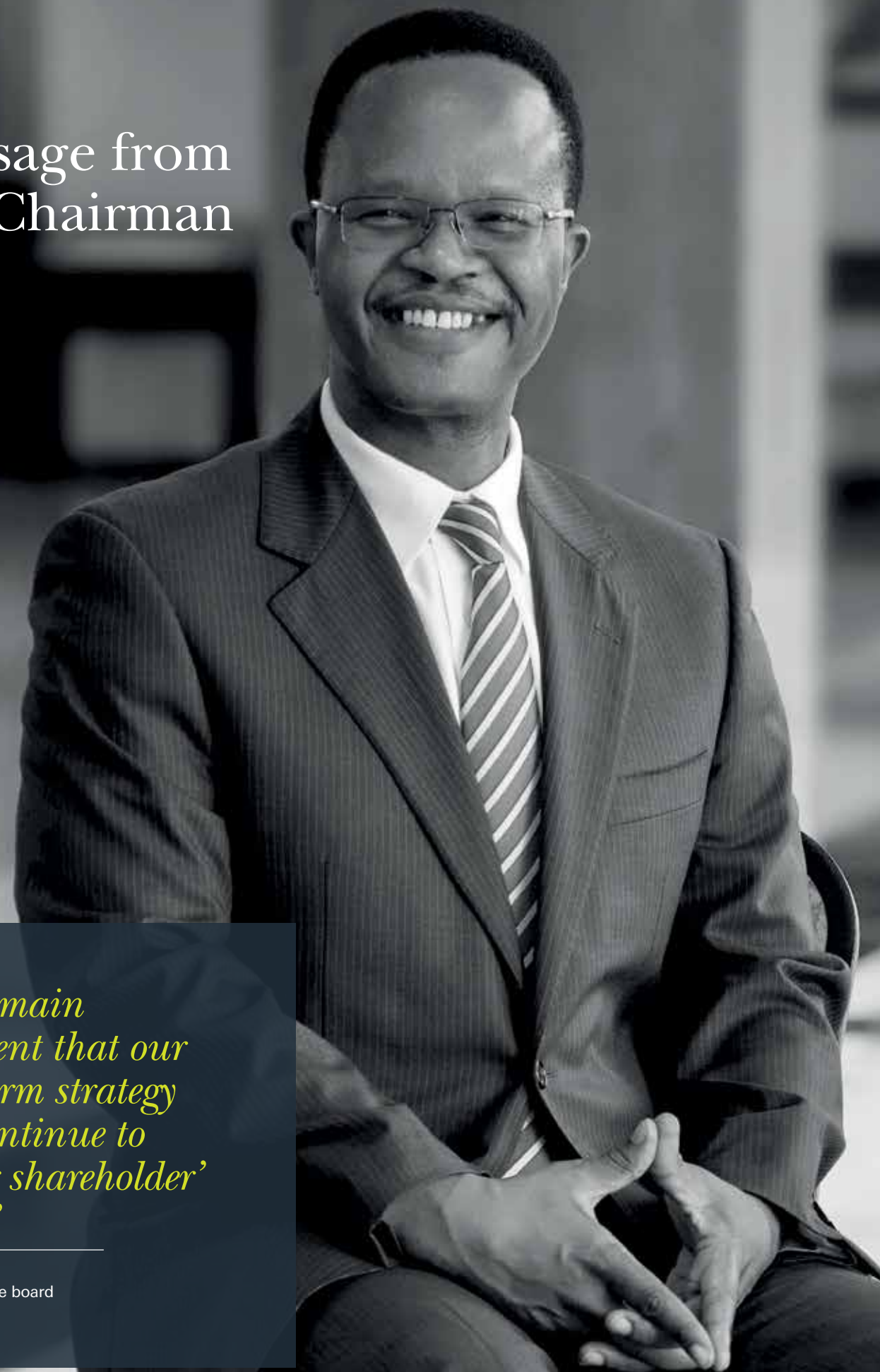
1961

Kiwanda kilifunguliwa rasmi na Mwalimu Julius K. Nyerere Disemba 4.

To our
stakeholders



Message from the Chairman



“We remain confident that our long-term strategy will continue to deliver shareholder’ value”

Paul Makanza
Chairman of the board

Dear Shareholders,

Welcome to the Annual report 2017. It is my privilege to inform you of your Company’s results for the year ended December 31, 2017. Despite a challenging operating environment both in our domestic and export markets, we believe these results represent the resilience of our Company and a basis for future growth.

Socio-political environment

Tanzania remained largely politically and socially stable throughout 2017. We commend the Government for being steadfast and decisive in maintaining peace and stability.

In our largest export market, Democratic Republic of Congo (DRC), the political situation remains of some concern.

Macro-economic environment

The Bank of Tanzania Monthly Economic Report for January 2018 suggested the economy continued its growth trajectory in 2017 with a low inflationary environment and a stable currency. Real GDP grew 6.8%, with inflation at approximately 5% and the Tanzanian Shilling broadly maintaining its stability against major currencies.

An array of positive and necessary reforms introduced by the Tanzanian Government in 2017 to fight corruption, restore public sector financial discipline, and invest in long-term public sector infrastructure projects affected liquidity in the economy.

Fiscal environment

In 2017 the Tanzanian Government increased excise tax by 5%, in line with the prevailing inflation rate.

We applaud the Government for maintaining the return to inflation adjusted excise tax increases

and for expanding the tax base. However, the cumulative impact of annual excise tax increases will continue to be inherently felt in our performance. In 2018 we intend to engage the Government on a multi-year excise tax plan to help promote fiscal certainty.

Business performance

Total volume declined by 8.4% on prior year, domestic volume grew marginally by 0.2% while export volume fell by 24.2%. This volume decline was due to ongoing political instability, currency depreciation and an unfavourable excise tax structure in the DRC coupled with a suspension of sales to Zambia, in January, due to unforeseen challenges.

As a result, total gross turnover was 3% lower than in 2016, translating into a net profit reduction of 34%.

Dividends

The Board of Directors recommended a final total gross dividend of TZS 200 per share (2016: TZS 300 per share). When added to the interim gross dividend of TZS 200 per share paid out during the year, the total dividend for the year ended December 31, 2017 is TZS 400 per share (2016: TZS 600 per share).

The final gross ordinary will be paid on or about April 17, 2018, subject to shareholders’ approval at the Annual General Meeting to be held on March 27, 2018.

Corporate governance

In an effort to improve corporate governance, the Board of Directors separated the role of Chairman and CEO, established nomination and audit committees, and appointed a new chairman and committee members. Further details regarding these appointments can be found in the Directors Report. I wish to thank out-going Board Members

for their diligent service and wise counsel throughout 2017 and to welcome new Board Members.

Looking ahead

We are optimistic about the domestic and export operating environment. It is our view that socio-economic stability and a predictable regulatory and fiscal environment are key elements for a conducive business landscape.

We commend the Tanzanian Government for holding regular private public dialogue (PPD) to discuss private sector concerns. We will continue to advocate for a multi-year excise tax plan to minimize the risk of abrupt excise increases. We encourage more PPDs and effective implementation of the suggested proposals to sustain the country’s economic growth trajectory.

Although our export business came under pressure in 2017, we are confident measures put in place will drive robust growth. The fluid political situation in the DRC remains a key concern and will be closely monitored in the coming months.

Lastly, we have the right focus, strategies and talented employees to face the challenges ahead with confidence and deliver growth and value to our stakeholders.

With best wishes for 2018.

Paul Makanza
Chairman of the Board

Waraka kutoka kwa Mwenyekiti

Ndugu Mwanahisa,

Karibu katika Taarifa ya mwaka 2017. Kwa heshima ninakutaarifu matokeo ya Kampuni yako kwa mwaka wa fedha ulioishia Desemba 31, 2017. Licha ya changamoto ya mazingira ya biashara katika masoko yetu ya ndani na nje ya nchi, tunaamini kuwa mafanikio haya yanaakisi uthabiti wa Kampuni yetu na msingi wa ukuaji wa baadaye.

Mazingira ya kisiasa na kijamii

Kwa kiasi kikubwa Tanzania imebaki kuwa katika hali ya utulivu wa kisiasa na kijamii katika mwaka wote wa 2017. Tunaipongeza Serikali kwa kuchukua hatua za haraka na kwa wakati katika kudumisha amani na utulivu.

Katika soko letu kubwa la nje ya nchi, Jamhuri ya Kidemokrasia ya Congo (DRC), hali ya kisiasa bado inatia wasiwasi.

Mazingira ya kiuchumi

Ripoti ya Benki Kuu ya Tanzania ya uchumi ya kila mwezi, kwa mwezi Januari 2018, ilisema kwamba uchumi uliendelea kukua kama ulivyotarajiwa katika mwaka wa 2017, kwa kuwa na mazingira ya kiwango kidogo cha mfumuko wa bei na sarafu imara. Pato la Taifa lilikuwa kwa 6.8%, mfumuko wa bei kwa takribani 5% na Shilingi ya Tanzania kuendelea kuimarika dhidi ya sarafu nyingine kubwa.

Mipango mizuri na muhimu iliyofanywa na Serikali ya Tanzania mwaka 2017, kupambana na rushwa, kumerejesha nidhamu ya fedha katika sekta ya umma, na kuwekeza katika miradi ya muda mrefu ya miundombinu ya umma imeathiri ukwasi katika uchumi.

Mazingira ya fedha

Mwaka 2017 Serikali ya Tanzania iliongeza kodi ya bidhaa kwa 5% kulingana na kiwango cha mfumuko wa bei kilichopo.

Tunaipongeza Serikali kwa kudumisha utaratibu wa ongezeko la ushuru wa

bidhaa uliosambamba na kiasi cha mfumuko wa bei na kwa kupanua wigo wa vyanzo vya kodi. Hata hivyo athari ya jumla ya ongezeko la kodi ya ushuru wa bidhaa kwa kila mwaka utaendelea kauthirufanisi katika utendaji wetu. Katika mwaka 2018, tunakusudia kuishauri Serikali kuwa na mpango wa kuweka kodi ya ushuru wa bidhaa ya muda mrefuili kusaikia kukuza uhakika wa mipango ya fedha.

Utendaji wa biashara

Jumla ya mauzo yalipungua kwa 8.4% kulinganisha na mwaka uliopita, mauzo ya ndani yaliongezeka kwa 0.2% wakatomaauzo ya soko la nje ulipungua kwa 24.2%. Kupungua huku kumesababishwa na kukosekana kwa utulivu wa kisiasa, kupungua kwa thamani ya fedha, na muundo wa wa kodi ya ushuru wa bidhaa usio rafiki katika Jamhuri ya Kidemokrasia ya Congo (DRC) pamoja na usitishaji wa mauzo ya Zambia, mwezi Januari kutokana na changamoto ambazo hazikutarajiwa.

Kutokana na hali hiyo, jumla ya mapato ilipingua kwa 3% kulinganisha na mwaka 2016, na kusababisha kupungua kwa faida halisi ya 34%.

Gawio

Bodi ya Wakurugenzi imependekea gawio la mwisho la jumla la Shilingi 200 kwa hisa (2016: TZS 300, kwa hisa). Ikiongezeka na gawio la jumla la TZS 200 kwa hisa lililolipwa katika mwaka husika, jumla ya gawio kwa mwaka ulioishia Desemba 31, 2017 ni Shilingi 400 kwa hisa (2016: TZS 600 kwa hisa).

Gawio la jumla la mwisho la kawaida litalipwa mnamo Aprili 17, 2018, baada ya kuidhinishwa na Mkutano Mkuu wa mwaka waWanahisa utakaofanyika Machi 27, 2018.

Utawala wa Kampuni

Katika jitihada za kuboresha utawala wa kampuni, Bodi ya Wakurugenzi imetenganisha majukumu ya Mwenyekiti na ya Afisa Mtendaji Mkuu, imeunda kamati za uteuzi na ukaguzi, na kuteua

Mwenyekiti mpya na wajumbe wa Kamati. Maelezo zaidi kuhusu uteuzi huu yanapatikana kwenye Ripoti ya Wakurugenzi. Napenda kuwashukuru wajumbe wa Bodi waliomaliza muda wao kwa huduma yao iliyotukuka na ushauri wao wenye hekima mwaka wote 2017 na kuwakaribisha wajumbe wapya wa Bodi.

Matarajio ya baadaye

Tunapata matumaini tukiangalia mazingira ya uendeshaji biashara ya ndani na ya nje. Mtazamo wetu ni kwamba utulivu wa kiuchumi na jamii na mazingira ya udhibiti wa kanuni za kisheria na za kifedha zinazotabirika ni vipengele muhimu kwa hali bora ya biashara.

Tunaipongeza Serikali ya Tanzania kwa kufanya majadiliano ya mara kwa mara baina ya sekta ya umma na sekta Binafsi kujadili changamoto za sekta binafsi. Tutaendelea kushauri kuwepo kwa mpango wa kodi ya ushuru wa bidhaa ya muda mrefu ili kupunguza hatari ya ongezeko la ghafla la ushuru. Tunahimiza mazungumzo hayo kuongezwa na kuongeza ufanisi zaidi katika utekelezaji wa mapendekezo yaliyotolewa ili kudumisha matarajio ya ukuaji wa uchumi wa Taifa.

Ingawa biashara yetu ya soko la nje ilikabiliwa na changamoto mwaka 2017, tunaamini kwamba, hatua ziliwekwa zitachochea ukuaji imara wa biashara. Hali ya tete ya kisiasa nchini DRC inabaki kutupa wasiwasi na itafuatiliwa kwa ukaribu miezi ijayo.

Mwisho, tuna mwelekeo sahihi, mikakati na wafanyakazi wenye vipaji, kukabiliana na changamoto zilizo mbele yetu kwa kujiamini na kufikisha ukuaji na thamani kwa wadau wetu.

Heri ya mwaka 2018.



Paul Makanza
Mwenyekiti wa Bodi

“Tunaendelea kuamini kwamba mkakati wetu wa muda mrefu utaendelea kuleta thamani kwa wanahisa”

Paul Makanza
Mwenyekiti wa Bodi

Message from the CEO

“We remain committed to our growth agenda both domestically and with our export business. This commitment requires a long term view, sustainable investment and a continuous review of the operating environment”

Alan Jackson
Chief Executive Officer

Dear Shareholders,

It is my pleasure to report on our business operations and results for the year ended December 31, 2017. As indicated in the Chairman's report, we have faced numerous challenges in 2017, which have had a material impact on our full year results. Amid these challenges, we have demonstrated that TCC remains committed to a long term, positive outlook to the business and we have delivered encouraging results in 2017.

Domestic and export markets

Domestic volume grew marginally versus prior year (0.2%) driven primarily due to tight macro-economic conditions. Consumers were presented with stark choices in their consumption behaviour resulting in down-trading to more affordable brands. The value brand segment accounted for a significant portion of TCC total volume, growing by 5.9pp in 2017.

Export volume to our key markets of the Democratic Republic of the Congo (DRC) and Zambia came under significant pressure in 2017 (-24.2%). In the DRC political upheaval and social unrest, exacerbated by a weakened local currency, limited foreign exchange availability, and an unfavourable excise tax structure impacted performance. In January 2017 we suspended business relations with our Zambia distributors over trading issues. This was successfully resolved and we re-entered the market in December 2017

Actions taken in 2017 to address these various challenges to our business have already begun to deliver positive results which we expect to continue into 2018 and beyond.

Portfolio and route to market

In response to the changing domestic business environment, competitive landscape and consumer needs, we introduced a number of new portfolio innovations which include an Embassy taste on demand, longer length Portsman (99mm) and a Portsman with no filter

which is retailing in the value segment. In addition, we have increased investment in our distribution capabilities which will bear results in 2018.

In the DRC, we successfully introduced a new variant of our top selling brand, Portsman Etoile and launched the Monte Carlo brand in other parts of the country. As a result, the 2nd half of 2017 showed a marked improvement (volume increased by 12% versus 1st half) for the business which we expect to continue in 2018.

Productivity, efficiency and safety

To ensure only products that meet the Company's stringent quality standards reach our customers, we implemented a number of quality improvement initiatives throughout all stages of sourcing, manufacturing, storage, distribution and customer service.

We invested in new machineries, conducted a major overhaul of our primary tobacco processing equipment, added additional power generating capacity and constructed a new finished goods warehouse. In addition, we launched a 'track and trace' system for our export products to Mozambique and continued to increase safety and quality standards in line with our parent Company's regulatory standards.

People

In 2017, the Company received two prestigious recognition awards for its people programs. Top Employer Institute of South Africa awarded TCC as one of the top employers in Tanzania and Africa. And, the Association of Tanzania Employers awarded TCC top prize for its excellent industrial relations. These achievements signify the importance of people as our key asset.

Financial performance

Overall, profit for the year declined from TZS 68.7BN in 2016 to TZS 45.4BN in 2017, or 34%, versus prior year. The weak export performance and increased operating expenses impacted net profit for the year. Marketing, selling and distribution expenses

increased 11% on prior year as part of our long-term investment strategy, and administration expenses increased 33% mainly due to employee initiatives and one-off business re-alignment costs.

During the same period domestic performance provided some stability in the business with gross turnover growing by 1% and net profit declining by a more moderate 10%.

Prospects for the future

I am optimistic about future prospects for the business, subject to a conducive domestic business environment. Specifically, higher rates of economic growth that drive disposable income for the majority of the population; a stable and predictable excise tax regime, a low inflationary environment, and a stable exchange rate.

I expect our export volume to return to growth in 2018 driven by the momentum achieved in the DRC at the back end of 2017 and volume recovery in Zambia. We will monitor developments in the DRC especially the national elections due at the end of the year. Our commitment to growth across the region is unchanged as we seek to leverage on the investments made in 2017 to realize opportunities in 2018.

Appreciation

I would like to extend a special thanks to all our employees for their dedication and hard work; to the Board of Directors for their guidance and support; to our customers, consumers, parent Company – Japan Tobacco International, you our esteemed shareholders, and all our stakeholders for your continued support to our business.



Alan Jackson
Chief Executive Officer

Ujumbe kutoka kwa Afisa Mtendaji Mkuu

Ndugu Wanahisa,

Nina furaha kuwasilisha kwenu ripoti ya shughuli za biashara yetu na matokeo ya mwaka wa fedha ulioishia Disemba 31, 2017. Kama ilivyoonyeshwa kwenye ripoti ya Mwenyekiti, tumekabiliwa na changamoto mbalimbali mwaka 2017, zilizoathiri kwa kiasi kikubwa matokeo ya mwaka mzima. Licha ya changamoto hizo, tumedhihirisha kuwa TCC inabaki na dhamira yakuwa na mafanikio ya muda mrefu ya biashara na tumepata mafanikio yanayotia moyo katika mwaka 2017.

Soko la ndani na la nje

Mauzo ya ndani yaliongezeka kwa kiasi ikilinganishwa na mwaka uliopita (0.2%) kulikosababishwa kimsingi na hali ngumu ya kiuchumi. Wavutaji walikuwa na aina mbalimbali za bidhaa za kuchagua hivyo kulisababisha wahame kutoka kwenye bidhaa zetu zenye faida zaidi na kwenda kwenye bidhaa zetu zenye faida ndogo. Kundi la bidhaa za thamani lilichangia sehemu kubwa ya jumla ya mauzo ya TCC hivyo kuongezeka kwa asilimia 5.9 mwaka 2017.

Mauzo ya soko la nje kwa masoko yetu makuu ya Jamuhuri ya Kidemokrasia ya Congo (DRC) na Zambia yamepata changamoto za kibiashara mwaka 2017 (-24.2%). Nchini DRC soko lilikabiliwa na machafuko ya kisiasa na migogoro ya kijamii, yaliyozidishwa na kupungua kwa thamani ya fedha, ukosefu wa fedha za kigeni, na mfumo wa kodi usiofaa vimeathiri utendaji wetu wa biashara. Mwezi Januari 2017 tulisitisha uhusiano wa biashara na wasambazaji wetu wa Zambia kutokana na sababu za kibiashara. Tatizo hili lilitatuliwa na tulirudi kwenye soko hilo, Desemba 2017

Hatua zilizochukuliwa mwaka 2017 kushughulikia changamoto hizi mbalimbali kwenye biashara yetu zimeanza kuleta mafanikio mazuri ambayo tunatarajia yataendelea mwaka 2018 na zaidi.

Bidhaa na usambazaji kwenye soko

Ili kukabili mabadiliko ya mazingira ya biashara ya ndani, hali ya ushindani na mahitaji ya walaji, tumeanzisha ubunifu mpya wa bidhaa unaojumisha ladha ya Embassy inayohitajika, Portsman ndefu zaidi (99mm) na Portsman isiyo na kichungi inayouzwa rejareja kwenye sehemu ya bidhaa za thamani Zaidi ya hayo, tumetengeza mtaji wa

uwekezaji katika uwezo wetu wa usambazaji utakaozaa matunda mwaka 2018.

Katika DRC tumefanikiwa kuingiza aina nyingine ya bidhaa tunayouza zaidi, Portsman Etoile na kuzindua bidhaa ya Monte Carlo kwenye sehemu nyingine za nchi hiyo. Matokeo yake ni kwamba kumekuwa na ongezeko la mauzo katika nusu ya pili ya 2017 (ongezeko la 12% ikilinganishwa na nusu ya kwanza ya mwaka) kwa biashara tunayotarajia iendele katika mwaka 2018.

Tija, ufanisi na usalama Ili kuhakikisha kwamba bidhaa zinazowafikia wateja ni zile zinazotimiza masharti na viwango vya hali ya juu vya ubora vya Kampuni, tulitekeleza mipango kadhaa ya kuongeza ubora katika hatua zote za upataji malighafi, utengenezaji, uhifadhi, usambazaji na huduma kwa wateja.

Tumewekeza katika mitambo mipya, tumefanya ukarabati mkubwa wa mitambo ya kitengo cha uchakataji tumbaku, tuneongeza uwezo zaidi wa uzalishaji umeme na kujenga ghala jipya la sigara. Pia tumezindua mfumo wa 'kufuatilia na kutafuta' bidhaa zetu za soko la nje kwa Msumbiji na tuneendelea kuongeza viwango vya usalama na ubora kulingana na viwango vya uhibitaji vya kampuni yetu mama.

Wafanyakazi

Mwaka 2017, Kampuni iliata tuzo mbili za kujivunia za kutambuliwa kutokana na programu zake za kuwekeza kwa wafanyakazi. Taasisi ya Top Employer ya Afrika Kusini imeitunukia TCC Tuzo ya kua miongoni mwa Waajiri bora Tanzania na Barani Afrika. Na, Jumuiya ya Waajiri Tanzania (ATE) kimeitunukia TCC Tuzo ya uhusiano bora na Wafanyakazi. Mafanikio haya yanaonyesha namna ambavyo wafanyakazi ni rasilimali muhimu sana kwetu.

Mafanikio ya kifedha

Kwa ujumla, faida kwa mwaka imepungua kutoka Shilingi bilioni 68.7 kwa mwaka 2016 hadi Shilingi bilioni 45.4 kwa mwaka 2017, au 34% ikilinganishwa na mwaka uliopita. Ufanisi mdogo wa mauzo ya soko la nje ya nchi na kuongezeka kwa gharama za uendeshaji kumeathiri faida halisi kwa mwaka. Gharama za masoko, uuzaji na

usambazaji wa bidhaa zimeongezeka kwa 11% ikilinganishwa na mwaka uliopita kama sehemu ya mkakati wetu wa uwekezaji wa muda mrefu, na kuongezeka kwa gharama za uendeshaji kwa 33% hasa kutokana na mipango ya wafanyakazi na gharama za mara moja za kurekebisha biashara.

Kwenye kipindi hicho mauzo ya soko la ndani yameonyesha uimara kiasikwenye biashara kwa ongezeko la faida la jumla la 1% na pato halisi kupungua kwa zaidi ya wastani wa 10%.

Matarajio ya baadaye

Nina matumaini makubwa kuhusu mustakabali wa biashara, endapo kutakua na mazingira mazuri ya biashara nchini. Hususan, viwango vya juu vya ukuaji wa uchumi unaopelekea ukuaji wa kipato cha matumizi kwa idadi kubwa ya watu; mfumo wa ushuru wa bidhaa imara na unaotabirika, mazingira ya mfumuko mdogo wa bei na kiwango cha cha ubadilishaji fedha za kigeni kilicho imara.

Natarajia ongezeko la mauzo ya soko la nje mwaka 2018 likiendeshwa na kasi ya mauzo iliyopatikana DRC mwishoni mwa mwaka 2017 na kurudisha mauzo ya soko la Zambia. Tutafulatilia maendeleo ya DRC hususan uchaguzi mkuu unaotarajia kufanyika mwisho wa mwaka. Dhamira yetu ya kuongeza ukuaji wa biashara kwenye kanda yote haibadiliki kwa sababu tutategema zaidi uwekezaji uliyofanyika mwaka 2017 kufanikisha fursa katika mwaka 2018.

Shukurani

Napenda kutoa shukurani za pekee kwa wafanyakazi wetu wote kwa kufanya kazi kwa kujitoa na kwa bidii; kwa Bodi ya Wakurugenzi kwa mwongozo na msaada wao, kwa wateja na walaji wetu, Kampuni mama – Japan Tobacco International na kwenu wanahisa wetu wapendwa na wadau wetu wote kwa kuendelea kusaidia biashara yetu.



Alan Jackson
Afisa Mtendaji Mkuu

“Tunaendelea na dhamira yetu ya kuwa na ukuaji mkubwa wa biashara nchini na nje ya nchi. Dhamira hii inahitaji mtazamo wa muda mrefu, uwekezaji endelevu na mapitio ya mara kwa mara ya mazingira tunayoendeshea biashara”

Alan Jackson
Afisa Mtendaji Mkuu

Directors and management team

Members of the board



Paul Makanza

Mr. Paul Makanza has over 15 years' senior level experience in the tobacco industry. He joined TCC in October 2001 as Director of Corporate Affairs & Communications. He has served on the Board of TCC since 2005 and was appointed Chairman of the Board on August 03, 2017. Paul is also a Councilor of the Confederation of Tanzania Industries. Prior to joining TCC, he worked for Coopers & Lybrand and later PricewaterhouseCoopers.



Alan Jackson

Mr. Alan Jackson joined the TCC board of directors on September 01, 2017. Alan is the CEO and General Manager of TCC. Alan has 14 years tobacco industry experience with over half of that experience gained in emerging markets across Africa and the Middle East. Prior to joining TCC, Alan gained extensive experience in marketing and sales arena, working as a Marketing Director in West, East and Central Africa and more recently as the Head of Marketing and Sales in JTI Iran.



Olivier Chimits

Mr. Olivier Chimits has served as the Chief Financial Officer of JTI Middle East, Near East, Africa and Turkey & World Wide Duty Free Region until December 31, 2017.

He has more than 21 years' experience in the tobacco industry and a wealth of experience in logistics, integration, accounting and finance. Previously, he was the Chief Financial Officer in JTI Egypt and has held various senior finance positions within JTI. Prior to joining JTI, he worked with Serono and Burrus (Rothmans Group) in Switzerland, Sogal in France and Delmas in Senegal. He joined the Board of Directors of TCC on September 01, 2014.



Andrew Bingham

Mr. Andrew Bingham is the General Counsel of JTI Middle East, Near East, Africa and Turkey and Word Wide Duty Free Region.

Andrew brings a wealth of knowledge and experience from many years that he has worked in senior positions within JTI and other positions outside JTI.

He has been JTI's Regional General Counsel for CIS+ (2009 – 10), Regional General Counsel for Western Europe, appointed as board director (2007 - 9) of local entities in Europe. Prior to joining JTI, Andrew worked with Gallaher Group plc as a Senior Legal Counsel, Litigation and Regulatory Affairs (2004 – 7), Solicitor into the litigation department of Lovells (London law firm, now Hogan Lovells) – (1995 to 2003).



Joshua Folkerth

Mr. Joshua Folkerth joined TCC on February 01, 2016 as Chief Financial Officer and Director of Finance. He brings financial expertise from working in the area for JTI the last 8+ years.

Before transferring to TCC Joshua worked as CFO for Leaf Services (US) LLC in Virginia, United States. His previous positions within JTI were Leaf Finance Manager at JTI Tobacco Sdn Bhd in Kuala Lumpur, Malaysia (2011 - 13) and Global Leaf Financial Planning and Analysis Manager at JTI HQ in Geneva, Switzerland (2009 - 11).

Prior to joining JTI he worked at PriceWaterhouseCoopers in the United States and Prague, Czech Republic, reaching the level of Audit Manager. Joshua was appointed to the TCC Board of Directors on February 23, 2016.

Members of the board



Luca Meroni

Mr. Luca Meroni is the Head of Internal Audit in JTI Headquarters in Geneva, December 2006 - Current JT International SA, Geneva. He has a wealth of experience in finance acquired from his previous roles within JTI; Competency Centre Finance Business Lead, Director (2011 – 12), Director of Internal Controls (2006 – 2011).

Prior to joining JTI, Luca worked with Deloitte as a Senior Manager. Luca was appointed to the TCC Board of Directors on December 19, 2017 and will be confirmed at the 53rd AGM.



Bertrand Tamisier

Mr. Bertrand Tamisier is the Chief Financial Officer and Vice President of JTI Middle East, Near East, Africa and Turkey and Word Wide Duty Free Region effective January 01, 2018. He has extensive experience and expertise in Finance from his various roles within JTI for the past 20 years.

Bertrand worked in various senior positions in JTI. His previous roles within JTI include Global Financial Operations VP (2017), Global Strategy and Insights Lead VP (2016-17), CFO and VP in JTI South Africa and Central Europe Regional (2008 – 11 and 2011 - 16), CFO for Adriatica (2007 - 8), Senta Integration Director (2006 - 7), Research and Development / Scientific and Regulatory Affairs Finance Director (2005 - 6), CFO and Finance Director in Iran (2002 - 5), WWDF & MENA Finance Controller (2000 – 02), Baltics Belarus and Kaliningrad CFO (1998 - 99), CIS Finance Manager Operations and Exports (1997 - 8).

Bertrand was appointed to the TCC Board of Directors on December 19, 2017 and will be confirmed at the 53rd AGM.

Management team



Alan Jackson
CEO and General Manager





Business review

FY 2017 vs FY 2016

Total Volume		-8.40% on PY
Revenue	485.8 Billion Tanzanian Shillings	-3% on PY
Net sales	279.7 Billion Tanzanian Shillings	-7% on PY
Gross profit	158.1 Billion Tanzanian Shillings	-7.50% on PY
Operating expenses	92.2 Billion Tanzanian Shillings	27.60% on PY
Profit before tax	65.9 Billion Tanzanian Shillings	-33.20% on PY
Net profit	45.4 Billion Tanzanian Shillings	-33.90% on PY

Business review

Our key commercial objectives for 2017 continued to be: defend market share, sustain profitability and further improve operational efficiency and effectiveness. A very tight economy in which customers and consumers have had to adjust their expenditure patterns, posed a challenge in delivering on our objectives.

Improving product quality

To ensure only products that meet the Company's stringent quality standards reach our customers, we implemented a number of quality improvement initiatives throughout all stages of sourcing, manufacturing, storage, distribution and customer service. We invested in new machineries and continued to increase safety and quality standards in alignment with JTI Group and regulatory standards.

Volume

Domestic volume increased by 0.2% versus prior year; this growth was brought forth by increased the level of marketing and sales activities; strengthening our brand portfolio by introducing new brands hence increasing consumers' range of choice, improved distribution, reinforced relationship with the trade.

Share of market

Our domestic market share decreased by 0.5% due to growing competition from domestic and imported tobacco products and reduced affordability due to a very tight economy. To defend our market share we will further increase marketing investment and strategies provided the business environment improves.

Profitability

Growing our top and bottom line are key strategic imperatives. However due to a very tight economy, social and political challenges our total volume declined by 8% and our net sales by 7%. Our domestic volume grew by 0.2% as a result of increased marketing and sales strategies including improved distributorship, increased visibility of our Key Accounts and Hotels, Restaurants and Cafés (HoReCa) and more 1-2-1 activations.

Business review

Operational efficiency and effectiveness

To further improve operational and cost efficiencies, our finance department was restructured more to align with our parent Company's global standards for shared services with corresponding optimization headcount.

Continuous investment in personnel training and production processes optimization resulted in an additional overall equipment efficiency of 42.77%.

Compensation and benefits

A key part of our success lies in our ability to attract and retain highly motivated and productive employees. The Company's compensation system plays an important role in supporting this objective. It is designed to reward contributions to the Company's objectives and ensure that the Company pays competitively. The Company's compensation approach is 'pay for performance'.

Managing talent

Attracting, retaining and developing the best talents is a strategic priority for the long-term success of the Company. Performance appraisal, training & development and succession planning are integral parts of our talent management.

We recognized and rewarded talents. We continued with our Long Term Award program for managers and encouraged career growth by providing the right opportunities. 75% of open senior positions in 2017 were filled by internal candidates. This is a clear example on the robust succession planning process we have in place.

TCC has been awarded Top Employer for Tanzania and Africa, we also received two local awards under ATE (Association of Tanzania Employers) for Best Industrial Relations and Quality, Productivity and Innovation in Human Resources processes. These great achievements reveal that the Company provides excellent employee conditions, nurture and develop talent throughout all levels of the organisation and strive to continuously optimise employment practices.

Business review

In 2017, we invested close to TZS 0.8bn (TZS 1.7M per headcount) in various functional and soft skills training and development programs in and outside Tanzania. We also continued to identify and grow potential candidates for future vacancies as part of our succession planning process.

Furthermore we exported talent to other JTI markets such as Zambia and Ethiopia on Special Assignments, this was only possible because of our well trained pool of talent hence capable of working in any other country at the same or bigger roles.

Employee relations

To ensure sustainable relations with our people, a consultative meeting with TUICO Union members and TCC Management team was conducted as per the Voluntary Agreement (VA). The main objective was to discuss and align on implementation of the VA in 2017 and Labour law changes and how they impact employees.

Promoting a safe environment

We believe that effective health and safety management goes well beyond complying with legislation. Our Company's Environmental Health and Safety (EHS) standards often exceed legal requirements and our scope extends beyond our employees to cover contractors on sites and visitors to our premises.

All employees are expected to complete relevant Health and Safety training as well as comply with the Company's EHS procedures and safe working practices. Furthermore, they are required to report unsafe conditions, accidents, near misses and precarious behavior.

In 2017, we achieved 2,299 days without a single work place related injury (lost time injuries). The last LTI occurred in September 2011. Having no LTIs for five years and five months denote that safety culture is well entrenched at TCC.

Business review

Giving back to communities

We recognize that businesses can only prosper within open and fair societies. This is why the Company continuously invests into communities voluntarily and beyond the core business activities. The aim is to improve the quality of life in communities where the Company operates through long term impactful programs.

The programs are focused on three pillars: People - poverty alleviation, older persons, adult education, and people with disabilities; Arts and Culture - cultural heritage; visual and performing arts; and Natural environment.

The Company continued to support unique local arts and culture through Vipaji Foundation and traditional dancers in Bagamoyo College of Arts (BCA) to learn to develop and benefit from their talent. Collaborated with Tanzania Federation of Disabled People's organization's (SHIVYAWATA) and Small Industries Development Organization (SIDO) to support Local manufacturing of quality assistive devices at affordable prices for people with disabilities.

The Company matched employees' funds to provide basic needs to less privileged elders of Sakila village in Arusha. The support was through Sakila Hope for Elderly as an NGO dedicated to support marginalized elderly in Arusha. Convoy Haulage the Company's transport service provider offered free transportation of the items.

Mapitio ya biashara

2017 kulinganisha na 2016

Jumla ya mauzo		-8.40% Punguzo
Mapato	485.8 Shillings bilioni za kitanzania	-3% Punguzo
Mauzo halisi	279.7 Shillings bilioni za kitanzania	-7% Punguzo
Faida ya jumla	158.1 Shillings bilioni za kitanzania	-7.50% Punguzo
Gharama za uendeshaji	92.2 Shillings bilioni za kitanzania	27.60% -
Faida kabla ya kodi	65.9 Shillings bilioni za kitanzania	-33.20% Punguzo
Faida halisi	45.4 Shillings bilioni za kitanzania	-33.90% Punguzo

Mapitio ya biashara

Mapitio ya Biashara

Malengo yetu muhimu ya kibiashara kwa mwaka 2017 yaliendelea kuwa; kutetea mgao wetu wa soko, kudumisha na kuendeleza faida na kuzidi kuboresha ufanisi na umadhubuti wa uendeshaji. Hali ngumu ya uchumi ililazimisha walaji na wateja kurekebisha tabia zao za matumizi, hivyo kuleta changamoto kwenye kutimiza malengo yetu.

Kuongeza ubora wa bidhaa

Ili kuhakikisha kwamba bidhaa zetu zinazofikia wateja wetu ni zile tu zinazotimiza masharti na viwango thabiti vya ubora, tulitekeleza mipango kadhaa ya kuongeza ubora katika hatua zote za upataji malighafi, utengenezaji, uhifadhi, usambazaji na huduma kwa wateja. Tumewekeza katika mitambo mipya na kuendelea kuongeza viwango vya usalama na ubora kulingana na viwango vya usimamizi na uthibiti vya JTI Group.

Mauzo

Mauzo ya ndani yaliongezeka kwa 0.2% ikilinganishwa na mwaka uliopita; ongezeko hili limetokana na ongezeko la shughuli zetu za kutafuta masoko na mauzo; kuimarisha aina za bidhaa zetu kwa kuingiza sokoni bidhaa mpya hivyo kuwaongezea wateja wigo wa kuchagua, kuboreshwa kwa usambazaji, uimarishaji wa uhusiano na wauzaji wa bidhaa yetu

Hisa ya soko

Mgaowetu ya soko la ndani ulipungua kwa 0.5 % kutokana na ongezeko la ushindani wa bidhaa za tumbaku za ndani na zinazolingizwa kutoka nje ya nchi; na kupungua kwa uwezo wa kununua kutokana uchumi kuwa mgumu. Ili kuendelea kulinda mgao wetu ya soko, tutaongeza uwekezaji katika shughuli zetu za kutafuta masoko na mikakati maalum, mradi mazingira ya biashara yaendelea kuboreka.

Mapitio ya biashara

Faida

Kukuza kiwango chetu cha biashara cha juu na chini ni mkakati muhimu na wa lazima. Hata hivyo kutokana na hali ya uchumi mgumu, changamoto za kijamii na za kisiasa jumla ya mauzo imepungua kwa 8% na mauzo halisi kwa 7%. Soko la ndani liliongezeka kwa 0.2% kutokana na ongezeko la shughuli za masoko na mauzo ikiwemo uboreshaji wa usambazaji, kuonekana zaidi kwa shughuli za wabia wetu wakubwa wa biashara kwenye mahoteli na migahawa mikubwa na midogo na uhamasishaji wa kuuza bidhaa wa mtu mmojammoja.

Kuboresha ufanisi na umadhubuti wa uendeshaji

Ili kuboresha zaidi uendeshaji wa shughuli na upunguzaji wa gharama, muundo wa idara yetu ya fedha ulirekebishwa ili kuwa sambamba na viwango vya pamoja vya kampuni yetu mama kwa huduma shirikishi na kutumia bora ya idadi ya wafanyakazi waliopo.

Uwekezaji endelevu kwenye mafunzo ya wafanyakazi na kuboresha michakato ya uzalishaji vilisababisha ongezeko la ufanisi wa jumla wa vifaa kwa 42.77%.

Fidia na mafao

Sehemu muhimu ya mafanikio yetu ipo kwenye uwezo wetu wa kuwavutia na kuwabakisha kazini wafanyakazi wenye motisha na wenye kuleta tija. Mfumo wa fidia wa Kampuni unachiakatika kusaidia lengo hili. Mfumo huo umekusudiwa kuchangia malengo ya Kampuni na kuhakikisha kuwa Kampuni inalipa kwa viwango vya kiushindani. Mpango wa fidia wa Kampuni ni kulipa kutokana na utendaji.

TCC imetunukiwa tuzo ya Mwajiri Bora kwa Tanzania na Afrika, pia tumepokea tuzo mbili za nchini kutoka kwa Jumuiya ya Waajiri Tanzania (ATE), kwa kuwa na Mahusiano Bora na wafanyakazi na kuzingatia Ubora wa bidhaa; na tuzo ya Tija na Ubunifu kwenye michakato ya Rasilimali Watu. Mafanikio haya makubwa yanadhihirisha kwamba Kampuni inatoa mazingira bora zaidi kwa wafanyakazi, inalea na kukuza vipaji katika ngazi zote za Kampuni na kujitahidi kuendelea kuboresha utendaji kazi.

Mapitio ya biashara

Kusimamia vipaji

Kuvutia, kuwabakisha kazini wafanyakazi na kuendeleza vipaji bora zaidi ni moja ya vipaumbele vya kimkakati vilivyo muhimu kabisa kwa mafanikio ya muda mrefu ya Kampuni. Tathimini ya utendaji wa kazi wa mfanyakazi, mafunzo na maendeleo, na mpango wa kujiandaa kuziba nafasi za kazi za juu, ni sehemu muhimu ya kusimamia vipaji vyetu. Tuliambua na kutuza vipaji. Tuliendelea na program ya Tuzo ya Muda Mrefu kwa mameneja na kuhimiza ukuaji katika kazi kwa kutoa fursa sahihi. 75% ya nafasi za kazi za waandamizi zilizokuwa wazi mwaka 2017, zilijazwa na wafanyakazi wa ndani. Huu ni mfano dhahiri wa mchakato mzuri wa kurithishana kazi tulionao.

Mwaka 2017, tuliwekeza takribani shilingi bilioni 0.8 (shilingi milioni 1.7 kwa kila mfanyakazi) katika mafunzo ya stadi za kazi na stadi ndogondogo na program za maendeleo ndani na nje ya Tanzania. Pia tuliendele kubaini wafanyakazi wenye uwezo wa kushika nafasi mbalimbali kama sehemu ya mpango wetu wa kuandaa wafanyakazi kukuzwa kikazi na kupata nafasi nyingine kazini. Zaidi ya hapo, tulipeleka Vipaji kwenye nchi nyingine za JTI Ulimwenguni hususan Zambia na Ethiopia kwenye Kazi Maalum maalum, hili liliwezekana kwasababu tuna wafanyakazi wenye vipaji na mafunzo stahiki hivyo kua na uwezo wa kufanya kazi kwenye nchi nyingine yeyote kwenye majukumu yaleyale au makubwa zaidi.

Uhusiano wa wafanyakazi

Ili kuhakikisha uhusiano endelevu na wafanyakazi wetu, mkutano wa mashauriano kati uongozi na wajumbe wa TUICO na Menejimenti ya TCC ulifanyika kulingana na mwongozo wa Mkataba wa Hali Bora (VA). Lengo kuu lilikuwa kujadiliana na kupanga utekelezaji wa VA kwa mwaka 2017 na mabadiliko ya Sheria ya Kazi na jinsi yanavyowagusa wafanyakazi.

Kuhimiza mazingira salama

Tunaamini kwamba uzingatiaji wa afya na usalama ni zaidi ya kufuata na kutimiza sheria. Viwango vya Mazingira, Afya na Usalama vya Kampuni yetu, mara nyingi vinazidi masharti ya kisheria na hatujali usalama wa wafanyakazi tu bali hata wa makandarasi na wageni wetu wawapo kwenye maeneo yetu.

Mapitio ya biashara

Wafanyakazi wote wanatarajiwa kukamilisha mafunzo ya Mazingira, Afya na Usalama yanayoenda pamoja na kufuata taratibu na desturi za kufanya kazi kwa usalama za Mazingira, Afya na Usalama za Kampuni. Vilevile, wanatakiwa kutoa taarifa za hali zisizokuwa salama, ajali, matukio ya kunusurika ajali na tabia isiyokuwa salama. Mwaka 2017, tumefikia rekodi ya juu ya kufanyakazi siku 2,299 bila hata ajali moja kutokea mahali pa kazi. Ajali ya mwisho ilitokea Septemba 2011. Kutotokea ajali kwa miaka mitano na miezi mitano inadhihirisha kwamba usalama ni utamaduni uliyojengeka vizuri ndani ya TCC.

Kurudisha fadhila kwa jamii

Tunatambua kuwa biashara inaweza kustawi kwenye jamii yenye uwazi na bila ya upendeleo tu. Ndiyo maana tunazidi kuwekeza mfululizo kwa jamii na kwa hiari, na nje kabisa ya shughuli za biashara zetu za msingi. Lengo letu ni kuboresha maisha na ustawi wa jamii tunakoendesha shughuli zetu kwa kufanya programu za muda mrefu zenye matokeo ya kudumu.

Programu zetu ziko katika mihimili mitatu; Watu – upunguzaji umaskini, wazee, elimu ya watu wazima, watu wenye mahitaji maalum; Sanaa na Utamaduni – urithi wa utamaduni, sanaa za maonyesho na Mazingira ya asili.

Kampuni imeendelea kusaidia sanaa za kipekee za wasanii wa Tanzania na utamaduni kupitia Vipaji Foundation, tuliandikisha wacheza ngoma za asili kwenye Chuo cha Sanaa cha Bagamoyo (BCA) ili waweze kujifunza namna ya kukuza na kunufaika kutokana na vipaji vyao. Pia tulishirikiana na Shirikisho la Vyama vya Watu wenye Ulemavu (SHIVYAWTA) na Shirika la Viwanda Vidogovidogo (SIDO) kusaidia uzalishaji nchini wa vifaa bora na vya bei nafuu kwa watu wenye mahitaji maalum.

Wafanyakazi walichangisha fedha kusaidia jamii na Kampuni iliongezea kiasi, na fedha hizo zilitumika kununua mahitaji muhimu kwa ajili ya wazee wanaoishi katika mazingira magumu wa kijiji cha Sakila, Arusha. Msaada huo ulipitia kwenye Shirika lisilo la Serikali la Sakila Hope for Elderly linaloshughulikia wazee wanaoishi katika mazingira magumu, Arusha. Kampuni ya uchukuzi ya Convoy Haulage inayotoa huduma ya usafirishaji, ilitoa usafiri wa bure wa vifaa vya wazee hao.



Tanzania Cigarette Public Limited Company Reports and Audited Financial Statements 2017

Corporate information

Directors and advisers:

Directors

Mr. Paul Makanza (Chairman)*
Mr. Alan Kilgariffe Jackson (CEO)
Mr. Andrew Bingham*/**
Mr. Olivier Chimits Cazaux*/**
Mr. Joshua Folkerth
Mr. Luca Meroni*
Mr. Bertrand Tamisier*

* Non-executive Directors

** Resigned effective January 01, 2018

Shareholding structure:

Shareholder

Holding**

JT International Holding B.V.	75.0%
Kingsway Fund	9.8%
General public	6.3%
Parastatal Pension Fund	3.0%
The United Republic of Tanzania	2.2%
Public Service Pension Fund	1.0%
The Local Authorities Provident Fund	0.6%
Neon Liberty Emerging Markets Fund LP	0.6%
Canvenham Public Growth	0.5%
Government Employees Provident Fund	0.5%
Trustees of the TCC Employees	
Share Option Scheme	0.3%
Other non-residents	0.2%

Total	100%
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Principal bankers

Standard Chartered Bank Tanzania Limited
CRDB Bank PLC.
National Microfinance Bank PLC.
Citibank Tanzania Limited

Shareholder classification

Holding**

Local	13.9%
Foreign	86.1%

Total	100.00%
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****Based on share register as at December 31, 2017**

Secretary, Registered Office and Principal place of business

Mr. Godson Killiza
20 Nyerere Road
P.O. Box 40114
Dar es Salaam
Tel: +255 22 216 6000/1

Auditors

Deloitte & Touche
Certified Public Accountants (Tanzania)
3rd Floor, Aris House
Haile Selassie Road, Oysterbay
P.O. Box 1559
Dar es Salaam

Report of the Directors

for the year ended December 31, 2017

The Directors present their annual report and the audited financial statements of Tanzania Cigarette Public Limited Company (the “Company”) (formerly Tanzania Cigarette Company Limited) for the year ended December 31, 2017, which disclose the Company’s state of affairs.

Incorporation

The Company was incorporated in 1965 under the Companies Ordinance, Cap 212 which was repealed by the Companies Act, 2002 with registration number 3542 and is listed at the Dar es Salaam Stock Exchange (DSE). The Company is located at plot number 20 Nyerere Road, Dar es Salaam.

Vision, mission and values

The Company’s vision is to be the most successful and responsible Company in East Africa. Its mission is to grow volume while defending our market share, by delivering quality brands, maximizing consumer and customer satisfaction through innovation, engaged employees, integrity and excellence in execution.

Our core values are:

Enterprising : We have the courage to do things differently. We work together to achieve our long-term goal. This leads to new ideas resulting in fresh perspectives and innovation. This is fueled by our creative energy and agile minds;

Open: We believe in openness and transparency in everything we do. Diverse cultures inspire us, knowledge informs us and integrity guides us. This means making the right decisions, earning us the reputation as the trusted voice of authority within our industry; and

Challenging: We strive for continuous improvement. This means embedding quality into everything we do and never accepting second best. We set the standards that become benchmarks for the entire industry. This enables us to challenge the status quo and be ahead of the market - a leader not a follower.

Principal activities

The Company’s principal activities are the manufacturing, distribution, marketing and sale of cigarettes inside and outside Tanzania. Domestic brands include: Embassy, Portsman, Sweet Menthol, Safari, Club and Crescent & Star. The Company also manufactures, distributes, markets and sells in the domestic market the international brands: Camel, Winston and LD.

Report of the Directors

for the year ended December 31, 2017 (continued)

Change of Company name

The Company changed its name from Tanzania Cigarette Company Limited to Tanzania Cigarette Public Limited Company as per certificate of change of name number 3542 dated December 27, 2017 under the Companies Act, 2002 requiring all public companies to have their names to include the words “Public Limited Company” as the last words.

Capital structure and shareholders

The Company’s capital structure is as follows:

		2017 TZS M	2016 TZS M
Authorized (Ordinary shares)	125,000,000 Ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid up (Ordinary shares)	100,000,000 Ordinary shares of TZS 20 each	<u>2,000</u>	<u>2,000</u>

The Company’s shareholding structure as at December 31, 2017 is shown on page 45.

JT International Holding B.V. is the majority shareholder in the Company, owning 75% of the issued and paid up ordinary shares (75 million shares). Local institutions, the general public and other foreign investors own the remaining 25% (25 million shares).

The Directors of the Company do not hold any material interest in the issued share capital of the Company.

Stakeholders’ relations

The Company enjoys positive relations with its key stakeholders – suppliers, customers and consumers, shareholders, current and potential employees, Government and regulators, and the wider society. It continually seeks to balance the interests of its stakeholders and exceed their expectations.

Report of the Directors

for the year ended December 31, 2017 (continued)

Corporate governance

Board of Directors

The Company is governed by a Board of Directors consisting of members with diverse international and local industry experience, functional expertise and educational background. The Board is made up of two Executive Directors and three Non-Executive Directors and is headed by a Chairman. The Board is supported by a Company Secretary. During the year, one Executive Member resigned. The Board meets a minimum of two times a year to conduct its affairs.

Key responsibilities of the Board include: identifying and mitigating risks; ensuring effective policies, procedures and internal controls are in place; ensuring compliance with sound corporate governance principles; approving and monitoring investment as well as other significant business decisions; and reviewing the performance of management business plans and budgets.

The Directors of the Company at the date of this report and who served since January 01, 2017, except where otherwise stated, are:

Name	Position	Qualification	Nationality	Age	Appointed/ Resigned	Date Appointed/ Resigned
Paul Makanza	Chairman	B.Com, MBA	Tanzanian	50	Appointed	August 03, 2017
Alan Kilgariffe Jackson	CEO	Masters in Management	South African	41	Appointed	September 01, 2017
Majd Abdou	Chairman & CEO	Masters in Finance, B.Sc. Mathematics	Canadian	52	Resigned	August 31, 2017
Dr. Servacius Likwelile	Director (Non-executive)	Ph.D. (Econ.), M.A. (Econ.), B.A. (Econ.)	Tanzanian	59	Retired	February 14, 2017
Olivier Blanc	Director (Non-executive)	Law Degree, LL.M, Bar	Swiss	42	Resigned	February 14, 2017
Olivier Chimits Cazaux	Director (Non-executive)	B.A. Bordeaux Management School	French	54	Resigned	January 01, 2018
Joshua Folkerth	Director (Executive)	Masters in Accounting, Certified Public Accountant	American	39	Appointed	February 23, 2016

Report of the Directors

for the year ended December 31, 2017 (continued)

Corporate governance (continued)

Name	Position	Qualification	Nationality	Age	Appointed/ Resigned	Date Appointed/ Resigned
Andrew Bingham	Director (Non-executive)	LLB	British	49	Resigned	January 01, 2018
Luca Meroni	Director (Non-executive)	Masters in Business Economics, Certified Public accountant.	Swiss	50	Appointed	January 01, 2018
Bertrand Tamisier	Director (Non-executive)	Masters of Science in Business Administration, Certified Public accountant	Swiss	52	Appointed	January 01, 2018

Audit Committee

The Board of Directors meeting of February 2017 approved the formation of an Audit Committee. The Audit Committee is tasked with liaising with internal and external auditors on accounting, internal controls and financial reporting matters. The Committee will review effectiveness of internal control systems and risk management processes within the Company.

Luca Meroni was appointed Chairperson of the Audit Committee. The special board meeting held on December 19, 2017 acknowledged the establishment of the Audit Committee to start effectively from January 01, 2018 constituting three non-executive members as provided below:

Name	Position
Luca Meron	Committee Chairman
Paul Makanza	Member
Bertrand Tamisier	Member

Report of the Directors

for the year ended December 31, 2017 (continued)

Corporate governance (continued)

Nominating Committee

The Board of Directors meeting of December 19, 2017 approved the formation of the Nominating Committee.

Bertrand Tamisier was appointed Chairperson of the Nominating Committee. The special board meeting held on December 19, 2017 acknowledged the establishment of the Nominating Committee to start effectively from January 01, 2018 constituting four non-executive members as provided below:

Name	Position
Bertrand Tamisier	Committee Chairman
Paul Makanza	Member
Luca Meroni	Member
Currently vacant	Member

Management team

Management is responsible for day to day running of the business under the direction and supervision of the Chief Executive Officer (CEO). The CEO is supported by a highly qualified and experienced Executive Management Team of seven (7) who are Heads of Departments (HODs).

HODs report to the CEO, with the exception of HOD Manufacturing who reports to the Regional Manufacturing Vice President (VP). In addition, all HODs have dotted reporting lines to the Regional Functional Heads at Weybridge, UK or Geneva, Switzerland. Details of the Management team are provided below.

Department	Head of department	Qualification	Nationality
Chief Executive Officer	Alan Jackson	Masters in Management	South African
Manufacturing	Yan Sobolevsky	Computer Technology Engineer	Ukrainian
Marketing and Sales	Markus Streit	BA Biology; MBA	Swiss
Finance and IT	Joshua Folkerth	Masters in Accounting; Certified Public Accountant	American
Human Resource	Angela Mangecha	BA Human Resources; MBA	Tanzanian

Report of the Directors

for the year ended December 31, 2017 (continued)

Corporate governance (continued)

Management team (continued)

Legal Affairs	Godson Killiza	LLB	Tanzanian
Acting Corporate Affairs Director	Issa Massare	LLB	Tanzanian
Company Services	Frank Usiri	BA Civil Eng; MA Civil Eng.	Tanzanian

Key policies and procedures

The Company has in place a Code of Conduct - the JTI Code of Conduct (CoC), Operating Guidelines (OGL) and Policies and Procedures to guide its business operation. All employees are required to comply with these principle policy guidelines. Non-compliance is a serious offence and could result in disciplinary measures or termination of employment.

The JTI CoC sets out ethical business conduct and behaviors expected of all employees in the course of conducting business. Employees can also raise concerns on suspected violation of the CoC through their supervisors or anonymously via YOUR VOICE.

The Company's Operating Guidelines - JTI Operating Guidelines (JTI OGL) - form an integral part of the Company's internal control structure and corporate governance framework. They reflect the delegation of decision-making authority from the parent Company, JTI, to the Company and the approvals required for various business decisions.

Key policies and procedures found in the JTI CoC and JTI OGL include:

Equal opportunity employer: The Company is an equal opportunity employer. It does not discriminate on the basis of gender, religion or disability. All current and potential employees are entitled to equal opportunity and treatment in terms of recruitment; compensation and benefit; succession planning; performance appraisal and reward; and disciplinary hearing.

Environmental Health and Safety (EHS): The Company manages its environmental impact and promotes continuous improvements through its EHS policy, standards, procedures, guidance, training and management tools. All employees are required to: comply with the Company's Health and Safety standards; complete relevant Health and Safety training; comply with the Company's procedures and safe working practices; and report unsafe conditions, accidents, near accidents and unsafe behavior.

Know Your Supplier (KYS): Suppliers are selected objectively and impartially, based on various criteria that include integrity; quality; performance; commercial terms; and commitment to safety and environmental protection. All key suppliers are formally certified to ensure they meet the Company's Supplier Standards.

Report of the Directors

for the year ended December 31, 2017 (continued)

Corporate governance (continued)

Key policies and procedures (continued)

Product quality: Only products that meet the Company's stringent quality standards reach the Company's customers. The Company manufactures products with stringent specifications using consistently high quality supplies of tobacco and non-tobacco material from certified suppliers. Quality is assured throughout all stages of sourcing, manufacturing, storage, distribution and customer service, in full compliance with regulatory and legal requirements.

Know Your Customer (KYC): The Company rigorously analyses all its customers periodically, to ensure it does business with legitimate and law abiding customers only.

Responsible marketing: The Company is committed to marketing its products responsibly. It complies with all national laws and regulations and implements the Global Marketing Standards that govern the marketing of its products. If a conflict exists between the Global Marketing Standards and applicable local laws in terms of restrictions, the more restrictive standard is applied. The Company believes that: minors should not smoke and should not be able to obtain tobacco products; and adult smokers should be appropriately informed about the health risks of smoking before they make the decision to smoke.

Anti-corruption: The Company does not tolerate any form of bribery or corruption. Business partners are expected to comply fully with the Company's position on anti-corruption as a condition for doing business. The Company prohibits the provision of money, gifts, entertainment or anything of value to any government or public official for the purpose of obtaining a business advantage. The Company does not permit facilitation payments or fees requested by government officials to facilitate the performance of routine government actions.

Risk management and internal controls

Failure to comply with the JTI Code of Conduct, Operating Guidelines, or Policies and Procedures could result in fraud, operational and financial risks which would negatively impact the business and its reputation. Risk mitigation measures in place include:

Strict enforcement of the JTI Code of Conduct, Operating Guidelines and Policies and Procedures described above: The Chief Compliance Officer, who is also the Head of the Legal Affairs, is the custodian of policies and procedures and is responsible for enforcement assisted by respective Functional Heads. All employees are required to sign a declaration that they have read, understood and will abide with the Code of Conduct.

Internal audit: The Company has a fully outsourced internal audit service. The independent internal auditor is responsible for planning and delivering a Risk Based Internal Audit Plan. The independent internal auditor reports to the Chairman of the Audit Committee. The Chairman approves its charter; annual audit plan; monitors execution of audits; evaluates audit findings, recommendations and implementation of recommendations by Management.

Management is responsible for developing, managing, and improving internal financial and operational control systems. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's internal control systems are designed to provide the Board with reasonable assurance that the procedures in place are effective.

Report of the Directors

for the year ended December 31, 2017 (continued)

Risk management and internal controls (continued)

Ultimate responsibility for managing risks and ensuring appropriate and effective internal control systems are in place lies with the Board. The Board assessed the internal control systems throughout the financial year ended December 31, 2017 and is of the opinion that they met accepted criteria.

Employee welfare

Employee relations

As at December 31, 2017 the Company had 442 employees. Female employees constituted 17% of the total workforce.

Gender	2017	2016
Male	365	372
Female	77	90
	<u>442</u>	<u>462</u>

The Company was awarded best in Industrial Relations category by the Association of Tanzania Employers (ATE) in the employer of the year Awards 2017. The existing Voluntary Agreement (VA) between the management and Union was successfully implemented during the year.

Managing talent

Attracting, retaining and developing the best talents is a strategic priority for the long-term success of the Company. Performance appraisal, training and development, and succession planning are integral parts of our talent management.

The Company recognizes and rewards talent. The Company continued with its Long Term Award program for managers and encouraged career growth by providing the right opportunities. 75% (6 of 8) open senior positions in 2017 were filled by internal candidates, demonstrating a robust succession planning process is in place.

In 2017, the Company invested TZS 1.1bn (TZS 2.5 million per employee) in various functional and soft skills training and development programs inside and outside Tanzania. Potential candidates were identified internally for future vacancies as part of the succession planning process.

Report of the Directors

for the year ended December 31, 2017 (continued)

Employee welfare (continued)

Compensation and benefits

A key part of the Company's success lies in its ability to attract and retain highly motivated and productive employees. The Company's compensation system plays an important role in supporting this objective. It is designed to reward contributions to the Company's objectives and ensure that the Company pays competitively. The Company's compensation approach is 'pay for performance'.

The Company's employees also enjoy a number of benefits. These include: group life assurance; annual medical checkups; a medical insurance scheme for employees and up to five dependents; and a wellness program against preventable diseases. In addition to statutory pension contributions, all employees are entitled to a defined benefit plan upon retirement; legal services paid by the Company in preparing wills to safeguard their families in the unfortunate event of death while in employment; and access to concessionary loans through the employees Savings and Credit Co-operative Society - Mkombozi SACCOS.

Persons with disabilities

Employees are entitled to equal opportunities and equal treatment. Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Promoting a safe environment

Effective health and safety management goes well beyond complying with legislation. The Company's Environmental, Health and Safety (EHS) management system strategy is to be self-compliant, meeting stakeholders' growing expectations for organizations, and extending beyond employees to cover contractors and visitors to the operations.

All employees are required to complete relevant Health and Safety trainings as well as comply with the Company's EHS procedures and safe working practices. Furthermore, they are required to report unsafe conditions, accidents, near misses and all unsafe acts.

In 2017, the Company marked 2,299 days without a single work place (lost time) injury. This signifies that safety is a well-entrenched culture at the Company (2016: 1,934 days).

Political and charitable donations

As a matter of policy, the Company does not make political contributions.

Giving back to communities

Businesses can only prosper within open and fair societies. This is why the Company continuously invests into communities voluntarily and beyond the core business activities. The aim is to improve the quality of life in communities where the Company operates through long term impactful programs.

Report of the Directors

for the year ended December 31, 2017 (continued)

Political and charitable donations (continued)

Giving back to communities (continued)

The programs are focused on three pillars: People - poverty alleviation, older persons, adult education, and people with disabilities; Arts and Culture - cultural heritage; visual and performing arts; and Natural environment.

The Company continued to support unique local arts and culture through Vipaji Foundation and traditional dancers in Bagamoyo College of Arts (BCA) to learn to develop and benefit from their talent. Collaborated with Tanzania Federation of Disabled People's organization's (SHIVYAWATA) and Small Industries Development Organization (SIDO) to support local manufacturing of quality assistive devices at affordable prices for people with disabilities.

The Company matched employees' funds to provide basic needs to 302 less privileged elders of Sakila village in Arusha. The support was through Sakila Hope for Elderly is an NGO dedicated to support marginalized elderly in Arusha. Convoy Haulage the Company's transport service provider offered free transportation of the items. In 2017 donations given back to communities amounted to TZS 548 million (2016: TZS 464 million).

Principal risks and uncertainties

The Company values risk management as an integral part of business operations. Risk is assessed as part of both strategic and operational decision making. The principal risks that may significantly affect the Company's strategies and development are mainly fraud, operational and financial risks. Below we provide a description of the fraud, operational and financial risks facing the Company:

Fraud risk

The Company could incur losses resulting from fraudulent transactions, but it has formalized Anti-Money Laundering (AML), Know Your Customer (KYC) and Know Your Supplier (KYS) policies that are designed, implemented and strictly followed and controlled by the Chief Compliance Officer to mitigate these risk areas.

Operational risk

This is a risk resulting from the Company's activities not being conducted in accordance with formally recognized procedures including non-compliance with KYC, KYS and AML procedures. Management ensures that the Company complies with all internal procedures.

Financial risk

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. More details of the financial risks facing the Company are provided in Note 27 to the financial statements.

Stock exchange information

In 2000, the Company was listed on the Dar es Salaam Stock Exchange at an initial public offering (IPO) price of TZS 410 per share. The performance of the Company's shares in the secondary market as measured by market capitalization as at 31 December 2017 was TZS 1,680 billion (2016: TZS 1,150 billion).

Report of the Directors

for the year ended December 31, 2017 (continued)

Related party transactions and balances

All related party transactions and balances are disclosed in note 21 to these financial statements.

Performance for the year

Domestic volume grew marginally versus prior year (0.2%) due to tight macro-economic conditions. Export volume to our key markets of the Democratic Republic of Congo (DRC) and Zambia came under significant pressure in 2017 (-24.2%). A variety of issues drove this performance in 2017, however we are confident that these issues have largely been resolved and we have already begun to deliver positive results which are expected to continue into 2018 and beyond.

Overall, profit for the year declined from TZS 68.7 billion in 2016 to TZS 45.4 billion in 2017 (-34%). The weak export performance and increased operating expenses impacted net profit for the year. Marketing, selling and distribution expenses increased 11% on prior year as part of our long-term investment strategy, and administration expenses increased 33% mainly due to investments in people and one-off business re-alignment costs.

During the same period domestic performance provided a measure of stability to the business with gross turnover growing by 1% and net profit declining by a more moderate 10%.

Tax compliance

The Company asserts that it was fully tax compliant in 2017. The Company understands its obligation to comply with the country's tax laws and thus always promotes high degree of tax compliance and pays all relevant taxes as specified by such tax laws to the Tanzania Revenue Authority.

Dividend

During the year, the Directors declared for 2016, a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2015: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 10 billion or TZS 100 per share (2015: TZS 10 billion or TZS 100 per share). Later in the year, the Directors declared for 2017, an interim ordinary gross dividend of TZS 20 billion or TZS 200 per share, which was paid in November 2017 (2016: TZS 30 billion or TZS 300 per share).

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2016: TZS 20 billion or TZS 200 per share). There was no special gross dividend proposed after year end (2016: TZS 10 billion or TZS 100 per share). The final ordinary dividends are subject to adoption by shareholders at the Annual General Meeting.

The total gross dividend paid in the current year was TZS 40 billion or TZS 400 per share (2016: TZS 60 billion or TZS 600 per share).

Report of the Directors

for the year ended December 31, 2017 (continued)

Business environment

The business environment is constantly evolving due to changes in the economic and regulatory environments, as well as the competitive landscape. Management therefore continuously monitors and anticipates developments that affect the business in order to pro-actively address them. Management expects the business environment to remain challenging in 2018, but are well-prepared to face the challenges ahead.

Future development plans

The Company's goal is to grow its top and bottom line in a sustainable manner, while carefully managing both costs and risks. Focus will be placed on meeting the needs of adult consumers, building the equity of existing brands, expanding product offering, improving the efficiency and effectiveness of route to market; and enhancing the productivity of its people.

Cash flow projection

The Company's cash projections indicate that future cash flows will mostly be generated by operations. TZS 89.0 billion is planned to be generated for the 2018 financial year. This will be used to fund operations and capital investments as well as providing returns to shareholders.

Capital investments over the medium term of TZS 15.0 billion are planned, focused on investments in production capacity and product quality (TZS 4.9 billion), warehousing and infrastructure improvements (TZS 5.2 billion), IT related projects (TZS 3.0 billion) and distribution fleet and infrastructure rejuvenation (TZS 1.9 billion).

Resources

Apart from those items that are reflected in the statement of financial position, the Company's intangible assets include the equity of its brands, the quality of its products, highly motivated employees and the strength of its wide distribution network.

Solvency

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Directors consider the Company to be solvent within the meaning ascribed by the Companies Act, 2002.

Auditors

The auditors, Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 170(1) of the Companies Act, 2002.

Approved and authorized for issue by the Board of Directors on March 06, 2018 and signed on its behalf by:



Paul Makanza
Chairman

Statement of Directors' responsibilities

The Companies Act, 2002 (the "Act") requires the Directors to prepare financial statements for each financial year that give a true and fair view of the Company's state of affairs and its operating results for that year. The Act also requires the Directors to ensure that 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 Company.

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

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Act. 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.



Mr. Paul Makanza
Chairman

March 06, 2018



Mr. Alan Jackson
CEO and General Manager

Declaration by the Head of Finance

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with International Financial Reporting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as set out in the Statement of Directors' Responsibilities on an earlier page.

I, Joshua Folkerth, being the Head of Finance of Tanzania Cigarette Public Limited Company hereby acknowledge my responsibility of ensuring that financial statements for the year ended December 31, 2017 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.



Mr. Joshua Folkerth
Chief Financial Officer
NBAA Membership No.: TACPA 2867

March 06, 2018

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tanzania Cigarette Public Limited Company (the "Company"), Limited, set out on pages 64 to 113, which comprise the statement of financial position as at December 31, 2017 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 accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Tanzanian Companies Act 2002.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 National Board of Accountants and Auditors Code of Ethics is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Tanzania. We have fulfilled our other ethical responsibilities in accordance with these 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.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Valuation of defined benefit obligation	
The Company operates an unfunded defined benefit retirement plan for its employees. Significant judgement is required by the Directors in determining the defined benefit obligation. We identified the valuation of defined benefit obligation as representing a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the judgement and estimation uncertainty associated with determining the amounts.	We assessed the competence, capabilities and objectivity of the Company's external actuaries, and verified their qualifications and experience. In addition, we discussed the scope of their work and reviewed their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. We confirmed that the approach they used is consistent with industry norms.
The defined benefit obligation, and the related current service cost and past service cost are measured using the Projected Unit Credit Method in accordance with International Accounting Standard 19 ("IAS19").	We involved our actuarial specialists in evaluating the directors and their valuer's judgements and, in particular the models used.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Valuation of defined benefit obligation (continued)	
The determination of the present value of the defined benefit obligation, and the related current service cost and past service cost recorded involves a significant estimation process.	Our actuarial experts counterchecked the data used for calculation and the output from the calculation of the liabilities and the emerging reserves as prepared and presented by the directors.
In any actuarial assessment there is inherent uncertainty associated with the results as assumptions are made about future events. Those assumptions include discount rates, inflation rate, and nominal salary increase rate.	We performed an analysis of the significant assumptions made by the actuaries so as to evaluate the extent of impact on the liability and assessed the appropriateness of the Company's disclosures.
The liability is calculated by the Company's appointed external actuaries.	In addition, we tested a selection of data inputs underpinning the defined benefit obligation valuation, including total annual salary, percentage salary increase in a year, average age of employees, number of employees, average pensionable service, discount rates and inflation rate against appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof.
Refer to note 3 and 4 of the financial statements for the accounting policy and critical accounting estimates and judgements and note 25 of the financial statements for defined benefit obligation disclosures.	We found that the models used for the calculation of the defined benefit obligation were appropriate.
	The disclosures pertaining to the defined benefit obligations were found to be appropriate and comprehensive in the financial statements.

Other Information

The Directors are responsible for the other information and the report of Directors.

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

In connection with our audit of the 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002, and for such internal controls as Directors determine are 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 judgment and maintain professional skepticism 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain responsible for our audit opinion.

We communicate with the audit committee 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Report on Other Legal Requirements

As required by the Companies Act, 2002, we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iii) the Company's statement of financial position (balance sheet) and the statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is E.A Harunani.

Deloitte & Touche
Certified Public Accountants (Tanzania)



Signed by: E. A. Harunani
NBAA Registration No. TACPA 1065
Dar es Salaam

23 March 2018

Statement of profit or loss and other comprehensive income

for the year ended December 31, 2017

	Notes	2017 TZS M	2016 TZS M
Gross turnover		485,832	499,457
- VAT		(67,254)	(66,403)
Revenue	5	418,578	433,054
- Excise duty		(138,829)	(132,092)
Net sales		279,749	300,962
Cost of sales	6	(121,601)	(130,070)
Gross profit	5	158,148	170,892
Marketing, selling and distribution expenses		(48,435)	(43,686)
Administration expenses		(43,961)	(33,170)
Other expenses		(875)	(306)
Other gains		2	1,045
Interest income		1,175	3,974
Interest expense		(139)	(116)
Profit before tax	7	65,915	98,633
Income tax expense	8(a)	(20,558)	(29,964)
Profit for the year		45,357	68,669
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss.</i>			
- Defined benefit actuarial gain	25	1,175	5,296
- Tax relating to components of other comprehensive income	8(c)	(353)	(1,589)
		822	3,707
Total comprehensive income		46,179	72,376
Earnings per share:			
Basic and diluted (TZS per share)	9	454	687

Statement of financial position

for the year ended December 31, 2017 (continued)

Assets	Notes	2017 TZS M	2016 TZS M
Non-current assets			
Property, plant and equipment	11	96,765	89,353
Intangible assets	12	-	-
Investment in subsidiary	13	-	-
Total non-current assets		96,765	89,353
Current assets			
Inventories	14	112,388	123,175
Income tax receivable	8(d)	1,321	-
Trade and other receivables	15	24,798	13,331
Cash and bank balances	16	24,530	31,353
Total current assets		163,037	167,859
Total assets		259,802	257,212
Equity and liabilities			
Capital and reserves			
Share capital	17	2,000	2,000
Defined benefit reserve		5,810	4,988
Retained earnings		175,085	179,728
Total Shareholders' funds		182,895	186,716
Non-current liabilities			
Deferred tax liability	18	6,843	6,697
Defined benefit obligation	25	5,871	5,802
Total non-current liabilities		12,714	12,499
Current liabilities			
Trade and other payables	19	64,193	53,794
Income tax payable	8(d)	-	4,203
Total current liabilities		64,193	57,997
Total liabilities		76,907	70,496
Total equity and liabilities		259,802	257,212

The financial statements on pages 64 to 113 were approved and authorized for issue by the Board of Directors on March 06, 2018 and were signed on its behalf by the following Directors:

Mr. Paul Makanza
Chairman

Mr. Alan Jackson
CEO and General Manager

Statement of changes in equity

for the year ended December 31, 2017 (continued)

	Notes	Share capital TZS M	Defined benefit reserve TZS M	Retained earnings TZS M	Total TZS M
At January 01, 2016		2,000	1,281	171,059	174,340
Profit for the year		-	-	68,669	68,669
Other comprehensive income - net of tax		-	3,707	-	3,707
Total comprehensive income		-	3,707	68,669	72,376
Dividend paid (2015 final and 2016 interim)	10	-	-	(60,000)	(60,000)
Balance at December 31, 2016		2,000	4,988	179,728	186,716
At January 01, 2017		2,000	4,988	179,728	186,716
Profit for the year		-	-	45,357	45,357
Other comprehensive income – net of tax		-	822	-	822
Total comprehensive income		-	822	45,357	46,179
Dividend paid (2016 final and 2017 interim)	10	-	-	(50,000)	(50,000)
Balance at December 31, 2017		2,000	5,810	175,085	182,895

Statement of cash flows

for the year ended December 31, 2017 (continued)

	Notes	2017 TZS M	2016 TZS M
Cash flows from operating activities			
Profit before tax		65,915	98,633
Adjustments for:			
Depreciation	11	12,007	12,890
Defined benefit expense		1,470	2,327
Interest expense		139	116
Interest income		(1,175)	(3,974)
Loss/(gain) on disposal of property, plant and equipment		78	(508)
		78,434	109,484
Working capital changes:			
Decrease/(increase) in inventories		10,787	(33,141)
Movement in related party balances		(1,801)	18
Increase in trade and other receivables		(9,553)	(1,676)
Increase in trade and other payables		10,286	13,271
		88,153	87,956
Defined benefit paid	25	(226)	(376)
Interest received		1,175	3,974
Interest paid		(139)	(116)
Current tax paid	8 (d)	(26,289)	(29,931)
		62,674	61,507
Net cash generated by operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(19,975)	(14,787)
Proceeds from disposal of property, plant and equipment		478	526
		(19,497)	(14,261)
Net cash used in investing activities			
Cash flows from financing activities			
Dividends paid	10	(50,000)	(60,000)
Net cash used in financing activities		(50,000)	(60,000)
Net decrease in cash and cash equivalents		(6,823)	(12,754)
Cash and cash equivalents at the beginning of the year		31,353	44,107
Cash and cash equivalents at the end of the year	16	24,530	31,353

Notes to the financial statements

for the year ended December 31, 2017 (continued)

1. General information

Tanzania Cigarette Public Limited Company (The Company) is a limited liability public Company incorporated in the United Republic of Tanzania. The address of its registered office and principal place of business are disclosed in the corporate information on page 45 of this report. The principal activities of the Company are described in the Directors' report.

2. Adoption of new and revised International Financial Reporting Standards

a) New standards and amendments to published standards effective for the year ended December 31, 2017

The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

Disclosure Initiative (Amendments to IAS 7)	Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
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The amendment requires an entity to provide disclosures that enable users of financial statement to evaluate changes arising from financing activities, including both cash and non-cash changes.

Recognition of deferred tax assets for Unrealised Tax Assets (Amendments to IAS 12)	Amends IAS 12 Income Taxes to clarify the following aspects: Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
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The carrying amount of an asset does not limit the estimation of probable future taxable profits.

Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

a) New standards and amendments to published standards effective for the year ended December 31, 2017

The annual improvements 2014-2016 cycle made amendments to the following standards:

- **IFRS 1** - Deletes the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose.
- **IFRS 12** - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- **IAS 28** - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The application of these amendments did not have a significant impact on the Company's financial statements as the Company was already compliant to the requirements.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

b) New and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2017 (continued)

IFRS 9 Financial Instruments (2014)	Effective for accounting periods beginning on or after January 01, 2018
IFRS 15 Revenue from Contracts with Customers	Effective for accounting periods beginning on or after January 01, 2018
IFRS 16 Leases	Effective for accounting periods beginning on or after January 01, 2019
IFRS 17 Insurance Contracts	Effective for accounting periods beginning on or after January 01, 2021
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Effective for accounting periods beginning on or after January 01, 2018
IFRIC 23 Uncertainty over Income Tax Treatments	Effective for accounting periods beginning on or after January 01, 2019
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Effective for accounting periods beginning on or after January 01, 2018
Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)	Effective for accounting periods beginning on or after January 01, 2018
Transfers of Investment Property (Amendments to IAS 40)	Effective for accounting periods beginning on or after January 01, 2018
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	Effective for accounting periods beginning on or after January 01, 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	Effective for accounting periods beginning on or after January 01, 2019
Annual Improvements to IFRS Standards 2015 –2017 Cycle	Effective for accounting periods beginning on or after January 01, 2019

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2017

IFRS 9 Financial Instruments (2014)

IFRS 9 Financial Instruments (2014) is the finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model with- in which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 intro- duces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the require- ments applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **De-recognition:** The requirements for the de-recognition of financial assets and liabilities are carried for- ward from IAS 39.

The Company has started the process of evaluating the potential effect of this standard but, in the opinion of the Directors, given the nature of the Company's operations, this standard may not have a pervasive impact on the Company's financial statements when effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2017 (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

IFRS 15 is effective for accounting periods beginning on or after January 01, 2018 and is not expected to have significant impact on the financial statements.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 is effective for accounting periods beginning on or after January 01, 2019 and is not expected to have significant impact on the financial statements.

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 01, 2021

IFRS 17 is effective for accounting periods beginning on or after January 01, 2021 and is not expected to have significant impact on the financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where: There is consideration that is denominated or priced in a foreign currency; the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRIC 22 is effective for accounting periods beginning on or after January 01, 2018 and the Directors do not anticipate that its adoption will result into material impact on the financial statements.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2017 (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

IFRIC 23 is effective for accounting periods beginning on or after January 01, 2019 and the Directors do not anticipate that its adoption will result into material impact on the financial statements.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

The amendments to IFRS 2 are effective for annual periods beginning on or after January 01, 2018 and the Directors do not anticipate that its adoption will result into material impact on the financial statements.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2017 (continued)

Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)

Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:

an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after January 01, 2018 and only available for three years after that date.

The Directors do not anticipate that its adoption will result into material impact on the financial statements.

Transfers of Investment Property (Amendments to IAS 40)

The amendments to IAS 40 Investment Property:

Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

IAS 40 is effective for accounting periods beginning on or after January 01, 2018 and is not expected to have significant impact on the financial statements

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2017 (continued)

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments

Amendments to IFRS 9 are effective for accounting periods beginning on or after January 01, 2019 and is not expected to have significant impact on the financial statements.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied

Amendments to IAS 28 are effective for accounting periods beginning on or after January 01, 2019 and is not expected to have significant impact on the financial statements.

Annual Improvements to IFRS 2015–2017 Cycle

Makes amendments to the following standards:

- **IFRS 3 and IFRS 11** - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12** - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- **IAS 23** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments to IFRS 13, IFRS11, IAS 12 and IAS23 are effective for annual periods beginning on or after January 01, 2018 and is not expected to have significant impact on the financial statements.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

d) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year ended December 31, 2017

3. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards.

For the Tanzanian Companies Act, 2002 reporting purposes, in these financial statements the balance sheet is represented by the statement of financial position and the profit and loss account is presented in the financial statements as statement of profit or loss and other comprehensive income.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of financial instruments that are measured at revalued amounts or fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are stated in Tanzanian Shillings (TZS), rounded to the nearest million.

The parent Company has determined that the investment in TCC (Kenya) Limited is not material and has no impact to the reported profit or loss and its statement of financial position. The Group (Tanzania Cigarette Public Limited Company) and Company numbers are the same after taking into account the investment in the dormant subsidiary.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Gross turnover, which comprises the invoiced value of sales, net of returns and discounts, is recognized when products are delivered and accepted by the customers and is stated inclusive of Excise Duty and Value Added Tax. Export sales are deemed to be accepted by customer upon dispatch of goods.

Net sales, which comprise the invoiced value of sales net of returns and discounts, are stated exclusive of Excise Duty and Value Added Tax.

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements are based on sales and other measures are recognized by reference to the underlying arrangement.

Interest income is recognized when it accrues on a time proportion basis using effective interest rate method.

Foreign currency translation

These financial statements are presented in Tanzania Shillings, which is also the functional currency of the Company. Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated using the closing rates. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowing.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Retirement benefits obligations

The voluntary agreement between management and the trade union created a defined benefit plan. The Company operates an unfunded and unvested defined benefit scheme for its employees. Provision is made in the financial statement for the estimated cost of the future benefits under the scheme. No employee contributions are made to the scheme. Payments to the scheme are recognized as an expense in profit or loss when employees have rendered service entitling them to the scheme with actuarial valuations being carried out at the end of each reporting period. Actuarial gains or losses are fully recognized in other comprehensive income. Past service costs are recognized immediately in profit or loss.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for actuarial gains and losses. The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using various factors as described in the note 25 of these financial statements.

The Company and its employees also make statutory contributions to the National Social Security Fund (NSSF), Parastatal Pensions Fund (PPF) and LAPF Pensions Fund (LAPF). The Company's obligations with respect to contributions are 10%, 15% and 15% of the employees' gross emoluments for NSSF, PPF and LAPF members respectively. The Company's contributions with respect to these retirement benefits obligations are charged to the profit or loss in the period to which they relate.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Corporate tax

The current corporate tax charge in profit or loss is based on statutory income tax rate of 30% applied on taxable profit for the year under review. The taxable profit is arrived at after taking into consideration relevant provisions of IAS 12 and the Income Tax Act of 2004 together with its subsequent amendments through the Finance Acts as enacted by the Parliament of United Republic of Tanzania.

Taxable profit differs from account profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in different accounting periods (temporary differences) and items that are never taxable or deductible (permanent differences). The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Taxation (continued)

Deferred taxation

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, the written down value. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available in future against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period under review

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Value Added Tax (VAT)

The revenues, expenses and assets are recognized at amounts net of VAT. However, in the event that VAT incurred on a purchase of assets or services is not claimable as input VAT as provided in the VAT Act, 2014 together with its subsequent amendments and regulations, the VAT is recognized as part of cost of acquisition of the assets or part of the expense item as appropriate.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Taxation (continued)

Value Added Tax (VAT) (continued)

Any unpaid or uncollected amounts due to suppliers or due from customers are stated and reported as gross amounts including VAT.

The net (Output VAT less Input VAT) amount of VAT payable to Tanzania Revenue Authority at the year-end is included in trade and other payables.

Excise duty

The excise duty paid/payable to Tanzania Revenue Authority is determined by applying specific rates as provided in the Excise (Management and Tariff) Act, Cap 147 together with its subsequent amendments. The current specific excise duty rates which are applicable as at year end are as follows:

- Cigarettes without filter tip and containing domestic tobacco exceeding 75% is TZS 12,447 per 1,000 cigarettes (2016: TZS 11,854).
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 29,425 per 1,000 cigarettes (2016: TZS 28,024).
- Other cigarettes not mentioned in first and second bullet above is TZS 53,235 per 1,000 cigarettes (2016: TZS 50,700).

The amount of excise duty payable to Tanzania Revenue Authority at the year-end is included in trade and other payables.

Investment in Subsidiary Company

Investment in subsidiary is recognized at cost less any accumulated impairment losses.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of raw materials and consumable stores are determined by the 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 in the ordinary course of business, less estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Leases

Leases of property and equipment, where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight line basis over the term of relevant lease. The total payments made under operating leases are charged to other operating expenses in profit or loss on a straight line basis over the period of lease. When operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight-line basis, over the estimated useful lives to the estimated residual value. Useful lives, residual values and depreciation methods are reviewed on an annual basis with the effect of any changes in estimate accounted for on a prospective basis. Residual values are measured as the estimated amount currently receivable for an asset if the asset were already of the age and condition expected at the end of its useful life. Each significant component included in an item of property, plant and equipment is separately recorded and depreciated. The estimated useful life of assets at time of acquisition is assumed as follows

	Years
Permanent buildings	50
Temporary buildings	3
Plant and machinery	5 - 20
Other equipment	3 - 10
Motor vehicles	4

Maintenance and repairs, which neither materially add to the value of the assets nor appreciably prolong their useful lives, are recognised as an expense in the period incurred. Minor plant and equipment items are also recognised as an expense during the period incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Profits or losses on the retirement or disposal of property, plant and equipment, determined as the difference between the actual proceeds and the carrying amount of the assets, are recognised in profit or loss in the period in which they occur. The date of disposal is determined as the date on which the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the proceeds on the sale can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the asset, from the date that it is available for use.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible assets, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

Assets that have an indefinite useful life and intangible assets not available for use are tested annually for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognized as an expense in profit or loss immediately. The recoverable amount of an asset is the higher of the asset's fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

The value in use of an asset represents the expected future cash flows from continuing use and disposal that are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The impairment loss is allocated to reduce the carrying amount of the assets of the cash-generating unit, first to goodwill in respect of the cash generating unit, if any, and then to the other assets on a pro-rata basis based on their carrying amounts. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase. No goodwill impairment losses are reversed.

After the recognition of an impairment loss, any depreciation or amortization charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its estimated residual value, on a systematic basis over its remaining useful life.

Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends declared after the end of reporting period, are not recognized as liabilities.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit and loss (FVTPL).

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company's principal financial assets are trade and other receivables and cash and cash equivalents.

Financial assets are recognised and derecognised on trade-date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the instrument within the time-frame established by the market concerned.

All financial assets are initially measured at fair value, including transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value, excluding transaction costs.

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

Trade and other receivables

Trade and other receivables are stated at invoice amounts less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect the amounts due according to the original terms of the original receivable. Provisions for impairment are recorded in the year in which they are identified.

The average credit period on sales of goods is 7 days for domestic customers and 60-90 days for export customers. No interest is charged on trade receivables. The Company has recognized an allowance for doubtful debts against all receivables over 90 days because historical experience has been that receivables that are past due beyond 90 days are difficult to recover.

Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents include cash on hand, in banks and investments in money market instruments and duly reconciled to the related items in the statement of financial position.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

De-recognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Company's principal financial liabilities are trade and other payables (Value Added Tax, revenue charged in advance and reduced subscriptions excluded).

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of profit or loss and other comprehensive income.

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Trade and other payables are stated at their nominal value. Trade payables are non-interest bearing and are normally settled between 15 to 30 days for local suppliers and up to 60 days for foreign suppliers after date of invoice.

De-recognition of financial liabilities

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

Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset

Notes to the financial statements

for the year ended December 31, 2017 (continued)

4. Critical accounting judgements and key sources of estimation uncertainties

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. These estimates are based on management's best knowledge of current events and actions they may undertake in the future but the actual results may ultimately differ from those estimates. The estimates and underlying assumptions are regularly reviewed and revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas of critical judgements and key sources of estimation uncertainty are as set out below:

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Impairment provision

Management carries out a regular review of the status of trade receivables, inventories and other financial assets to determine whether there is any indication that these assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, which is then dealt with in the profit or loss. In determining whether an impairment loss should be recognized in the profit or loss, management checks whether there is objective evidence that the assets are impaired and that the fair values have declined.

Management estimates of the required provisions are based on critical evaluation of the economic circumstances involved, historical experience and other factors that are considered to be relevant.

Property, plant and equipment

Management reviews the useful lives and residual values of the items of property, plant, and equipment on a regular basis. During the financial year, the Directors determined no significant changes in the useful lives and residual values.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

4. Critical accounting judgements and key sources of estimation uncertainties (continued)

Provisions for pending litigations

The Company is currently involved in various legal cases. Management regularly reviews the status of these cases and, in consultation with legal counsel, estimates the probable liabilities that could be incurred in the event that the Company loses the cases. In determining whether to process the provisions in the financial statements, management critically evaluates the probability of losing these cases and only makes provision for the cases in which it is probable that future outflow of resources will be required to settle the obligations.

The Company is currently involved in various legal cases. Management regularly reviews the status of these cases and, in consultation with legal counsel, estimates the probable liabilities that could be incurred in the event that the Company loses the cases. In determining whether to process the provisions in the financial statements, management critically evaluates the probability of losing these cases and only makes provision for the cases in which it is probable that future outflow of resources will be required to settle the obligations.

Defined benefit plan

The Company operates an unfunded defined benefit retirement plan for all employees. Employees do not contribute to the plan, the Company bears all cost. A provision is made in the financial statements for the estimated cost of the future benefits. The accuracy and completeness of such provisions is confirmed periodically by an independent actuarial valuation. Refer to note 25 of the financial statements for uncertainty and sensitivity disclosure.

Taxation

The Company is subjected to numerous taxes and levies by various government and quasi-government regulatory bodies. Generally, the Company recognises liabilities with regard to anticipated taxes and levies payable with utmost care and diligence. However, significant judgement is required in the interpretation and application of those taxes and levies. In the event that management assesses that the initially recorded liability was erroneous, the differences are charged to the profit and loss account in the period in which the differences are determined.

5. Operating segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The Company has two operating segments namely domestic and export markets. The domestic market has reported revenue from both external customers and intersegment sales or transfers, of 89 percent (2016: 85 percent) of the combined revenue of all operating segments, thus qualifying as reportable segment.

Management monitors the operating results of business segments separately for the purpose of performance assessment and decision making on resource allocation. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The domestic market segment is carrying on the business of manufacturing and selling of cigarettes in Tanzania. Brands sold in domestic market include Camel, Winston, LD, Club, Embassy, Portsman, Sweet Menthol, Iceberg, Safari and Crescent & Star.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

5. Operating segments (continued)

Export markets include Democratic Republic of Congo, Mozambique and Zambia. The export brands include Camel, Winston and LD. Export markets reported revenue of 11 percent of the combined revenue (2016: 15 percent).

Information about transactions with major customers

Below is the revenue from top ten domestic customers, the amounts are disclosed inclusive of VAT.

	2017 TZSM	2016 TZS M
Revenue from top ten customers	118,709	113,841

The reportable segment has more than 1,000 active customers.

Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment.

	Segment revenue		Segment gross profit	
	2017 TZS M	2016 TZS M	2017 TZS M	2016 TZS M
Domestic Market	373,632	368,904	150,002	153,832
Export Market	44,946	64,150	8,146	17,060
	<u>418,578</u>	<u>433,054</u>	<u>158,148</u>	<u>170,892</u>
Marketing, selling & distribution expenses:				
- Export market			(9,365)	(8,114)
- Domestic market			(39,070)	(35,572)
Administration expenses			(43,961)	(33,170)
Other expenses			(875)	(306)
Other gains			2	1,045
Interest income			1,175	3,974
Interest expense			(139)	(116)
Profit before tax			<u>65,915</u>	<u>98,633</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

5. Operating segments (continued)

	2017 TZS M	2016 TZS M
Segment assets		
Property, plant and equipment	96,765	89,353
Inventories	112,388	123,175
Income tax receivable	1,321	-
Trade and other receivables	24,798	13,331
Cash and cash equivalents	24,530	31,353
Total segment current assets	163,037	167,859
Consolidated total assets	259,802	257,212
Segment liabilities		
Deferred tax liability	6,843	6,697
Defined benefit obligation	5,871	5,802
Total segment non-current liabilities	12,714	12,499
Trade and other payables	64,193	53,794
Income tax payable	-	4,203
Total segment current liabilities	64,193	57,997
Consolidated total liabilities	76,907	70,496

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to domestic market.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

5. Operating segments (continued)

Other segment information

	Depreciation and amortization		Additions to non- current assets	
	2017 TZS M	2016 TZS M	2017 TZS M	2016 TZS M
Leasehold property	1,312	1,170	218	1,570
Plant and machinery	7,597	8,272	5,822	2,211
Other equipment	1,447	1,646	719	1,175
Motor vehicles	1,651	1,802	1,430	47
Capital work in progress	-	-	11,786	9,784
Total	12,007	12,890	19,975	14,787

The following is an analysis of the operating segment revenue from its major products in domestic market.

	2017 TZS M	2016 TZS M
Embassy	54,743	60,940
Club	130,100	109,159
Portsmen	60,371	74,434
Sweet Menthol	40,811	42,874
Safari	71,614	66,316
Others	15,993	15,181
	373,632	368,904

6. Cost of sales

Direct costs	86,287	84,843
Indirect costs	35,314	45,227
	121,601	130,070

Notes to the financial statements

for the year ended December 31, 2017 (continued)

7. Profit before tax

Profit before tax has been arrived at after charging/(crediting) the following:

	2017 TZS M	2017 TZS M
Directors' emoluments	5,971	5,371
Depreciation	12,007	12,890
Technical and management service fees	13,224	12,672
Auditors' remuneration	295	271
Donations	548	464
Loss/(gain) on disposal of property, plant and equipment	78	(508)
Foreign exchange (gain)/loss	<u>(164)</u>	<u>494</u>
Employee benefits:		
Short term benefits:		
- Salaries	23,488	21,929
- Bonus	5,698	1,715
- Fringe	5,562	4,024
- Vacation	1,696	866
- Other	1,121	778
Long term benefits:		
- Defined benefit obligation	1,470	2,327
- NSSF,PPF and LAPF contributions	2,367	2,126
Other statutory contributions		
-Skills and Development Levy (SDL)	1,136	1,053
-Workers Compensation Fund (WCF)	<u>213</u>	<u>200</u>

8. Income tax

(a) Tax expense

Current tax - current year at 30%	19,347	30,206
- prior year under/(over) provision	<u>1,418</u>	<u>(50)</u>
	20,765	30,156
Deferred taxation - current year charge/(credit)	72	(18)
- prior year over provision	<u>(279)</u>	<u>(174)</u>
	<u>(207)</u>	<u>(192)</u>
	20,558	29,964

Tax expense represents the sum of the current tax and deferred tax.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

8. Income tax (continued)

(b) Reconciliation of accounting profit to tax expense

	2017 TZS M	2016 TZS M
Reconciliation of accounting profit to tax expense		
Profit before tax	65,915	98,633
Tax charge at 30%	19,775	29,590
Income not subject to tax	(1,046)	(1,402)
Effect of disallowable expenditure	690	2,000
Current tax relating to prior years	1,418	(50)
Deferred tax relating to prior years	<u>(279)</u>	<u>(174)</u>
Tax expense	20,558	29,964

(c) Tax expense on other comprehensive income

Deferred tax charge - Defined benefit plan actuarial gain	<u>353</u>	<u>1,589</u>
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(d) Current tax (asset)/liability

At beginning of the year	4,203	3,978
Charge for the year (Note 8(a))	20,765	30,156
Current tax paid	<u>(26,289)</u>	<u>(29,931)</u>
Balance at end of year	(1,321)	4,203

9. Earnings per share

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

Profit attributable to ordinary shareholders (TZS M)	<u>45,357</u>	<u>68,669</u>
Weighted average number of ordinary shares in issue (million)	<u>100</u>	<u>100</u>
Earnings per share (TZS)	<u>454</u>	<u>687</u>

There were no potential dilutive shares outstanding at December 31, 2017 and at December 31, 2016.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

10. Dividends

	2017 TZS M	2016 TZS M
Prior year final dividend	30,000	30,000
Current year interim dividend	20,000	30,000
Total	50,000	60,000
Number of ordinary shares in issue (million)	100	100
Dividend per share (TZS)	500	600

During the year, the Directors declared for 2016, a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2015: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 10 billion or TZS 100 per share (2015: TZS 10 billion or TZS 100 per share). Later in the year, the Directors declared for 2017, an interim ordinary gross dividend of TZS 20 billion or TZS 200 per share, which was paid in November 2017 (2016: TZS 30 billion or TZS 300 per share).

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2016: TZS 20 billion or TZS 200 per share). There was no special gross dividend proposed after year end (2016: TZS 10 billion or TZS 100 per share). The final ordinary dividends are subject to adoption by shareholders at the Annual General Meeting.

The total gross dividend paid in the current year was TZS 50 billion or TZS 500 per share (2016: TZS 60 billion or TZS 600 per share).

11. Property, plant and equipment

	2017 TZS M	2016 TZS M
Cost	197,368	185,858
Accumulated depreciation	(100,603)	(96,505)
	96,765	89,353
Leasehold property	28,915	28,644
Plant and machinery	51,700	44,189
Other equipment	3,379	4,123
Motor vehicles	2,480	2,701
Capital work in progress	10,291	9,696
	96,765	89,353

Notes to the financial statements

for the year ended December 31, 2017 (continued)

11. Property, plant and equipment (continued)

	Leasehold property TZS M	Plant and machinery equipment TZS M	Other equipment TZS M	Motor vehicles TZS M	Capital work in progress TZS M	Total TZS M
Cost						
At January 01, 2016	36,334	107,682	10,509	16,106	2,508	173,139
Additions	1,570	2,211	1,175	47	9,784	14,787
Transfers in/(out)	821	1,744	31	-	(2,596)	-
Disposals	-	(11)	(66)	(1,991)	-	(2,068)
At December 31, 2016	38,725	111,626	11,649	14,162	9,696	185,858
Additions	218	5,822	719	1,430	11,786	19,975
Transfers in/(out)	1,366	9,822	3	-	(11,191)	-
Disposals	(6)	(5,219)	(670)	(2,570)	-	(8,465)
At December 31, 2017	40,303	122,051	11,701	13,022	10,291	197,368
Accumulated depreciation						
At January 01, 2016	8,911	59,174	5,941	11,639	-	85,665
Charge for the year	1,170	8,272	1,646	1,802	-	12,890
Disposals	-	(9)	(61)	(1,980)	-	(2,050)
At December 31, 2016	10,081	67,437	7,526	11,461	-	96,505
Charge for the year	1,312	7,597	1,447	1,651	-	12,007
Disposals	(5)	(4,683)	(651)	(2,570)	-	(7,909)
At December 31, 2017	11,388	70,351	8,322	10,542	-	100,603
Net book value						
At December 31, 2017	28,915	51,700	3,379	2,480	10,291	96,765
At December 31, 2016	28,644	44,189	4,123	2,701	9,696	89,353

Capital work in progress relates to the cost of various capital expenditure items which were under construction or were not received at year end.

Included in property, plant and equipment are assets with an original cost of TZS 10,715 million (2016: TZS 16,465 million) which are fully depreciated and whose normal depreciation charge for the year would have been TZS 858 million (2016: TZS 1,510 million). There were no idle assets included in property, plant and equipment.

No items of property, plant and equipment have been pledged as collateral for liabilities

Notes to the financial statements

for the year ended December 31, 2017 (continued)

12. Intangible assets

	2017 TZS M	2016 TZS M
Cost	<u>2,646</u>	<u>2,646</u>
Amortization		
At beginning of the year	2,646	2,646
Charge for the year	<u>-</u>	<u>-</u>
At end of the year	<u>2,646</u>	<u>2,646</u>
Net book value	<u>-</u>	<u>-</u>

Intangible assets acquired separately are carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over its estimated useful life. The estimated useful life and amortization method are reviewed at the end of each financial year, with the effect of any changes in estimate being accounted for on a prospective basis.

The intangible assets relate to acquired cigarette trademarks. The estimated useful life from year of acquisition is 10 (ten) years. There are no intangible assets resulting from internal developments or business combinations.

13. Investment in subsidiary

	2017 TZS M	2016 TZS M
TCC (Kenya) Limited	534	534
Allowance for impairment	<u>(534)</u>	<u>(534)</u>
	<u>-</u>	<u>-</u>

Investment in subsidiary represents the shares held in TCC (Kenya) Limited, a wholly-owned subsidiary, which is incorporated in Kenya under the Kenyan Companies Act. The principal activities of the subsidiary are the importation, distribution and wholesaling of tobacco products. However, the Company has not been trading since December 31, 2002 and full impairment provision on the investment has been made in the financial statements.

The parent Company has determined that the investment is not material and has no impact to the reported profit or loss and its statement of financial position. The Group (Tanzania Cigarette Public Limited Company) and Company numbers are the same after taking into account the investment in the dormant subsidiary.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

14. Inventories

	2017 TZS M	2016 TZS M
Raw materials	88,131	94,951
Work in progress	233	210
Consumable stores	6,237	4,081
Goods in transit	288	972
Finished goods	<u>18,164</u>	<u>23,581</u>
	113,053	123,795
Allowance for obsolete inventories	<u>(665)</u>	<u>(620)</u>
	<u>112,388</u>	<u>123,175</u>
Inventories carried at net realizable value below cost	<u>-</u>	<u>-</u>

No inventory has been pledged as collateral for liabilities

15. Trade and other receivables

Trade receivables	13,750	3,709
Amounts due from related companies (Note 21(ii))	7,000	5,086
Prepayments and other receivables	<u>5,318</u>	<u>5,742</u>
	26,068	14,537
Allowance for doubtful receivables	<u>(1,270)</u>	<u>(1,206)</u>
	<u>24,798</u>	<u>13,331</u>

Movement in the allowance for doubtful debts:

At the beginning of the year	1,206	1,202
Amounts recovered during the year	(44)	(43)
Increase in allowance during the year	<u>108</u>	<u>47</u>
At the end of the year	<u>1,270</u>	<u>1,206</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

16. Cash and bank balances

	2017 TZS M	2016 TZS M
Cash and bank balances	<u>24,530</u>	<u>31,353</u>
Bank balances held were not restricted for use by the Company.		

17. Share Capital

Authorized:

125,000,000 Ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
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Issued and fully paid:

100,000,000 Ordinary shares of TZS 20 each	<u>2,000</u>	<u>2,000</u>
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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 fixed right to income. The ownership structure of the Company is as set out below:

	2017 Ordinary Shares Million	2016 Ordinary Shares Million
Resident shareholders:		
General public	6.3	7.0
Parastatal Pension Fund	3.0	3.0
The United Republic of Tanzania	2.2	2.2
Public Service Pension Fund	1.0	1.0
The Local Authorities Provident Fund	0.6	0.6
Government Employees Provident Fund	0.5	0.5
Trustees of the TCC Employees Share Option Scheme	<u>0.3</u>	<u>0.3</u>
	<u>13.9</u>	<u>14.6</u>
Non-resident shareholders:		
JT International Holding B.V.	75.0	75.0
Kingsway Fund	9.8	9.3
Neon Liberty Emerging Markets Fund	0.6	0.6
Cavenham Private Equity And Directs	0.5	0.5
Other non-residents	<u>0.2</u>	<u>0.0</u>
	<u>86.1</u>	<u>85.4</u>
Total ordinary shares in issue	<u>100.0</u>	<u>100.0</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

18. Deferred tax liability

Deferred taxes are calculated on all temporary differences under the liability method, using the enacted tax rate of 30%.

	2017 TZS M	2016 TZS M
The net deferred tax liability is attributable to the following:		
Accelerated capital allowances	10,273	9,650
Provisions	(1,669)	(1,213)
Defined benefit obligation provision	<u>(1,761)</u>	<u>(1,740)</u>
	<u>6,843</u>	<u>6,697</u>

The movement on the deferred tax account is as follows:

2017:	Opening balance TZS M	Recognized in P&L TZS M	Recognized in OCI TZS M	Closing balance TZS M
Deferred tax liabilities/(assets) in relation to:				
- Property, plant and equipment	9,650	623	-	10,273
- Provisions	(1,213)	(456)	-	(1,669)
- Defined benefit obligation	<u>(1,740)</u>	<u>(374)</u>	<u>353</u>	<u>(1,761)</u>
	<u>6,697</u>	<u>(207)</u>	<u>353</u>	<u>6,843</u>
2016:	Opening balance TZS M	Recognized in P&L TZS M	Recognized in OCI TZS M	Closing balance TZS M
Deferred tax liabilities/(assets) in relation to:				
- Property, plant and equipment	9,976	(326)	-	9,651
- Provisions	(1,932)	719	-	(1,213)
- Defined benefit obligation	<u>(2,744)</u>	<u>(585)</u>	<u>1,589</u>	<u>(1,741)</u>
	<u>5,300</u>	<u>(192)</u>	<u>1,589</u>	<u>6,697</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

19. Trade and other payables

	2017 TZS M	2016 TZS M
Trade payables	11,005	10,066
Amounts due to related companies (Note 21(ii))	6,117	6,004
Excise duty and VAT payable	16,419	12,080
Other liabilities and accruals	25,678	21,631
Provisions (Note 20)	4,974	4,013
	<u>64,193</u>	<u>53,794</u>

20. Provision

Bonus provision	4,125	3,187
Provision for leave pay	849	826
	<u>4,974</u>	<u>4,013</u>

2017:	Opening balance TZS M	Utilized/ reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	3,187	3,187	(4,125)	4,125
Provision for leave pay	826	826	(849)	849
	<u>4,013</u>	<u>4,013</u>	<u>(4,974)</u>	<u>4,974</u>

2016:	Opening balance TZS M	Utilized/ reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	4,336	(4,336)	3,187	3,187
Provision for leave pay	1,500	(1,500)	826	826
	<u>5,836</u>	<u>(5,836)</u>	<u>4,013</u>	<u>4,013</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

21. Related party transactions and balances

Related companies

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Company transacts with the ultimate holding Company and other companies related to it by virtue of common shareholding. All transactions with related parties are made at an arm's length in the normal course of business and on normal commercial terms and conditions.

During the year, the following transactions were entered into with related parties:

Contracts with related parties

The Company has agreements with JT International SA and JT International Holding B.V for provision of managerial, technical and administrative services since January 01, 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 13,224 million (2016: TZS 12,672 million).

Other transactions with related parties

i. Purchase and sales of goods and services

	2017 TZS M	2016 TZS M
Purchases from JT International companies		
JTI Leaf Services Ltd	25,807	59,998
JT International Holding B.V.	10,035	12,410
JT International SA	11,732	11,575
Others	<u>13,707</u>	<u>2,021</u>
	<u>61,281</u>	<u>86,004</u>
Sales to JT International Companies		
JT International SA		
Others	3,449	5,312
	<u>429</u>	<u>265</u>
	<u>3,878</u>	<u>5,577</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

21. Related party transactions and balances (continued)

ii. Related party balances

Outstanding balances with related companies as at the year-end are shown on the statement of financial position and are shown in notes 15 and 19 of these financial statements.

	2017 TZS M	2016 TZS M
Payables to JT International companies		
JTI Leaf Services Ltd	3,228	3,472
JT International South Africa (Pty)	754	370
JT International SA	707	1,490
Others	1,428	672
	<u>6,117</u>	<u>6,004</u>
Receivable from JT International Companies		
JT International S.A.	5,524	3,721
JTI Cigarette & Tobacco Factory Ltd	744	673
JTI Leaf Zambia Limited	460	-
Others	272	692
	<u>7,000</u>	<u>5,086</u>

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognized in the year for bad and doubtful debts in respect of the amounts owed by related parties.

iii. Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including all Directors.

The Company does not have the following schemes for its key management personnel.

- Post-employment benefits
- Other longer-term benefits
- Termination benefits

The remuneration of Directors and other key members of management during the year were as follows:

	2017 TZS M	2016 TZS M
Key management remuneration	5,971	5,371
Non-executive Directors emoluments	11	20
	<u>5,982</u>	<u>5,391</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

22. Commitments

i. Capital commitments

	2017 TZS M	2016 TZS M
Authorized but not contracted for	25,797	2,424
Authorized and contracted for	<u>20,622</u>	<u>30,106</u>
	<u>46,419</u>	<u>32,530</u>

The capital commitments relate to purchase of properties, machinery and equipment to enhance safety, production capacity, operational efficiency and product quality as well as improvement of the distribution fleet and employee welfare..

ii. Other commitments

As at December 31, 2017, the Company had a commitment for purchase of leaf tobacco totaling TZS 14,223 million (2016: TZS 658 million)..

23. Contingent liabilities

The Company is currently involved in a number of commercial and labour cases. However, no provision has been made in these financial statements because in the opinion of the Directors, the amounts, which are probable to be incurred by the Company in the event that it losses the related cases, are not likely to be material.

24. Bank overdraft and other facilities

The Company had an overdraft facility with Standard Chartered Bank (Tanzania) Limited up to a limit of TZS 3,000,000,000 in order to meet its working capital requirements. The facility is secured by a guarantee from the ultimate parent Company Japan Tobacco Inc. The effective interest rate for the facility is the 91 Days Treasury Bills plus 2.7% p.a. and is charged on daily overdrawn amount and repayable monthly (minimum price floor of 6%). As at December 31, 2017 and during the year, there were no drawdowns made by the Company on this facility (2016: NIL).

The Company also operates a Manufacture under Bond (MUB) facility under which export goods are produced. The facility enables the Company to import raw materials for export manufacture duty free. The facility is guaranteed by Japan Tobacco International S.A. through Standard Chartered Bank Tanzania. The bond is limited to TZS 14,000,000,000 with the interest charged at 0.8% p.a.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

25. Retirement benefits

Statutory retirement benefits

The Company has an obligation to make statutory contributions for retirement benefits of its employees. All eligible employees of the Company are members of the National Social Security Fund of Tanzania (NSSF) or Parastatal Pension Funds (PPF) or LAPF Pensions Fund, to which the Company contributes 10%, 15% and 15% and the employee contributes 10%, 5% and 5% of the gross salaries respectively every month. During the year ended December 31, 2017, the Company's contributions to the funds amounted to TZS 2,367 million (2016: TZS 2,126 million).

Defined benefit obligation

The Company operates an unfunded defined benefit plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits of one month salary for every year of continuous service for 1 to 9 years and an additional 10% for every additional year of continuous service beyond 10 years.

The Company provides for retirement benefit cost based on assessments made by independent actuaries. The most recent actuarial valuation was carried out at December 31, 2017 by Towers Watson, Fellow of the Institute and Faculty of Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2017	2016
	Percentage	Percentage
Discount rate	15.9	18.3
Salary inflation	8.1	8.6
Cost of living increase	5.1	5.6

Notes to the financial statements

for the year ended December 31, 2017 (continued)

25. Retirement benefits (continued)

Amount recognized in statement of profit or loss and other comprehensive income in respect of this defined benefit obligation:

	2017 TZS M	2016 TZS M
- Current service cost	367	658
- Past service cost	-	-
- Interest cost	1,103	1,669
- Actuarial gain recognized in Other Comprehensive Income	(1,175)	(5,296)
Net loss/(gain) for the year	295	(2,969)

The movement in the Company retirement benefit obligation was as follows:

Opening defined benefit obligation	5,802	9,147
Current service cost	367	658
Past service cost	-	-
Interest cost	1,103	1,669
Actuarial gain recognized	(1,175)	(5,296)
Benefits paid	(226)	(376)
Closing defined benefit obligation	5,871	5,802

Sensitivities

	Central Scenario	0.5% Increase	0.5% Decrease
	8.1%	8.6%	7.6%
	TZS M	TZS M	TZS M
Defined benefit obligation	5,870	6,163	5,634
Gross service costs excluding interest	332	356	314
Expense / net interest cost	943	994	903
% change in defined benefit obligation		4.98%	-4.02%
% change in gross service costs		7.04%	-5.62%
% change in expense / net interest cost		5.33%	-4.29%

Notes to the financial statements

for the year ended December 31, 2017 (continued)

25. Retirement benefits (continued)

Sensitivities

Salary rate sensitivity	Central Scenario 15.90% TZS M	0.5% Increase 16.40% TZS M	0.5% Decrease 15.40% TZS M
Defined benefit obligation	5,870	5,651	6,135
Gross service costs excluding interest	332	315	354
Expense / net interest cost	943	934	958
% change in defined benefit obligation		-3.74%	4.51%
% change in gross service costs		-5.14%	6.39%
% change in expense / net interest cost		-0.97%	1.52%

26. Operating lease arrangements

Operating leases relate to leases for motor vehicles and buildings with lease term of maximum one year. The Company does not have an option to purchase the leased motor vehicles and buildings at the expiry of the leased periods.

Payments recognized as an expense are:	2017 TZS M	2016 TZS M
Buildings	923	1,127
Motor vehicles	126	54
Net loss/(gain) for the year	1,049	1,181

27. Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and services offered. The Company, through its training, standards and procedures management, aims to maintain a disciplined and constructive control environment, in which all employees and stakeholders understand their roles and obligations.

The most important types of risks are credit risk, liquidity risk and market risk which is mainly due to foreign exchange risk and interest rate risk. A description of the significant risk factors is given below together with the risk management policies applicable.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

27. Financial risk management objectives and policies (continued)

Credit risk management

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, and trade and other receivables. Trade receivables comprise a large and widespread customer base and the Company performs ongoing credit evaluations on the financial condition of its customers. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the companies' management based on prior experience and the current economic environment. The carrying amount of financial assets represents the maximum credit exposure.

The amount that best represents the Company's maximum exposure to credit risk as at December 31, 2017 without taking account of the value of any collateral obtained was:

	Full performing TZS M	Past due TZS M	Impaired TZS M	Total TZS M
Trade receivables	12,480	-	1,270	13,750
Amounts due from related companies	7,000	-	-	7,000
Bank balances	24,530	-	-	24,530
Total credit exposure	44,010	-	1,270	45,280

The amount that best represents the Company's maximum exposure to credit risk as at December 31, 2016 without taking account of the value of any collateral obtained was:

	Full performing TZS M	Past due TZS M	Impaired TZS M	Total TZS M
Trade receivables	2,503	-	1,206	3,709
Amounts due from related companies	5,086	-	-	5,086
Bank balances	31,353	-	-	31,353
Total credit exposure	38,942	-	1,206	40,148

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is impaired has been fully provided for. However, management is actively following up recovery of the impaired debt.

Notes to the financial statements

for the year ended December 31, 2017 (continued)

27. Financial risk management objectives and policies (continued)

Credit risk management

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already recognized.

Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected.

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. The Directors may from time to time at their discretion raise or borrow monies for the Company as they deem fit. There are no borrowing limits in the articles of association of the Company.

Maturity analysis for financial liabilities as at December 31, 2017 showing the remaining contractual maturities:

	< 1 month	1 - 5 months	5 - 12 months	> 1 year	Total
	TZS M	TZS M	TZS M	TZS M	TZS M
Trade payables	11,005	-	-	-	11,005
Amounts due to related companies	6,117	-	-	-	6,117
	<u>17,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,122</u>

Maturity analysis for financial liabilities as at December 31, 2016 showing the remaining contractual maturities:

	<1 month	1 - 5 months	5 - 12 months	> 1 year	Total
	TZS M	TZS M	TZS M	TZS M	TZS M
Trade payables	10,066	-	-	-	10,066
Amounts due to related companies	6,004	-	-	-	6,004
	<u>16,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,070</u>

Notes to the financial statements

for the year ended December 31, 2017 (continued)

27. Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

Maturity analysis for financial assets as at December 31, 2017 showing the remaining contractual maturities:

	< 1 month	1 - 5 months	5 - 12 months	> 1 year	Total
	TZS M	TZS M	TZS M	TZS M	TZS M
Trade receivables (net)	12,480	-	-	-	12,480
Cash and bank balances	24,530	-	-	-	24,530
Total	<u>37,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,010</u>

Maturity analysis for financial assets as at December 31, 2016 showing the remaining contractual maturities:

	< 1 month	1 - 5 months	5 - 12 months	> 1 year	Total
	TZS M	TZS M	TZS M	TZS M	TZS M
Trade receivables (net)	2,503	-	-	-	2,503
Cash and bank balances	31,353	-	-	-	31,353
Total	<u>33,856</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,856</u>

Market risk management

(i) Interest rate risk

The Company is not exposed to interest rate risk because it does not have floating interest borrowing. The Company has received interest income amounting to TZS 1,175 million (2016: TZS 3,974 million) from its short-term bank deposits.

(ii) Foreign exchange risk

The Company's costs and expenses are principally incurred in Tanzanian Shillings (TZS) and US Dollars (USD). The Company did not enter into formal hedging transactions in respect of these transactions. Volatility in the exchange rate of USD against TZS would make the Company's costs and results less predictable than when exchange rates are stable.

At December 31, 2017, if the TZS had strengthened or weakened by 5% against the USD with all the other variables held constant, the impact on the pre-tax profit for the year would have been lower or higher by TZS 189 million (2016: TZS 464 million).

Notes to the financial statements

for the year ended December 31, 2017 (continued)

27. Financial risk management objectives and policies (continued)

Market risk management (continued)

(ii) Foreign exchange risk (continued)

The carrying amounts of the Company's material foreign currency denominated monetary assets and liabilities that will have an impact on profit or loss when exchange rates change, as at December 31, are as follows:

	2017 TZS M	2016 TZS M
Cash and bank balances in USD	850	5,924
Trade and other receivables in USD	8,581	4,117
Trade and other payables in USD	(13,217)	(19,323)
Open position	(3,786)	(9,283)

Financial instruments categorization

	Loans and receivables	Financial Liabilities carried at amortized Costs	Non financial liabilities or assets	Equity	Total
As at December 31, 2017	TZS M	TZS M	TZS M	TZS M	TZS M
Assets					
Non-current assets					
Property, plant and equipment	-	-	96,765	-	96,765
Current assets					
Inventories	-	-	112,388	-	112,388
Current tax asset	-	-	1,321	-	1,321
Trade and other receivables	19,480	-	5,318	-	24,798
Cash and bank balances	24,530	-	-	-	24,530
Total assets	44,010	-	215,792	-	259,802
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	175,085	175,085
Defined benefit reserve	-	-	-	5,810	5,810
Non-current liabilities					
Deferred tax liability	-	-	6,843	-	6,843
Defined benefit obligation	-	-	5,871	-	5,871
Current liabilities					
Trade and other payables	-	17,122	47,071	-	64,193
	-	17,122	59,785	182,895	259,802

Notes to the financial statements

for the year ended December 31, 2017 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization(continued)

	Loans and receivables	Financial Liabilities carried at amortized Costs	Non financial liabilities or assets	Equity	Total
As at December 31, 2016	TZS M	TZS M	TZS M	TZS M	TZS M
Assets					
Non-current assets					
Property, plant and equipment	-	-	89,353	-	89,353
Current assets					
Inventories	-	-	123,175	-	123,175
Trade and other receivables	7,589	-	5,742	-	13,331
Cash and bank balances	31,353	-	-	-	31,353
Total assets	38,942	-	218,270	-	257,212
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	179,728	179,728
Defined benefit reserve	-	-	-	4,988	4,988
Non-current liabilities					
Deferred tax liability	-	-	6,697	-	6,697
Defined benefit obligation	-	-	5,802	-	5,802
Current liabilities					
Trade and other payables	-	16,070	37,724	-	53,794
Current tax liability	-	-	4,203	-	4,203
	-	16,070	54,426	186,716	257,212

Notes to the financial statements

for the year ended December 31, 2017 (continued)

28. Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the Company.

The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital. Based on the review, the Company analyses and assesses the gearing ratio to determine the level and its optimality, through balancing its overall capital structure in payment of dividends and issue of new debt or the redemption of existing debt.

The Company's overall strategy remains unchanged from 2017.

The constitution of capital managed by the Company is as shown below:

	2017 TZS M	2016 TZS M
Share capital	2,000	2,000
Defined benefit actuarial gains	5,810	4,988
Retained earnings	175,085	179,728
Equity	182,895	186,716

As at December 31, 2017 the Company was not financed by any debt (2016: NIL).

29. Fair value measurement

IFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The Company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements

for the year ended December 31, 2017 (continued)

29. Fair value measurement (continued)

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

(a) Fair value of the Company financial assets and financial liabilities that are measured at fair on recurring basis.

The Company had no financial assets or financial liabilities that are measured at fair value on recurring basis at December 31, 2017 (2016: none).

(b) Fair value of the Company financial assets and financial liabilities that are not measured at fair on recurring basis.

The Company's financial assets and liabilities are measured at amortised cost; their carrying amounts are reasonable approximation of their fair value.

30. Events subsequent to the year end

At the date of signing the financial statements, the Directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in these financial statements, which significantly affected the financial position of the Company and results of its operations.

31. Incorporation

The Company is incorporated in Tanzania under the Companies Act, 2002 and domiciled in Tanzania.

32. Ultimate parent Company

The holding Company is JT International Holding B.V, a Company domiciled in the Netherlands. The ultimate parent Company is Japan Tobacco Inc., a Company incorporated under the Commercial Code of Japan pursuant to the Japan Tobacco Inc. Law.

33. Functional and presentation currency

The Company's functional and presentation currency is Tanzanian Shillings (TZS).

