

TANZANIA CIGARETTE COMPANY  
**ANNUAL REPORT 08**  
For the year Ended December 31, 2008



TANZANIA CIGARETTE COMPANY  
**Rasilimali ya Tanzania**



## CORE VALUES

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### QUALITY

Making a difference through quality must be evident in everything we do. We constantly improve our products and services, maximizing satisfaction for all our shareholders.

### COMMITMENT

We respect the views of society on tobacco, and are ethical and responsible in our activities. We are passionate about our business and celebrate success.

### INNOVATION

We live a culture of imagination, constantly searching for fresh ideas. We value our people for having the courage to do things differently.

### SYNERGY

Building on the unique diversity of our people, we become a truly different, stimulating and stronger organization. Working together with a positive attitude is vital for success.

# NOTICE OF ANNUAL GENERAL MEETING

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## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 44th Annual General Meeting of the Members of Tanzania Cigarette Company Limited in respect of the year ended 31st December 2008 will be held at the Movenpick Royal Palm Hotel, Dar es Salaam Tanzania, on Friday, 3rd April, 2009 at 11.00 hours.

### AGENDA:

1. Confirmation of the Minutes of the previous Annual General Meeting.
2. Matters Arising.
3. Adoption of Accounts:  
To receive, consider and adopt Directors' Report and the Accounts for the Financial Year ended 31st December 2008.
4. To Adopt the Declaration of Dividend.
5. To Appoint the Auditors for the next Financial Year.
6. Resignation and Appointment of Directors.
7. Remuneration of the Directors.
8. Any Other Business.

### NOTES:

1. A member wishing to attend the meeting must come with a copy of his / her depository receipt or share certificate and his / her identification card.
2. A member entitled to attend and vote at the meeting is entitled to appoint a PROXY to attend and vote in his / her stead in accordance with the provisions of the Amended Company's Articles. A proxy form must be deposited at the Registered Office of the Company so as to arrive not later than 10.00 hours Thursday, 2nd April 2009.

### BY ORDER OF THE BOARD

*Vintan Willgis Mbiro*  
**COMPANY SECRETARY**  
9th March 2009  
Plot No. 20 Nyerere Road  
P.O. Box 40114,  
Dar es Salaam.

# PROXY

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

I/We.....  
.....  
.....  
.....of P.O. Box .....

Being member/ members of Tanzania Cigarette Company Limited appoint .....

As my/ our Proxy, to vote for me/ us and on my/ our behalf at the annual general meeting of the company to be held on Friday 3rd of April 2009, at the Movenpick Royal Palm Hotel, Dar es Salaam, or at any adjournment thereof.

As witness my/ our hand/s this.....Day of.....2009.

.....  
(Signature)

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

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# Rasilimali ya Tanzania



## FINANCIAL HIGHLIGHTS



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Providing direct employment to 650 Tanzanians

## FINANCIAL HIGHLIGHTS

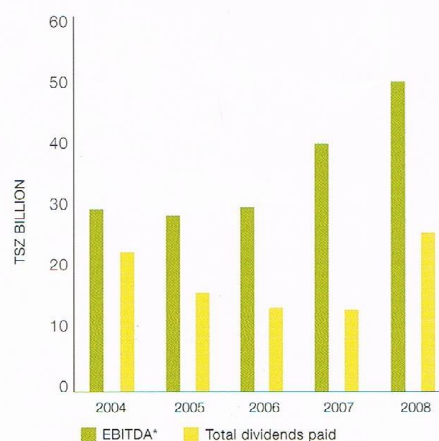
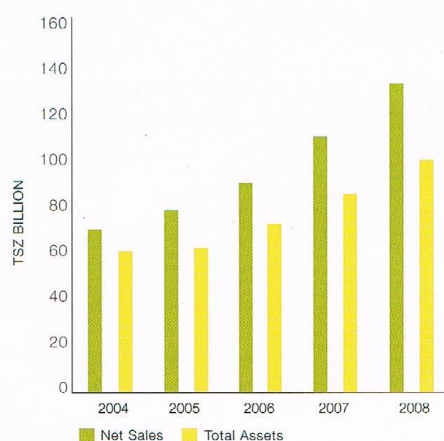
### TANZANIA CIGARETTE COMPANY LIMITED

TZS M

Consolidated Five-Year Financial summary

	2004	2005	2006	2007	2008
<b>FOR THE YEAR:</b>					
Gross Turnover	120,517	135,643	152,611	191,457	230,354
Excise Duty and VAT	50,529	59,305	65,146	80,428	93,473
<b>Net sales</b>	<b>69,988</b>	<b>76,338</b>	<b>87,465</b>	<b>111,029</b>	<b>136,881</b>
EBITDA (note1)	28,833	27,173	29,371	39,714	50,976
Depreciation and amortization	3,279	3,782	5,075	6,230	6,554
Operating income	25,554	23,391	24,296	33,484	44,422
Net Finance income (expense)	72	376	(1,936)	138	142
Taxation	7,787	6,716	6,719	9,229	13,508
<b>Net income</b>	<b>17,839</b>	<b>17,051</b>	<b>15,641</b>	<b>24,393</b>	<b>31,056</b>
<b>AT YEAR END:</b>					
Net Property, plant and equipment	21,937	23,084	38,921	39,090	37,115
Total assets	58,779	60,823	73,448	82,315	99,865
Interest bearing debts	-	-	-	255	-
Total Liabilities	16,265	16,836	26,609	23,583	37,577
Total shareholders' equity	42,514	43,987	46,839	58,732	62,288
<b>FOR THE YEAR:</b>					
Net cash generated by operating activities	21,167	12,774	22,874	26,217	36,473
Net cash used in investing activities	(4,426)	(7,352)	(20,347)	(5,932)	(4,363)
Net cash used in financing activities	(22,362)	(15,566)	(6,439)	(18,621)	(27,755)
Cash Flow for the year	(5,621)	(10,144)	(3,912)	1,664	4,355

Notes:1. EBITDA = operating income + depreciation and amortization



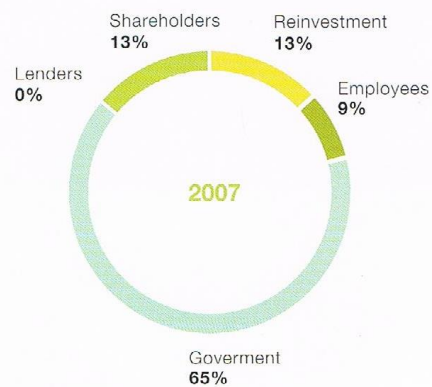
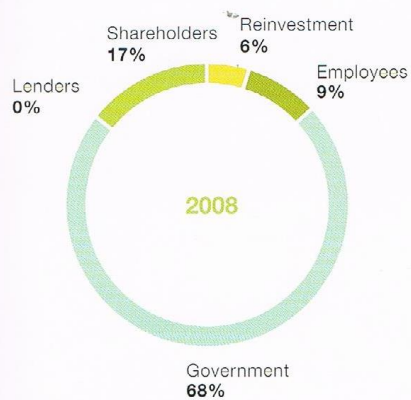
# FINANCIAL HIGHLIGHTS

## TANZANIA CIGARETTE COMPANY LIMITED GROUP VALUE ADDED STATEMENT

for the year ended 31 December 2008

	2008 TZS M	%	2007 TZS M	%
Gross turnover	230,354		191,457	
Operating expenditures - Suppliers	(70,532)		(53,250)	
Income from investments	-		-	
<b>Total Value added</b>	<b>159,822</b>	<b>100.0</b>	<b>138,207</b>	<b>100.0</b>
<b>Value distributed as follows:</b>				
To Employees - remuneration	14,977	9	12,922	9
To Government - vat,excise duties	93,473	58	80,428	58
To Government - corporate tax	13,508	8	9,229	7
To Shareholders - dividends	27,500	17	17,500	13
To Lending institutions - borrowing	255	-	-	-
<b>To Reinvestment:</b>				
Depreciation and amortisation	6,554	4	6,230	5
Retained income	3,556	2	11,898	9
<b>Total distributions</b>	<b>159,822</b>	<b>99.8</b>	<b>138,207</b>	<b>100.0</b>

## VALUE DISTRIBUTED



## FINANCIAL HIGHLIGHTS

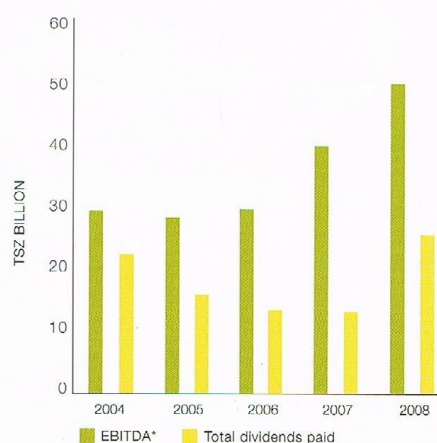
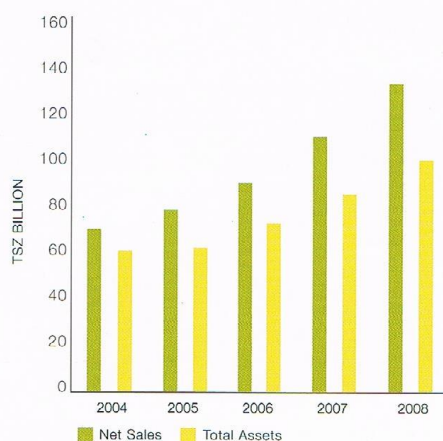
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**Rasilimali ya Tanzania**



**CHAIRMAN'S STATEMENT**



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Providing indirect employment to 85,000 tobacco farmers

## CHAIRMAN'S STATEMENT

### DEAR SHAREHOLDER,

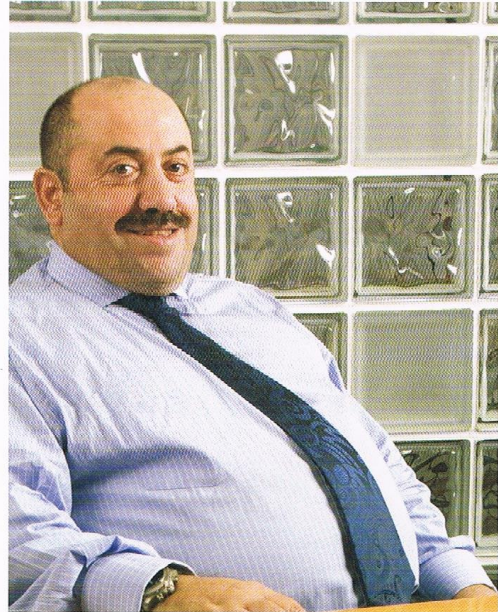
It gives me great pleasure to present to you the full-year results of Tanzania Cigarette Company (TCC) for the financial year ended December 31, 2008.

You will be pleased to know that TCC has achieved yet another year of remarkable results. Net turnover was up 23% on the previous year, from Tshs 111 billion in 2007 to Tshs 137 billion in 2008. Operating profit increased by 33%, from Tshs 31.5 billion in 2007 to Tshs 44.4 billion in 2008. And net profit was up 27%, from Tshs 24.4 billion in 2007 to Tshs 33.1 billion in 2008. These results were driven primarily by pricing of domestic products as well as by volume growth in the domestic and export markets.

The strong performance achieved in 2008 is a clear indication that the strategies put forth by Management for consistent long term growth are effective. These strategies include investment behind a high quality brand portfolio, manufacturing and operational efficiencies, sales and distribution infrastructure and people.

This performance has benefited TCC's many stakeholders, in particular the Government, shareholders and communities. TCC contributed Tshs 107 billion to the Treasury in the form of excise duty, VAT and corporate tax, up 19% on the previous year. In addition, TCC donated Tshs 408 million to various community assistance programs. Furthermore, gross dividends per share in 2008 were up 57% on the previous year.

The Board of Directors of TCC, at its meeting of March 6, 2009, declared a final ordinary gross dividend of Tshs 100



per share to be paid in May 2009. Together with the gross interim dividend of Tshs 100 per share and the special interim dividend of Tshs 75 per share paid in October 2008, this brings the total gross dividend for the year ended December 31, 2008 to Tshs 275 per share.

I must however caution that the global financial crisis may impact 2009 results. Our cost base could be under pressure from a strong US Dollar and significant increases in global tobacco prices. These increases are expected to be somewhat offset by the full year impact of the July 2008 price increase and continued volume growth in 2009. Management remains cautiously optimistic about prospects for 2009.

In conclusion, and on behalf of the Board of Directors, I wish to thank the many stakeholders that have contributed to TCC's continued success; the tobacco farmers and processors, suppliers, customers, employees, the Government and our shareholders for their continuous support.

**Simaan Matta**  
**Chairman and CEO,**  
**Tanzania Cigarette Company Ltd.**

## WARAKA KUTOKA KWA MWENYEKITI

### NDUGU WANAHISA,

**Ni furaha kubwa kwangu kuwasilisha kwenu mafanikio kamili ya mwaka ya Kampuni ya Sigara Tanzania (TCC) kwa mwaka wa fedha uliyoshia tarehe 31 Desemba, 2008.**

Mtafurahi kujua kwamba TCC imeweza tena kupata mafanikio makubwa katika mwaka wa taarifa hii. Mapato halisi yameongezeka kwa asilimia 23 ikilinganishwa na mwaka uliyopita, kutoka Tshs 111 bilioni mwaka 2007 hadi Tshs 137 bilioni mwaka 2008. Faida ya uendeshaji imeongezeka kwa asilimia 33 kutoka Tshs 31.5 bilioni mwaka 2007 hadi Tshs 44.4 bilioni mwaka 2008. Aidha, faida halisi nayo imepanda kwa asilimia 27 kutoka Tshs 24.4 bilioni mwaka 2007 hadi Tshs 33.1 bilioni mwaka 2008. Mafanikio haya yamesababishwa hasa na ongezeko la bei ya bidhaa zetu na kukua kwa masoko ya ndani na nje ya nchi.

Mafanikio makubwa ya utendaji yaliyopatikana mwaka 2008 ni ishara ya wazi kwamba mikakati iliyowekwa na menejimenti ni imara. Mikakati hii ni pamoja na uwekezaji katika bidhaa bora na zenye sifa, ufanisi wa utengenezaji na uendeshaji, miundombinu ya mauzo, usambazaji na watu.

Mafanikio haya ya utendaji yamewanufaisha wadau wengi wa TCC, hasa serikali, wanahisa na jamii. TCC imechangia Tshs 107 bilioni katika Hazina kwa njia ya ushuru wa bidhaa za ndani, kodi ya ongezeko la thamanai (VAT), na kodi ya kampuni ambazo ni ongezeko la asilimia 19 ikilinganishwa na mwaka uliyopita. Aidha, TCC imechangia Tshs 408 milioni katika miradi mbali mbali ya jamii. Pia, gawio la

jumla kwa hisa kwa mwaka 2008, limepanda kwa asilimia 57 ikilinganishwa na mwaka uliyopita.

Bodi ya Wakurugenzi katika mkutano wake uliyofanyika tarehe 6 Machi 2009, imepitisha gawio la jumla la mwisho wa mwaka la kawaida la Tshs 100 kwa hisa litakalolipwa mwezi Mei, 2009. Pamoja na gawio la Tshs 100 kwa hisa na gawio maalum la Tshs 75 kwa hisa lililolipwa mwezi Oktoba, 2008, hufanya gawio la jumla kwa mwaka uliyoshia tarehe 31 Desemba 2008 kuwa Tshs 275 kwa hisa.

Hata hivyo sina budi kutahadharisha kwamba mtikisiko wa hali ya fedha duniani huenda ukaathiri matokeo ya mapato kwa mwaka 2009. Hasa gharama za uendeshaji zinaweza kupanda kutokana na thamani ya juu ya Dola ya Marekani na ongezeko kubwa la bei ya tumbaku duniani. Aidha, maongezeko haya yanatarajiwa kufidiwa kwa kiasi fulani na matokeo ya ongezeko la bei ya Julai 2008 na ukuwaji wa soko la ndani mwaka 2009.

Kwa kuhitimisha, na kwa niaba ya Bodi ya Wakurugenzi, napenda niwashukuru wadau wengi waliochangia katika mafanikio ya TCC; wakulima wa tumbaku na wasindikaji; wagavi, wateja, wafanyakazi, serikali na wanahisa wetu kwa kutuunga mkono bila ya ukomo.

**Simaan Matta**  
**Mwenyekiti na Mkurugenzi Mkuu Wa Kampuni**  
**ya Sigara Tanzania (TCC)**

## BUSINESS REVIEW



### **2008 WAS A REMARKABLE YEAR FOR TANZANIA CIGARETTE COMPANY (TCC).**

**TCC's financial results have never been better, with significant growth achieved in all key financial indicators.**

Sales volumes were at an all time high. Coupled with a price increase in July 2008, gross sales surpassed the Tshs 200 billion mark for the first time in the history of TCC to reach Tshs 230 billion. With excise tax and VAT payments also at a historical high of just over Tshs 90 billion, net sales were Tshs 137 billion, up 23% on the previous year. Cost of sales went up 16% due to higher volume and increased tobacco leaf costs. However, these were off-set by the larger increase in net sales. Gross profit was 28% up on last year at Tshs 85 billion and despite a significant increase in marketing investment, operating profit increased 33% to Tshs 44 billion.

**The strong results are due to management's focus on its long-term strategies and investment behind key business drivers.**

We continued to evolve and invest in our sales and distribution model to reach our adult consumers in remote areas. In addition, we made significant in-roads in our existing export markets and entered new markets.

Whilst pricing has played a role in driving profitability, we have been cautious to ensure affordability and value for money for our esteemed consumers. Where appropriate and necessary, we have increased prices to recover margin erosion and protect shareholder value. In July 2008, prices went up as a result of a 12% excise tax increase, the first double digit excise tax increase in over a decade.

Our employees have been fundamental to our success. Guided by our vision "to be the best we can be" and supported by a compensation system that rewards performance, they exceeded volume targets and other key performance indicators for 2008. But, it is the continued investment behind training and development (T&D) of our employees that has made a significant impact on performance. TCC invested Tshs 992 million 6% of payroll in T&D in and outside Tanzania. This level of investment is comparable to international standards. In addition to the annual six months internship program, a two year management program was introduced. This program aims to attract, train and retain the brightest college students in Tanzania.

**TCC's success has benefited shareholders, the Government and communities.**

TCC generated strong cash flows of Tshs 36 billion from its operating activities. In the absence of any major capital investment projects in 2008, a total of Tshs 27.5 billion will be returned to shareholders as dividends. Shareholders received an ordinary gross dividend of Tshs 100 per share and a special gross dividend of Tshs 75 per share in October 2008. A final gross dividend of Tshs 100 per share for the period ending December 31, 2008 will be paid out in May 2009. This will bring the total gross dividend per share to Tshs 275, an increase of 57% on the previous year.

## BUSINESS REVIEW



TCC contributed to the Treasury a record Tshs 107 billion in various taxes, an increase of 19% on the corresponding period last year. TCC remains one of the biggest tax payers in Tanzania. TCC also contributed Tshs 400 million to various community initiatives as part of its corporate philanthropy programs.

### **But this success has not been without its challenges.**

Port delays continued to constrain our operations. Distribution remained a challenge due to poor roads in the rural areas. Lack of an efficient railway system meant continued reliance on road transportation, a more expensive mode of transport compared to railways.

The uncertainty surrounding amendments to the Tobacco Products Act- 2003 have made it difficult to plan ahead. We hope this issue will finally be addressed in 2009. Whilst we fully support appropriate regulation of the industry, it will be important to ensure a reasonable balance between commercial needs and public health concerns.

Although the impact of the global financial crisis on our business was minimal in 2008, we believe its aftermath will be felt more in 2009. Our cost base is likely to come under pressure should the Shilling continue to lose ground against the USA Dollar. The situation could be compounded

by rising world prices of tobacco due to a global shortage of green leaf tobacco.

### **We remain cautiously optimistic about TCC's prospects for 2009.**

This optimism is based on the passion of our employees, the equity of our brands, the strength of our sales and distribution infrastructure, the support of our parent Company, JT International, and our ability to react to new challenges and opportunities.

## MAPITIO YA BIASHARA



### MWAKA WA 2008 ULIKUWA MWAKA WA KIPEKEE KWA MAFANIKIO YA KAMPUNI YA SIGARA TANZANIA (TCC)

**Mafanikio yetu ya fedha yamekuwa mazuri zaidi, kukiwa na ongezeko katika viashiria vyote muhimu vya fedha.**

Mauzo daima yalikuwa ya juu. Kutokana na ongezeko la bei mwezi Julai, 2008, mauzo ya jumla yalipita kiwango cha Tshs 200 bilioni kwa mara ya kwanza katika historia ya TCC na kufikia Tshs 230 bilioni. Malipo ya ushuru wa bidhaa za ndani na VAT nayo yamevunja rekodi na kufikia zaidi ya Tshs 90 bilioni, mauzo halisi yalikuwa Tshs 137 bilioni, sawa na ongezeko la asilimia 23 ikilinganishwa na mwaka uliyopita. Gharama ya mauzo iliongezeka kwa asilimia 16 kutokana na ongezeko la uzalishaji na ongezeko la bei ya tumbaku ghafi. Hata hivyo gharama hizo zilifidiwa na ongezeko kubwa la mauzo halisi. Faida ya jumla iliongezeka kwa asilimia 28 ikilinganishwa na mwaka uliyopita, na kufikia Tshs 85 bilioni. Ingawa kulikuwa na ongezeko kubwa la uwekezaji katika masoko, faida ya uendeshaji iliongezeka kwa asilimia 33 na kufikia Tshs 44 bilioni.

**Ubora wa matokeo haya unatokana na menejimenti kuzingatia mikakati ya muda mrefu na uwekezaji katika visababishi muhimu vya biashara.**

Tumeendelea kuwekeza katika mauzo na usambazaji wa bidhaa zetu ili kuwafikia wateja wetu watu wazima katika maeneo ya pembezoni. Pia, tumewekeza katika masoko yetu ya nje ya sasa na kuingia katika masoko mapya.

Wakati ongezeko la bei limechangia katika kuongeza faida, tumekuwa waangalifu sana kuhakikisha wateja wetu wanamudu bidhaa zetu na kupata bidhaa bora kulingana

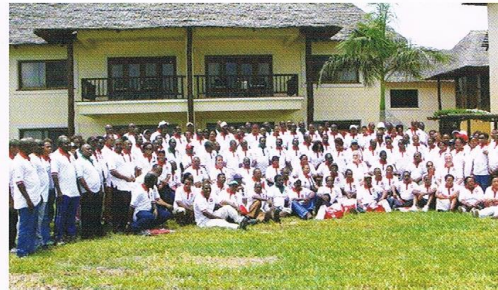
na thamani ya fedha. Pale panapofaa na muhimu, tumeongeza bei ili kufidia kupungua kwa ziada na kulinda thamani ya mwanahisa. Mwezi Julai, 2008 tulipandisha bei za bidhaa zetu kwa sababu ya ongezeko kubwa la asilimia 12 la ushuru wa bidhaa za ndani.

Wafanyakazi wetu wamekuwa muhimu sana kwa mafanikio yetu. Wakiongozwa na dira yetu, "kuwa bora zaidi kadiri tunavyoweza", wafanyakazi walivuka malengo ya mauzo tulio jiwekea kwa mwaka wa 2008. Hata hivyo ni uwekezaji katika mafunzo na maendeleo ya wafanyakazi wetu ndiyo uliyoleta mafanikio makubwa zaidi katika utendaji. TCC iliwekeza Tshs 992 milioni au asilimia 6 ya malipo ya jumla ya wafanyakazi kwa ajili ya mafunzo ndani na nje ya Tanzania. Programu ya ukufunzi kazini nayo imeimarishwa na kuwa ya miaka miwili badala ya miezi sita kama ilivyo kuwa hapo awali. Lengo la programu hii ni kupata na kuandaa wafanyakazi bora zaidi.

**Mafanikio yetu yamewanufaisha wanahisa, Serikali na Jamii**

TCC ilijipatia fedha halisi (cashflow) ya Tshs 36 bilioni kutokana na shughuli za uendeshaji kwa mwaka wa fedha uliyoshia tarehe 31 Desemba, 2008. Kutokana na kutokuwapo kwa miradi mikubwa ya maendeleo kwa mwaka 2008, jumla ya Tshs 27.5 bilioni watarudishiwa wanahisa kama gawio. Wanahisa walipokea gawio la jumla

## MAPITIO YA BIASHARA



la kawaida la Tshs 100 kwa hisa na gawio la jumla maalumu la Tshs 75 kwa hisa mwezi Oktoba 2008. Gawio la jumla la mwisho la Tshs 100 kwa hisa kwa kipindi kilichoishia tarehe 31 Desemba 2008, litalipwa mwezi Mei, 2009. Malipo haya yatafanya gawio la jumla kwa mwaka wa 2008 kwa hisa kufikia Tshs 275, sawa na ongezeko la asilimia 57 ikilinganishwa na mwaka uliyopita.

TCC imechangia Hazina jumla ya Tshs 107 bilioni kwa ushuru na kodi mbalimbali. Kiasi hicho ambacho hakijawahi kufikiwa ni ongezeko la asilimia 19 katika kipindi sawa cha mwaka uliopita. TCC inaendelea kuwa mmojawapo wa walipa kodi wakubwa nchini.

TCC imechangia pia Tshs 408 milioni katika miradi mbalimbali ya jamii kama sehemu ya programu za kampuni za kusaidia na kufadhili maendeleo ya jamii.

### **Mafanikio haya yamekabiliwa na changamoto**

Ucheleweshaji wa mizigo bandarini unaendelea kuwa kikwazo cha uendeshaji shughuli zetu. Usambazaji nao umebaki kuwa changamoto kutokana na barabara mbovu katika maeneo ya Vijijini. Kukosekana kwa usafiri wa reli wa kuaminika kumesababisha kuendelea kutegemea usafirishaji kwa njia ya barabara, ambao ni ghali zaidi kuliko usafiri wa reli.

Kutokana na kutokuwa na uhakika kuhusu marekebisho ya sheria ya matumizi ya tumbaku kumesababisha ugumu katika kupanga mipango ya baadaye. Ni matumaini yetu kwamba hatimaye suala hili litashughulikiwa mwaka 2009. Wakati tunaunga mkono kwa ukamilifu kanuni na sheria zinazofaa za sekta ya tumbaku, itakuwa muhimu kuhakikisha kuwapo kwa uwiano wa kutosha kati ya mahitaji ya kibiashara na kujali afya ya wananchi.

Ingawa athari ya mtikisiko wa hali ya fedha duniani kwa biashara yetu ilikuwa ndogo kwa mwaka 2008, tunaamini kwamba matokeo yake yataonekana zaidi mwaka 2009. Gharama za uendeshaji huenda zikapanda kama shilingi ya Tanzania itaendelea kushuka ikilinganishwa na kupanda kwa thamani ya Dola ya Marekani. Hali hiyo inaweza kuwa mbaya zaidi kutokana na kupanda kwa bei ya tumbaku duniani. Hii ni kwasababu ya upungufu wa uzalishaji wa zao hili duniani.

### **Hata hivyo tuna matarajio mazuri kuhusu shughuli za TCC kwa mwaka 2009**

Matarajio haya mazuri yanatokana na shauku ya wafanyakazi wetu, ubora wa bidhaa zetu, miundombinu imara ya usambazaji, msaada wa kampuni yetu mama, JTI, na uwezo wetu wa kukabili changamoto mpya na fursa zinazopatikana.

# CORPORATE GOVERNANCE



## CORPORATE GOVERNANCE

Tanzania Cigarette Company (TCC) is a subsidiary of JT International. It is publicly listed on the Dar es Salaam Stock Exchange. TCC is committed to the principles and practices of good corporate governance and continually seeks improvements. TCC strictly follows its parent company's global standards, policies and procedures and operating guidelines. These include amongst others, responsible marketing, equal opportunity employer, a code of conduct, environmental health and safety standards and corporate philanthropy.

## RESPONSIBLE MARKETING

Cigarettes are a controversial but legal product. TCC is committed to responsible marketing of its products. TCC believes smoking is an adult choice; minors should not smoke; no one should smoke without the knowledge of the risks of smoking; and at all times, smokers should show courtesy to non-smokers and to society.

## EQUAL OPPORTUNITY EMPLOYER

TCC is an equal opportunity employer and does not discriminate. It recruits new employees on the basis of ability and potential.

## CODE OF CONDUCT

TCC's parent company, JT International, has a Code of Conduct in place. The Code of Conduct describes some

of the most important legal and ethical obligations that must be adhered to in the conduct of business. It also describes the practices and procedures that must be followed in meeting those obligations. TCC strictly adheres to its parent company's Code of Conduct.

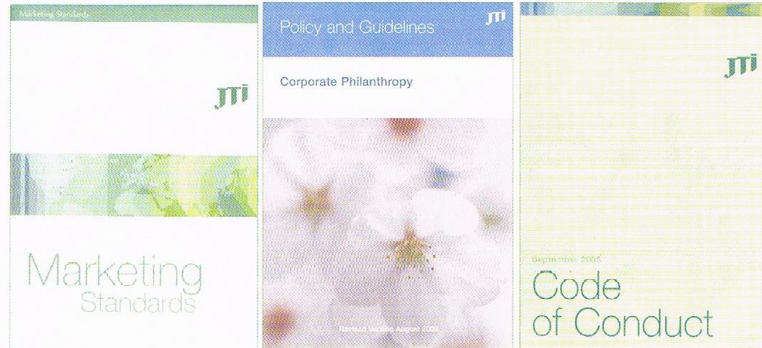
## ENVIRONMENTAL PROTECTION HEALTH AND SAFETY (EHS)

TCC has in place an environmental, health and safety standards (EHS). This program aims to minimize waste, cut emissions, conserve energy and avoid accidents at the work place. TCC's environmental program was ISO 14001 certified in 2004. This certification was maintained in 2005 following a clean audit report conducted by SGS, the certifying agency. In addition, TCC's occupational health and safety program was OHSAS 18001 certified in 2005. This is in line with the direction set by the parent company, JT International, and is a requirement for all factories operating under the Japan Tobacco Umbrella.

## CORPORATE PHILANTHROPY

As a company drawing on local communities for employees and also for customers, TCC believes in putting something back into those communities. TCC has corporate policies to offer help with social projects, humanitarian causes, educational initiatives and cultural events.

## UTAWALA BORA



### UTAWALA BORA

Kampuni ya Sigara Tanzania (TCC) ni kampuni tanzu ya JTI. Imeorodheshwa rasmi katika Soko la Hisa Dar es Salaam (DSE). TCC inafuata kanuni na mienendo ya utawala bora wa kampuni, na kuendelea kutafuta njia za kuboresha utendaji. TCC inafuata kwa dhati viwango vya kimataifa vya kampuni yake mama, sera taratibu na miongozo ya uendeshaji. Miongoni mwa hayo ni uwajibikaji katika masoko, fursa sawa kwa wote, maadili ya kazi, viwango vya mazingira, afya na usalama na kusaidia na kufadhili maendeleo ya jamii.

### UWAJIBIKAJI KATIKA MASOKO

Sigara ni bidhaa yenye utata ambayo ni halali. TCC inafuata uwajibikaji katika masoko kwa bidhaa zake. TCC inaamini kwamba kuvuta sigara ni chaguo la mtu mzima. Watoto hawapaswi kuvuta sigara; Mvutaji sigara anapaswa kufahamu sigara na athari zake; na daima wavutaji ni lazima waonyeshe kuwajali wale wasiovuta na jamii kwa jumla.

### FURSA SAWA KWA WOTE

TCC ni mwajiri anayetoa fursa sawa kwa wote na haibagui. TCC inaajiri wafanyakazi wapya kwa msingi wa uwezo, umuhimu na ujuzi.

### MAADILI YA KAZI

JTI, ambayo ni kampuni mama ya TCC, inayo Maadili ya Kazi. Maadili ya Kazi yanafanua baadhi ya majukumu

muhimu kabisa kisheria na kimaadili ambayo ni lazima tuyatimize katika utekelezaji wa kazi. Yanafanua pia shughuli na mienendo ambayo ni lazima tufuate ili kufikia malengo yetu. TCC inazingatia na kufuata Maadili ya Kazi ya Kampuni mama.

### UHIFADHI WA MAZINGIRA, AFYA NA USALAMA (EHS)

TCC ina viwango vya mazingira, afya na usalama (EHS). Programu hii ina shabaha ya kupunguza taka / uchafu, kuondoa moshi, kuhifadhi nishati na kuepuka ajali mahali pa kazi. Programu ya mazingira ya TCC ina hati ya kiwango cha ISO 14001 ya mwaka 2004. Aidha, programu ya afya na usalama kazini ilipewa hati OHSAS 18001 ya mwaka 2005. Hii inazingatia maelekezo yaliyowekwa na kampuni mama, JTI na ni sharti kwa viwanda vyote vinavyoendeshwa shughuli zake chini ya Kampuni ya Tumbaku ya Japan (Japan Tobacco Umbrella).

### KUSAIDIA NA KUFADHILI MAENDELEO YA JAMII

Kwa kuwa kampuni inategemea jamii kwa wafanyakazi na wateja, TCC inaamini kurudisha fadhila kwa jamii. TCC ina sera za kampuni za kusaidia miradi ya jamii, huduma za kibinadamu, miradi ya elimu na matukio ya utamaduni.

**Rasilimali ya Tanzania**



**BOARD OF DIRECTORS**



Management Team

18

Board Of Directors

19

Protecting the environment, planting 8 million trees

## MANAGEMENT TEAM

---



**SIMAAN MATTA**  
Chairman &  
CFO



**CHRISTOPHER YAMAT**  
Director Consumer &  
Trade Marketing  
(Development and Planning)



**ROY SIZEMORE**  
Director Manufacturing



**FRANK USIRI**  
Director Company Services



**STELLA URIO**  
Director Consumer &  
Trade Marketing  
(Portfolio & Brand Strategy)



**JESSE MWANGI**  
Director Consumer &  
Trade Marketing  
(Operations)



**PAUL MAKANZA**  
Director Corporate Affairs



**CAROLINE KAVISHE**  
Director Human Resources



**CHERYL GROBBELAAR**  
Director Finance



**VINTAN MBIRO**  
Director Legal Affairs

# BOARD OF DIRECTORS

**VINTAN MBIRO**  
Secretary to the Board

**MARIA KEJO**  
Director (Non Executive)

**DAVID THORN**  
Director (Executive)



**ELIPINA MLAKI**  
Alternate Director to  
Gray Mgonja  
(Non Executive)

**PAUL MAKANZA**  
Director (Executive)

**SIMAAAN MATTA**  
Chairman

**HUBERTUS OOMS**  
Director (Non Executive)

**CHERYL GROBBELAAR**  
Director (Executive)

# Rasilimali ya Tanzania



## Certificate of Merit

This Certificate is awarded to

*MS* ..... **Tanzania Cigarette Company Ltd**  
*as one of the best ten compliant taxpayers at the National level*  
*during the 3<sup>rd</sup> Taxpayer's Day in 2008.*

## CORPORATE INFORMATION

"TAX COMPLIANCE FOR ECONOMIC GROWTH"

  
Board Chairperson

  
Commissioner General



# Certificate of Merit

This Certificate is awarded to  
*MS* **Tanzania Cigarette Company Ltd**  
during the 3<sup>rd</sup> Taxpayers Day 2008 as the 3<sup>rd</sup> Winner  
at national level in recognition of the  
*taxpayer's high degree of tax contribution.*

Corporate Information	22
Report Of Directors	23
Statement Of Director's Responsibilities	25
Independent Auditors Report	26

*[Signature]*  
Board Chairperson

*[Signature]*  
Commissioner General

Contributing to the economy through taxes

# REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2008

**The directors are pleased to present their report and the audited financial statements for the year ended 31 December 2008.**

## ACTIVITIES

The group's principal activities are the manufacture and sale of cigarettes.

## RESULTS

The group and company results for the year are set out on page 30. Group net profit for the year of TZS 31,056 million (2007 – TZS 24,393 million) has been transferred to retained earnings.

## DIVIDENDS

During the year, the directors declared an interim gross dividend of TZS 10.0 billion or TZS 100 per share and a special interim gross dividend of TZS 7.5 billion or TZS 75.0 per share, which was paid in October 2008 (2007: TZS 7.5 billion or TZS 75.0 per share). After the year-end, the Directors have proposed a final gross dividend of TZS 10 billion or TZS 100.0 per share (2007: TZS 7.5 billion or 75.0 per share, special dividend for 2007 was TZS 2.5 billion or TZS 25 per share). The final dividend is subject to adoption by shareholders at the Annual General Meeting and, once adopted, the total gross dividend relating to current year will equal to TZS 27.5 billion or TZS 275 per share (2007: TZS 17.5 billion or TZS 175.0 per share).

The total of the proposed final ordinary dividend net of withholding tax (where applicable) will be paid to all shareholders registered at the Dar es Salaam Stock Exchange (DSE) at the date announced through public notice.

## DIRECTORS

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

Mr. Simaan Matla	Chairman and Chief Executive Officer
Mr. Gray Mgonja	Director (Non –Executive) - Resigned on 20 February 2009
Mr. Paul Makanza	Director (Executive)
Ms. Maria Kejo	Director (Non –Executive)
Mr. Hubertus Maria Antonius Ooms	Director (Non –Executive)
Mr. David Thorn	Director (Executive)
Mrs. Cheryl Grobbelaar	Director (Executive)
Mr. Ramadhani Khijja	Director (Non- Executive) - Appointed on 20 February 2009

# CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2008

## DIRECTORS

### DIRECTORS

Mr. Simaan Matta (Chairman and CEO)  
Mr. Gray Mgonja\*  
Mr. Paul Makanza  
Ms. Maria Kejo\*  
Mr. Hubertus Maria Antonius Ooms\*  
Mr. David Thorn  
Mrs. Cheryl Grobbelaar

\* Non-executive Directors

### PRINCIPAL BANKERS

Standard Chartered Bank Tanzania Limited  
CRDB Bank Plc  
National Bank of Commerce Limited  
National Micro-Finance Bank Limited  
Citibank Tanzania Limited  
Barclays Bank Tanzania Limited

## SECRETARY & REGISTERED OFFICE

Mr. Vintan Willgis Mbiro  
20 Nyerere Road  
P.O. Box 40114  
Dar es Salaam  
Tel: +255 22 2166291

## AUDITORS

Deloitte & Touche  
10th Floor PPF Tower, Ohio Street  
P.O. Box 1559  
Dar es Salaam

## SHAREHOLDING STRUCTURE

### SHAREHOLDER

SHAREHOLDER	HOLDING**
J1 International Holding B. V.	75.00%
Public Service Pension Fund	4.34%
Parastatal Pension Fund	2.95%
National Social Security Fund	4.06%
United Republic of Tanzania	2.50%
General Public	11.15%

**Total** **100.00%**

### SHAREHOLDER CLASSIFICATION

SHAREHOLDER CLASSIFICATION	HOLDING**
Tanzanian	25.0%
Foreign	75.0%
<b>Total</b>	<b>100.0%</b>

\*\*Based on share register as at 31 December 2008

# REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

Mr. Simaan Matta	Chairman and Chief Executive Officer
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Ms. Maria Kejo	Director (Non –Executive)
Mr. Hubertus Maria Antonius Ooms	Director (Non –Executive)
Mr. David Thorn	Director (Executive)
Mrs. Cheryl Grobbelaar	Director (Executive)
Mr. Ramadhani Khijja	Director (Non- Executive) - Appointed on 20 February 2009

## **REPORT OF THE DIRECTORS** (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

### **DIRECTORS' INTERESTS**

The directors do not hold any material interest in the issued share capital of the company

### **SOLVENCY**

The state of affairs of the group and company as at 31 December 2008 is set out on page 31 of these financial statements. The directors consider the company to be solvent, within the meaning ascribed by the Tanzanian Companies Act, 2002.

### **RELATED PARTY TRANSACTIONS**

Details of transactions and balances with related parties are included in note 20 to the financial statements.

### **CONTRACTS WITH RELATED PARTIES**

The Company has the contract with JT International SA and JT International Holding B. V for managerial, technical and administrative services. Amount payable under this agreement have been disclosed in note 20 of the financial statements.

### **CONTINGENT LIABILITIES**

The Company is currently involved in litigation with various third parties with respect to commercial and labour issues as stated in note 22 to the financial statements.

### **AUDITORS**

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

### **BY ORDER OF THE BOARD**



**Mr. Paul Makanza**  
Director  
6 March 2009

**Dar es Salaam**



**Ms. Maria N.Kejo**  
Director

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Tanzanian Companies Act, 2002 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the operating results of the group, and of the company for that year. It also requires the directors to ensure that parent company and its subsidiary keep proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the parent company and its subsidiary. They are also responsible for safeguarding the assets of the group.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Tanzanian Companies Act, 2002. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Tanzanian Companies Act, 2002. 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 parent company and group and of their 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 parent company and its subsidiary will not remain a going concern for at least the next twelve months from the date of this statement.



**Mr. Paul Makanza**  
Director  
6 March 2009

**Dar es Salaam**



**Ms. Maria N. Kejo**  
Director

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TANZANIA CIGARETTE COMPANY LIMITED

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Tanzania Cigarette Company Limited and its subsidiary, set out on pages 30 to 57 which comprise the group and parent company balance sheets as at 31 December 2008, and the group and parent company income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TANZANIA CIGARETTE COMPANY LIMITED

## *Opinion*

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the group and parent company as at 31 December 2008 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Tanzanian Companies Act, 2002

## *Report on Other Legal Requirements*

As required by the Tanzanian 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 parent company, so far as appears from our examination of those books; and
- iii) the parent company's balance sheet and income statement are in agreement with the books of account.

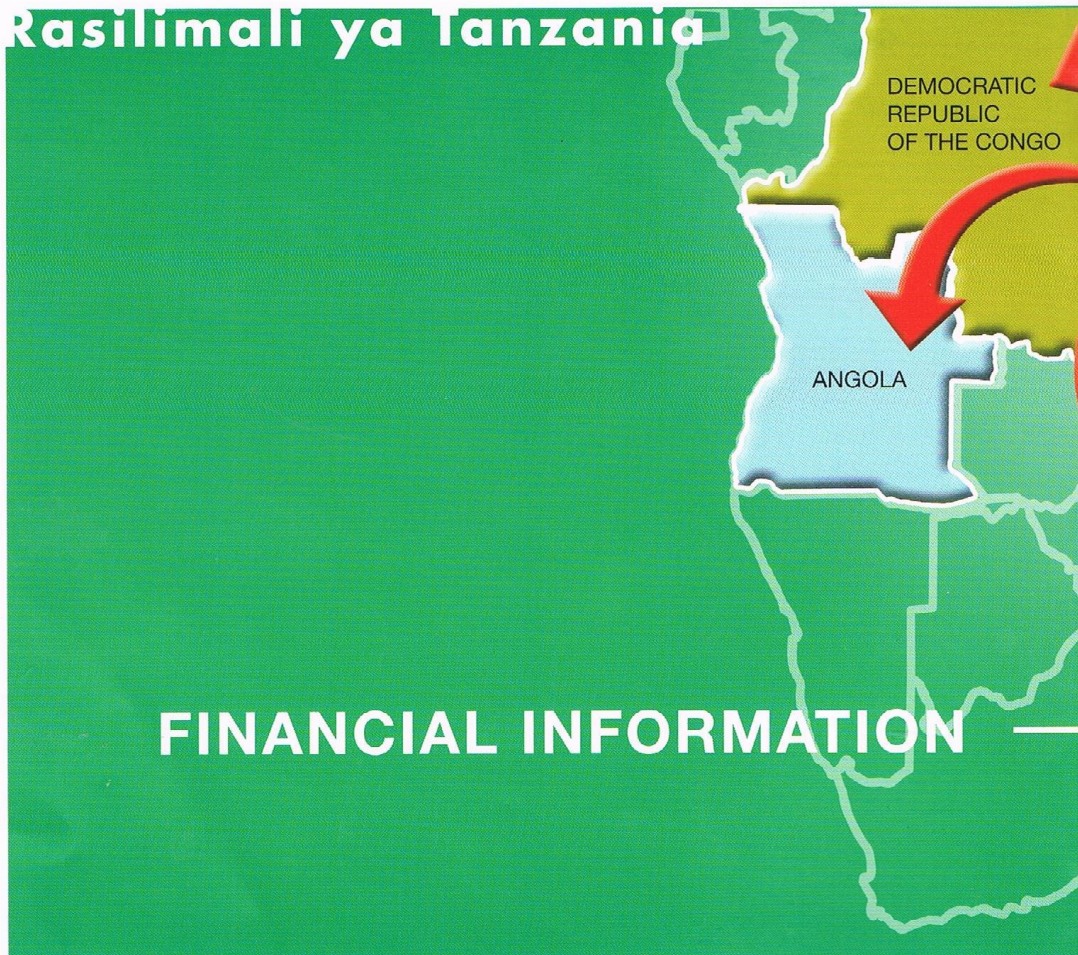
## **Deloitte & Touche**

Certified Public Accountants (T)



**E A Harunani**  
Dar es Salaam  
6 March 2009

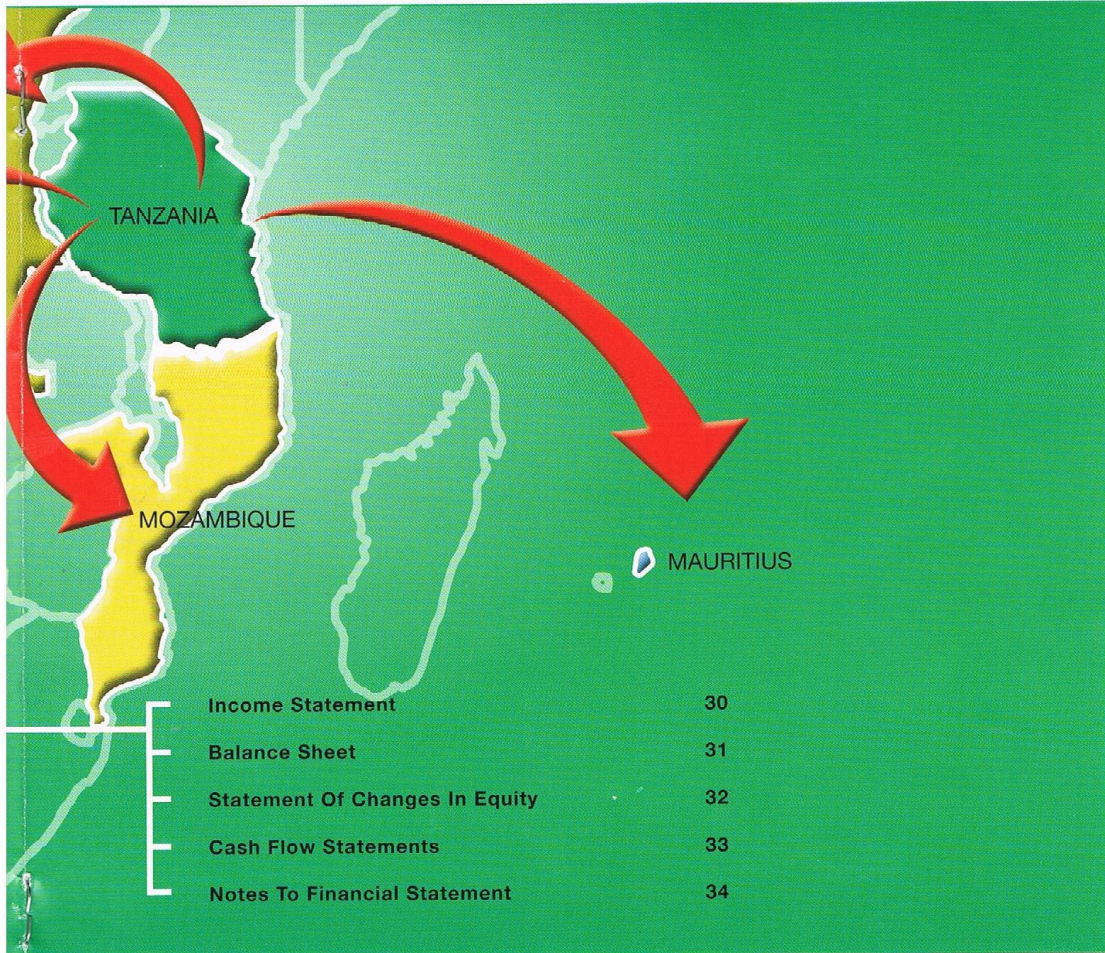
# Rasilimali ya Tanzania



DEMOCRATIC  
REPUBLIC  
OF THE CONGO

ANGOLA

FINANCIAL INFORMATION



Forex earnings for the Country through exports

# INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008


	Notes	GROUP		COMPANY	
		2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
<b>Gross turnover</b>		230,354	191,457	230,354	191,457
Excise duty and VAT		(93,473)	(80,428)	(93,473)	(80,428)
<b>Net turnover</b>		<b>136,881</b>	<b>111,029</b>	<b>136,881</b>	<b>111,029</b>
Cost of sales	4	(51,715)	(44,564)	(51,715)	(44,564)
<b>Gross profit</b>		<b>85,166</b>	<b>66,465</b>	<b>85,166</b>	<b>66,465</b>
Selling and distribution costs		(22,133)	(16,516)	(22,133)	(16,516)
General and administrative costs		(16,214)	(14,695)	(16,207)	(14,690)
Other expenses		(2,397)	(1,770)	(2,397)	(1,770)
<b>Operating profit</b>	5	<b>44,422</b>	<b>33,484</b>	<b>44,429</b>	<b>33,489</b>
Net finance income	6	142	138	142	138
<b>Profit before taxation</b>		<b>44,564</b>	<b>33,622</b>	<b>44,571</b>	<b>33,627</b>
Taxation charge	7	(13,508)	(9,229)	(13,508)	(9,229)
<b>Net profit for the year</b>		<b>31,056</b>	<b>24,393</b>	<b>31,063</b>	<b>24,398</b>
		<b>TZS</b>	<b>TZS</b>		
<b>Earnings per share</b>					
Basic and diluted	8	310.56	243.93		
<b>Dividend per share</b>	9	275.00	175.00		

# BALANCE SHEET

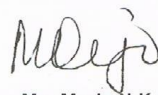
AS AT 31 DECEMBER 2008

	Notes	GROUP		COMPANY	
		2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
<b>ASSETS</b>					
<b>Non current assets</b>					
Property, plant and equipment	10	37,115	39,090	37,115	39,090
Intangible assets	11	1,851	2,116	1,851	2,116
Investment in subsidiary	12(a)	-	-	-	-
Loan receivable	12(b)	272	150	272	150
		<b>39,238</b>	<b>41,356</b>	<b>39,238</b>	<b>41,356</b>
<b>Current assets</b>					
Inventories	13	39,266	31,342	39,266	31,342
Trade and other receivables	14	11,780	4,373	11,812	4,398
Taxation recoverable	7.4	89	107	89	107
Bank balances and cash		9,492	5,137	9,486	5,131
		<b>60,627</b>	<b>40,959</b>	<b>60,653</b>	<b>40,978</b>
<b>Total assets</b>		<b>99,865</b>	<b>82,315</b>	<b>99,891</b>	<b>82,334</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	15	2,000	2,000	2,000	2,000
Retained earnings		60,288	56,732	60,853	57,290
Shareholders' equity		<b>62,288</b>	<b>58,732</b>	<b>62,853</b>	<b>59,290</b>
<b>Non current liabilities</b>					
Deferred tax liability	16	3,250	2,894	3,250	2,894
<b>Current liabilities</b>					
Trade and other payables	17	34,327	20,434	33,788	19,895
Short term borrowings	18	-	255	-	255
		<b>34,327</b>	<b>20,689</b>	<b>33,788</b>	<b>20,150</b>
<b>Total equity and liabilities</b>		<b>99,865</b>	<b>82,315</b>	<b>99,891</b>	<b>82,334</b>

The financial statements on pages 30 to 33 were approved by the board of directors on 6 March 2009 and were signed on their behalf by:



**Mr. Paul Makanza**  
Director  
6 March 2009



**Ms. Maria N. Kejo**  
Director

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share Capital TZS M	Retained earnings TZS M	Total TZS M
<b>GROUP</b>			
At 1 January 2007	2,000	44,839	46,839
Net profit for the year	-	24,393	24,393
Final dividends paid for year 2006	-	(5,000)	(5,000)
Interim dividends paid for year 2007	-	(7,500)	(7,500)
At 31 December 2007	2,000	56,732	58,732
At 1 January 2008	2,000	56,732	58,732
Net profit for the year	-	31,056	31,056
Final dividends paid for year 2007	-	(10,000)	(10,000)
Interim dividends paid for year 2008	-	(17,500)	(17,500)
At 31 December 2008	2,000	60,288	62,288
<b>COMPANY</b>			
At 1 January 2007	2,000	45,392	47,392
Net profit for the year	-	24,398	24,398
Final dividends paid for year 2006	-	(5,000)	(5,000)
Interim dividends paid for year 2007	-	(7,500)	(7,500)
At 31 December 2007	2,000	57,290	59,290
At 1 January 2008	2,000	57,290	59,290
Net profit for the year	-	31,063	31,063
Final dividends paid for year 2007	-	(10,000)	(10,000)
Interim dividends paid for year 2008	-	(17,500)	(17,500)
At 31 December 2008	2,000	60,853	62,853

# CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	GROUP		COMPANY	
		2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
<b>Operating activities</b>					
Cash generated from operations	19	48,888	34,272	48,888	34,272
Interest received		719	424	719	424
Interest paid		-	(242)	-	(242)
Taxation paid	7.4	(13,134)	(8,237)	(13,134)	(8,237)
Net cash generated by operating activities		36,473	26,217	36,473	26,217
<b>Investing activities</b>					
Proceeds on disposal of property, plant and equipment		96	401	96	401
Increase in loan receivable		(122)	-	(122)	-
Purchase of property, plant and equipment		(4,337)	(6,333)	(4,337)	(6,333)
Net cash used in investing activities		(4,363)	(5,932)	(4,363)	(5,932)
<b>Financing activities</b>					
Short term borrowings repaid		(255)	(6,121)	(255)	(6,121)
Dividends paid		(27,500)	(12,500)	(27,500)	(12,500)
Net cash used in financing activities		(27,755)	(18,621)	(27,755)	(18,621)
<b>Net increase in bank balances and cash</b>		<b>4,355</b>	<b>1,664</b>	<b>4,355</b>	<b>1,664</b>
<b>Bank and cash balances at beginning of year</b>		<b>5,137</b>	<b>3,473</b>	<b>5,131</b>	<b>3,467</b>
<b>Bank and cash balances at end of year</b>		<b>9,492</b>	<b>5,137</b>	<b>9,486</b>	<b>5,131</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted, which remain unchanged, are set out below.

### Adoption of new and revised International Financial Reporting Standards

#### a) Standards and Interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standard are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008);

The adoption of this Interpretation and the revised standard has not led to any changes in the Group's accounting policies.

#### b) Standards and Interpretations in issue not yet effective

At the date of authorization of these financial statements, the following amendments to Standards and new Interpretations were in issue but not yet effective:

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 January 2009);
- IFRIC 18, Transfers of Assets from Customers (effective for accounting periods on or after 1 July 2009);
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IAS 1, Presentation of financial Statements (effective for accounting periods on or after 1 January 2009);
- IAS 23, Borrowing Costs (effective for accounting periods on or after 1 January 2009);
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009);
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009);

"Improvements to IFRSs" was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project. The directors are currently assessing the impact and expected timing of adoption of these amendments on the group's results and financial position.

The adoption of IFRS 8 when effective will increase disclosure of segment information in relation to the company's operations and profitability. Adoption of other Standards and Interpretations, when effective, is not expected to have material impact on the financial statements of the company.

## Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain financial instruments.

## Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its wholly owned subsidiary, TCC (Kenya) Limited, made up to 31 December each year.

All inter-company transactions, balances and unrealized gains on transactions between the two companies have been eliminated on consolidation.

## Revenue recognition

Gross turnover, which comprises invoiced value of sales, net of returns and discounts, is recognized upon delivery of products and customer acceptance and is stated inclusive of excise duty and value added tax. Export sales are deemed to be accepted by customers upon dispatch of the goods.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Tanzanian Shillings ('TZS'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. 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.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Tanzanian Shillings using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

## Retirement benefits obligations

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

## Taxation

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

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

Deferred tax is recognized on 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, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at currently enacted tax rates and the net movement charged or credited to the income statement.

## Investment in subsidiary company

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

## Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Group or the company as the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are amortized on the straight-line basis over the term of the relevant lease.

## 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.

## Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends declared after the balance sheet date are not recognized as liabilities at the balance sheet date.

## Impairment

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and, if any, accumulated impairment losses. Depreciation is calculated on the straight line basis at rates that will write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life, which are as follows:

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

The useful lives and residual values are reviewed every year.

Property, plant and equipment are periodically reviewed for impairment. If the carrying value of an asset is estimated to be greater than its recoverable amount, it is written down to its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

## Trademarks

Trademarks are initially measured at purchase cost and are amortized on a straight-line basis over their estimated useful lives. The estimate of useful life of the current trademark is 10 years.

## Financial instruments

Financial instruments are included in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## **Trade and other payables**

Trade and other payables are stated at their nominal value.

## **Bank borrowings**

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accruals basis.

## **Comparatives**

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

## **2. 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 recognised 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 judgments and key sources of estimation uncertainty are as set out below.

### **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 income statement. In determining whether an impairment loss should be recognized in the income statement, 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 31 DECEMBER 2008

## ***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 cases are lost. 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.

## **3. SEGMENTAL REPORTING**

The major part of the business of the group comprises the manufacture and sale of cigarettes. Other income contributes less than 5% of total income. In respect of the sale of cigarettes, the company operates almost wholly within Tanzania with export sales comprising less than 5% of total income. Segmental reporting is, therefore, not considered of any useful value and consequently, has not been disclosed in the financial statements.

## **4. COST OF SALES**

	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
Direct costs	33,378	29,041	33,378	29,041
Indirect costs	18,337	15,523	18,337	15,523
	51,715	44,564	51,715	44,564

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

5. OPERATING PROFIT	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
<b>Operating profit has been arrived at after charging/(crediting):</b>				
Directors' emoluments	1,073	739	1,073	739
Staff costs	15,442	13,117	15,442	13,117
Depreciation and amortization	6,554	6,230	6,554	6,230
Technical and management services fees	6,021	4,222	6,021	4,222
Auditor's remuneration:				
- audit services	148	141	148	141
Profit on disposal of property, plant and equipment	(73)	(202)	(73)	(202)
<b>Included within staff costs are:</b>				
NSSF and PPF contributions	902	790	902	790

## 6. FINANCE INCOME/(COSTS)

Net foreign exchange losses	(577)	(44)	(577)	(44)
Interest received	719	424	719	424
Interest paid	-	(242)	-	(242)
	142	138	142	138

## 7. TAXATION

7.1 Taxation charge				
<b>Current taxation</b>				
Current taxation at 30%	13,166	9,177	13,166	9,177
Prior years overprovision	(14)	(133)	(14)	(133)
	13,152	9,044	13,152	9,044
<b>Deferred taxation – (note 16)</b>				
Current year charge	342	185	342	185
Prior years charge	14	-	14	-
	356	185	356	185
	13,508	9,229	13,508	9,229

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

7. TAXATION (Continued)	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
<b>7.2 Reconciliation of tax based on accounting profit to tax charge</b>				
Accounting profit before tax	44,564	33,622	44,571	33,627
Tax charge at 30%	13,369	10,087	13,371	10,088
Income subject to lower rate of tax or not subject to tax	(69)	(39)	(69)	(39)
Disallowable expenditure	208	191	206	190
Prior years overprovision	(14)	(133)	(14)	(133)
Deferred tax asset movement not recognized (note 7.3)	-	-	-	-
Deferred tax prior year under provision	14	(877)	14	(877)
Taxation charge	13,508	9,229	13,508	9,229

The tax rate used for the 2008 and 2007 reconciliations above is the statutory income tax rate of 30% payable by corporate entities in Tanzania.

The deferred tax prior year adjustment overprovision of TZS 14M arises from plant and machinery which was capitalized at the time of finalization of the corporate tax return for the year 2007.

### 7.3 Deferred tax asset relating to subsidiary

The subsidiary company, TCC (Kenya) Limited, is in a deferred tax asset position due to accumulated tax losses. However, the deferred tax asset has not been recognized in the financial statements of the subsidiary company because the company ceased operations and it is not likely that the accumulated tax losses will be utilized in the future.

7.4 Taxation recoverable	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
Balance at beginning of year	107	914	107	914
Income statement charge (note 7.1)	(13,152)	(9,044)	(13,152)	(9,044)
Payments during the year	13,134	8,237	13,134	8,237
Balance at end of year	89	107	89	107

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## 8. EARNINGS PER SHARE

### GROUP

	2008 TZS M	2007 TZS M
Profit attributable to ordinary shareholders (TZS M)	31,056	24,393
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (TZS)	310.56	243.93

There were no potentially dilutive shares outstanding at 31 December 2008 or 31 December 2007.

## 9. DIVIDENDS

### GROUP

### COMPANY

	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
Interim dividend for the year	10,000	7,500	10,000	7,500
Final dividend for the year	10,000	7,500	10,000	7,500
Special dividend	7,500	2,500	7,500	2,500
<b>Total</b>	<b>27,500</b>	<b>17,500</b>	<b>27,500</b>	<b>17,500</b>
Weighted average number of ordinary shares in issue (million)	100	100	100	100
Dividend per share (TZS)	275	175	275	175

During the year, the directors declared an interim gross dividend of TZS 10.0 billion or TZS 100 per share and a special interim gross dividend of TZS 7.5 billion or TZS 75.0 per share, which was paid in October 2008 (2007: TZS 7.5 billion or TZS 75.0 per share). After the year-end, the Directors have proposed a final gross dividend of TZS 10 billion or TZS 100.0 per share (2007: TZS 7.5 billion or 75.0 per share, special dividend for 2007 was TZS 2.5 billion or TZS 25 per share). The final dividend is subject to adoption by shareholders at the Annual General Meeting and, once adopted, the total gross dividend relating to current year will equal to TZS 27.5 billion or TZS 275 per share (2007: TZS 17.5 billion or TZS 175.0 per share).

The final dividend is subject to adoption by shareholders at the Annual General Meeting.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

### 10. PROPERTY, PLANT AND EQUIPMENT - GROUP AND COMPANY

	Leasehold property TZS M	Plant and machinery TZS M	Other equipment TZS M	Motor vehicles TZS M	Capital work in progress TZS M	Total TZS M
<b>COST</b>						
At 1 January 2007	11,116	35,556	3,630	5,819	8,028	64,149
Additions	154	2,134	389	1,162	2,494	6,333
Transfers	67	8,077	-	-	(8,144)	-
Disposals	(15)	(317)	(202)	(920)	-	(1,463)
At 31 December 2007	11,322	45,450	3,817	6,052	2,378	69,019
At 1 January 2008	11,322	45,450	3,817	6,052	2,378	69,019
Additions	315	1,019	532	372	2,099	4,337
Transfers	63	4,068	140	-	(4,271)	-
Disposals	(9)	(2,170)	(20)	(418)	-	(2,617)
At 31 December 2008	11,691	48,367	4,469	6,006	206	70,739
<b>DEPRECIATION</b>						
At 1 January 2007	2,749	16,928	2,562	2,989	-	25,228
Charge for the year	398	4,027	325	1,215	-	5,965
Eliminated on disposal	(8)	(233)	(156)	(867)	-	(1,264)
At 31 December 2007	3,139	20,722	2,731	3,337	-	29,929
At 1 January 2008	3,139	20,722	2,731	3,337	-	29,929
Charge for the year	404	4,379	372	1,134	-	6,289
Eliminated on disposals	67	(2,068)	(185)	(408)	-	(2,594)
At 31 December 2008	3,611	23,033	2,918	4,063	-	33,624
<b>NET BOOK VALUE</b>						
At 31 December 2008	8,080	25,335	1,551	1,943	206	37,115
At 31 December 2007	8,183	24,728	1,086	2,715	2,378	39,090

The capital work in progress is not depreciated until the assets are available for use at which stage they are transferred to the appropriate asset category and depreciated.

The cost and carrying value of leasehold land is negligible and has, therefore, not been reclassified to prepaid lease rentals in line with International Accounting Standard No.17, Leases.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

11. INTANGIBLE ASSETS	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
<b>Cost</b>				
As at 1 January and at 31 December	2,646	2,646	2,646	2,646
<b>Amortization</b>				
As at 1 January	530	265	530	265
Charge for the year	265	265	265	265
At 31 December	795	530	795	530
<b>Net book value</b>	1,851	2,116	1,851	2,116

The intangible assets relate to cigarette trademarks.

## 12. (a) INVESTMENT IN SUBSIDIARY

TCC (Kenya) Limited	-	-	534	534
Provision for impairment	-	-	(534)	(534)
	-	-	-	-

### Investment in subsidiary

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 31 December 2002 hence a full impairment provision has been made for the investment in the financial statements.

## 12 (b) LOAN RECEIVABLE

<b>TCC LTIP</b>	272	150	272	150
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### Loan receivable

The loan receivable represents the balance on a loan of original amount of TZS 820 million to a trust established for the employees share scheme –The TCC Employees' Long Term Incentive Plan (LTIP). The loan is interest free and is repaid in installments in amounts and at times that the Trust determines, based on the value of its assets compared to its obligations to the employees in accordance with the scheme. The company has not discounted the balance of the loan on the cost basis because the effect would not be material.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

### 13. INVENTORIES

	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
Raw materials	26,846	18,932	26,846	18,932
Work in progress	47	56	47	56
Consumable stores	1,965	1,596	1,965	1,596
Goods in transit	3,971	4,776	3,971	4,776
Finished goods	7,048	6,253	7,048	6,253
	39,877	31,613	39,877	31,613
Provision for obsolete inventories	(411)	(271)	(411)	(271)
	39,266	31,342	39,266	31,342

### 14. TRADE AND OTHER RECEIVABLES

Trade receivables	4,810	2,651	4,810	2,651
Amounts due from related companies	839	-	839	-
Prepayments and other receivables	6,737	2,343	6,769	2,368
	12,386	4,994	12,418	5,019
Provision for doubtful receivables	(606)	(621)	(606)	(621)
	11,780	4,373	11,812	4,398

### 15. SHARE CAPITAL

<b>Authorized:</b>		
125,000,000 Ordinary shares of TZS 20 each	2,500	2,500
<b>Issued and fully paid:</b>		
100,000,000 Ordinary shares of TZS 20 each	2,000	2,000

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## 15. SHARE CAPITAL (Continued)

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

	2008 Ordinary Shares Million	2007 Ordinary Shares Million
<b>Resident shareholders:</b>		
General public	8.8	7.8
Public Service Pension Fund	4.3	3.9
Parastatal Pension Fund	3.0	3.0
National Social Security Fund	4.1	4.5
United Republic of Tanzania	2.5	2.5
Unit Trust of Tanzania	0.5	1.0
Registered Trustee of the TCC Employees share option scheme	0.3	0.8
The Local Authorities Provident Fund	0.6	0.6
Alliance Insurance Corporation Ltd	0.5	0.5
The Jubilee Insurance (T) Limited	0.2	0.2
Government Employees Provident Fund	0.2	0.2
	25	25
<b>Non-resident shareholders</b>		
JT International Holding B. V.	75	75
<b>Total ordinary shares in issue</b>	100	100

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

### 16. DEFERRED TAX LIABILITY

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

The net deferred tax liability is attributable to the following:

	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
Accelerated capital allowances	3,250	2,894	3,250	2,894

The movement on the deferred tax account is as follows:

Balance at beginning of year	2,894	2,709	2,894	2,709
Income statement charge/(credit) - note 7.1	356	185	356	185
Balance at end of the year	3,250	2,894	3,250	2,894

### 17. TRADE AND OTHER PAYABLES

Trade payables	4,383	5,193	4,383	5,193
Amounts due to related companies	5,353	979	5,353	979
Excise tax and VAT payable	7,848	4,823	7,848	4,823
Dividends payable	-	89	-	89
Other liabilities and accruals	16,743	9,350	16,204	8,811
	34,327	20,434	33,788	19,895

### 18. SHORT TERM BORROWINGS

There were no short term borrowings for year 2008 (2007: TZS 255M)

The interest charges on the borrowing facilities were based on floating rates and calculated on daily overdrawn balances. The average effective interest rate during the year 2007 was 16.65% p.a. The facilities were paid in full in the first quarter of 2008.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

19. RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
Operating profit	44,564	33,622	44,571	33,627
Adjustments for:				
Depreciation and amortization	6,554	6,230	6,554	6,230
Profit on disposal of property, plant and equipment	(73)	(202)	(73)	(202)
Interest paid	-	242	-	242
Interest receivable	(719)	(424)	(719)	(424)
	50,326	39,468	50,333	39,473
Working capital changes:				
Increase in inventories	(7,924)	(8,103)	(7,924)	(8,103)
Movement in related company balances	3,535	(559)	3,535	(539)
(Increase)/decrease in trade and other receivables	(6,568)	(18)	(6,575)	(43)
Increase in trade and other payables	9,519	3,484	9,519	3,484
Cash generated from operations	48,888	34,272	48,888	34,272

## 20. RELATED PARTY TRANSACTIONS - GROUP AND COMPANY

### 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 Group 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 technical and know-how services agreement with JT International Holding BV the parent company, for the provision of technical and know-how services to the company which was in place since 1 January 2000 expired on 31 December 2007. New agreements with JT International SA and JT International Holding BV for managerial, technical and administrative services have been in place since 1st January 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 6,021 million (2007: TZS 4,222 million).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## Transactions with related parties

	2008 TZS M	2007 TZS M
<b>i. Purchase of goods and services</b>		
JT International Companies	12,687	9,097

## ii. Related party balances

Outstanding balances with related companies as at the year-end are shown on the balance sheet are shown in notes 14 and 17 of these financial statements.

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

## iii. Compensation of key management personnel

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

	2008 TZS M	2007 TZS M
Key management remuneration	1,723	1,567
Non-executive directors emoluments	25	17

## 21. CAPITAL COMMITMENTS

	GROUP		COMPANY	
	2008 TZS M	2007 TZS M	2008 TZS M	2007 TZS M
Authorized but not contracted for	5,028	5	5,028	5
Authorized and contracted for	21	7,235	21	7,235
	5,049	7,240	5,049	7,240

The capital commitments relate to purchase of properties machinery and equipments to enhance production capacity, operational efficiency and product quality.

## 22. CONTINGENT LIABILITIES

As at the balance sheet date, there was a pending and unresolved petition by Fair Competition Commission against the company. Fair Competition Commission alleges various charges against the company with regard to breach of Sections 10 & 11 of the Fair Competition Act No. 8 of 2003. Pleadings are complete and the company is waiting for a hearing date. Directors, in consultation with the lawyers, are of the view that the company's position is strong, and it is not possible to estimate the potential liability, if any, at this stage.

The company also 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 lost the related cases, are not likely to be material.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## 23. RETIREMENT BENEFITS

All eligible employees of the company are members of the National Social Security Fund of Tanzania (NSSF) or Parastatal Pension Funds (PPF), in which the company contributes 10% and 15% and the employee contributes 10% and 5% respectively every month. Year 2008 contributions to the funds amounted to TZS 902 M (2007: TZS 790 M).

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme 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 Group, through its training, management standards and procedures, aims to develop 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
- Market risk which is mainly due to foreign exchange risk and interest rate risk

### Credit risk

Potential concentration of credit risk consist 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 Group performs ongoing credit evaluations on the financial condition of its customers. The amounts presented in the balance sheet 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 Group's maximum exposure to credit risk at 31 December 2008 without taking account of the value of any collateral obtained was:

	Fully performing TZS M	Past due TZS M	Impaired TZS M
Trade and other receivables	11,707	73	606
Cash and cash equivalents	9,492	-	-
Total credit exposure	21,199	73	606

The amount that best represents the Group's maximum exposure to credit risk at 31 December 2007 without taking account of the value of any collateral obtained was:

	Fully performing	Past due	Impaired
Trade and other receivables	4,347	26	621
Cash and cash equivalents	5,137	-	-
Total credit exposure	9,484	26	621

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The finance department is actively following this debt.

The debt that is impaired has been fully provided for. However, management is actively following up recovery of the impaired debt. The movement in the provision for bad and doubtful debts is as set out below:

	2008 TZS M	2007 TZS M
At the beginning of the year	621	523
Amount recovered	(15)	-
Impairment losses	-	98
At the end of the year	606	621

In determining the recoverability of a trade receivable, the Group 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 recognised.

### Liquidity risk

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 Group 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 Group as they deem fit. There are no borrowing limits in the articles of association of the Group.

*Maturity analysis for financial liabilities as at 31 December 2008 showing the remaining contractual maturities:*

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade payables	(1,822)	(2,561)	-	-	(4,383)

*Maturity analysis for financial liabilities as at 31 December 2007 showing the remaining contractual maturities:*

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade payables	(1,151)	(4,042)	-	-	(5,193)

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2008

Maturity analysis for financial assets as at 31 December 2008 showing the remaining contractual maturities:

	<1 month TZS M	1 - 5 months TZS M	5 - 12 months TZS M	> 1 year TZS M	Total TZS M
Trade receivables	4,132	678	-	-	4,810
Bank balances and cash	9,492	-	-	-	9,492
Total	13,624	678	-	-	14,302

Maturity analysis for financial assets as at 31 December 2007 showing the remaining contractual maturities:

	<1 month TZS M	1 - 5 months TZS M	5 - 12 months TZS M	> 1 year TZS M	Total TZS M
Trade receivables	1,004	1,647	-	-	2,651
Bank balances and cash	9,492	-	-	-	9,492
Total	10,496	1,647	-	-	12,143

### Market risk

#### (i) Interest rate risk

The Group has no significant exposure to interest rate risk both at fixed and floating interest rates. As at 31 December 2008, Group earned interest on short term deposit of TZS 719 M (2007- TZS 424M).

#### (ii) Foreign exchange risk

The Group's costs and expenses are principally incurred in Tanzanian Shillings (TZS) and US Dollars (US \$). The Group does not enter into a large number of formal hedging transactions in respect of these transactions. Volatility in the exchange rate of US \$ against TZS would make the Group's costs and results less predictable than when exchange rates are more stable.

At 31 December 2008, if the TZS had strengthened 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 319 M (2007 - TZS 96 M).

The carrying amounts of the Group's material foreign currency denominated monetary assets and liabilities that will have an impact on profit or loss when exchange rates change, as at 31 December 2008 are as follows:

	Total TZS M
Trade and other receivables- net	2,624
Trade and other payables	(9,005)
Open position	(6,381)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

The carrying amounts of the Group's material foreign currency denominated monetary assets and liabilities that have an impact on profit or loss when exchange rates change, as at 31 December 2007 were as follows:

	<b>Total TZS M</b>
Trade and other receivables- net	1,900
Trade and other payables	(3,839)
Open position	(1,939)

## **Operational risk**

The group is exposed to operational risk, which is associated with human error, system failures and inadequate procedures and controls. The group ensures that there is an effective, integrated operational risk management framework that incorporates a clearly defined organisational structure, with defined roles and responsibilities for all aspects of operational risk management that support the identification, assessment, control and reporting of key business risks.

## **Capital risk management**

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes the short term borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 14 and the statement of changes in equity respectively.

The Group reviews the capital structure regularly. As a part of this review, the group considers the cost of capital and the risks associated with each class of capital, through balancing its overall capital structure in payment of dividends and issue of new debt or the redemption of existing debt.

The group's overall strategy remains unchanged from 2007.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

### Financial instruments categorization- Group

	Loans and receivables TZS M	Financial liabilities carried at amortized costs TZS M	Non financial liabilities or assets TZS M	Equity TZS M	Total TZS M
<b>ASSETS</b>					
<b>Non current assets</b>					
Property, plant and equipment	-	-	37,115	-	37,115
Intangible assets	-	-	1,852	-	1,852
Loan receivable	272	-	-	-	272
<b>Current assets</b>					
Inventories	-	-	39,265	-	39,265
Trade and other receivables	5,043	-	6,737	-	11,780
Taxation recoverable	-	-	89	-	89
Bank balances and cash	9,492	-	-	-	9,492
<b>Total assets</b>	<b>14,807</b>	<b>-</b>	<b>85,068</b>	<b>-</b>	<b>99,865</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	60,288	60,288
<b>Non current liabilities</b>					
Deferred tax liability	-	-	3,250	-	3,250
<b>Current liabilities</b>					
Trade and other payables	-	9,736	24,591	-	34,327
<b>Total equity and liabilities</b>	<b>-</b>	<b>9,736</b>	<b>24,841</b>	<b>62,288</b>	<b>99,865</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

### Financial instruments categorization- Group

	Loans and receivables TZS M	Financial liabilities carried at amortized costs TZS M	Non financial liabilities or assets TZS M	Equity TZS M	Total TZS M
<b>ASSETS</b>					
<b>Non current assets</b>					
Property, plant and equipment	-	-	37,115	-	37,115
Intangible assets	-	-	1,851	-	1,851
Loan receivable	272	-	-	-	272
<b>Current assets</b>					
Inventories	-	-	39,265	-	39,266
Trade and other receivables	5,043	-	6,769	-	11,812
Taxation recoverable	-	-	89	-	89
Bank balances and cash	9,486	-	-	-	9,486
<b>Total assets</b>	<b>14,801</b>	<b>-</b>	<b>85,090</b>	<b>-</b>	<b>99,891</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	60,853	60,853
<b>Non current liabilities</b>					
Deferred tax liability	-	-	3,250	-	3,250
<b>Current liabilities</b>					
Trade and other payables	-	9,736	24,052	-	33,788
Short term borrowings	-	-	-	-	-
<b>Total equity and liabilities</b>	<b>-</b>	<b>9,736</b>	<b>27,302</b>	<b>62,853</b>	<b>99,891</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## 25. FAIR VALUE

The directors consider that there is no material difference between the fair value and carrying value of the group's financial assets and liabilities where fair value details have not been presented.

## 26. 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.

## 27. INCORPORATION

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

## 28. ULTIMATE PARENT COMPANY

The holding company is JT International Holding BV, 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.

## 29. FUNCTIONAL AND PRESENTATION CURRENCY

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

**TANZANIA CIGARETTE COMPANY LIMITED**

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