

ANNUAL REPORT 2010

For the Year Ended December 31, 2010



Vision

To be the best company in East Africa

Mission

To grow volume and profit while defending market share by delivering quality brands and maximizing consumer and customer satisfaction through innovation, engaged employees, integrity and excellence in execution.

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Financial Highlights

TANZANIA CIGARETTE COMPANY LIMITED

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TANZANIA CIGARETTE COMPANY LTD.
Annual Report 2010

Financial

Financial Highlights

TANZANIA CIGARETTE COMPANY LIMITED

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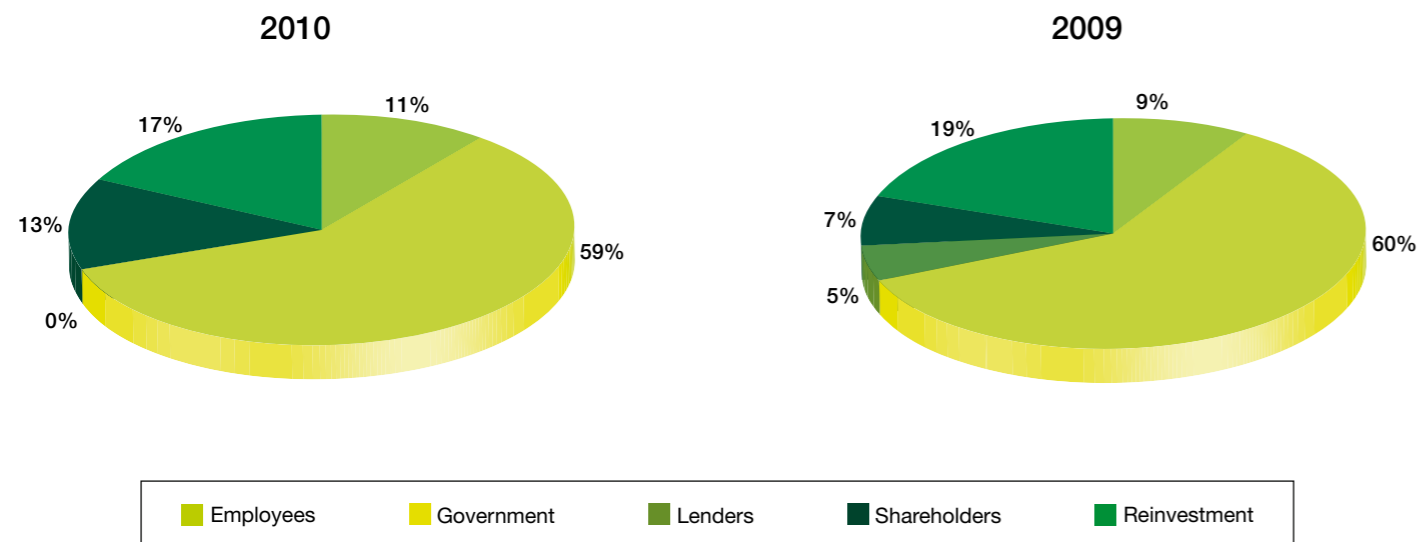
TANZANIA CIGARETTE COMPANY LTD.
Annual Report 2010

Financial

Consolidated Five-Year Financial summary (Amount in Million TZS)

	2010 TZS M	%	2009 TZS M	%
Gross turnover	321,777		265,242	
Operating expenditures - Suppliers	(91,743)		(66,376)	
Total Value added	230,034	100.0	198,866	100.0
Value distributed as follows:				
To Employees - remuneration	26,067	11.3	17,306	8.7
To Government - vat,excise duties	110,769	48.2	98,849	49.7
To Government - corporate tax	23,859	10.4	19,759	9.9
To Shareholders - dividends	30,000	13.0	15,000	7.5
To Lending institutions - borrowing	-	0.0	10,000	5.0
To Reinvestment:				
Depreciation and amortisation	9,140	4.0	6,924	3.5
Retained income	30,200	13.1	31,028	15.6
Total distributions	230,034	100.0	198,866	100.0

Value Distributed



	2006	2007	2008	2009	2010
For the year:					
Gross turnover	152,611	191,457	230,354	265,242	321,777
Excise duty and VAT	65,146	80,428	93,473	98,849	110,769
Net sales	87,465	111,029	136,881	166,393	211,008
EBITDA (note1)	29,371	39,714	50,976	73,131	95,005
Depreciation and amortization	5,075	6,230	6,554	6,924	9,140
Gross profit	51,886	66,465	85,166	113,280	137,221
Operating income	24,299	33,489	44,429	66,207	85,830
Net finance (income) expense	(1,936)	138	142	421	1,806
Taxation	6,719	9,229	13,508	19,759	23,859
Net income	15,644	24,398	31,063	46,028	60,200

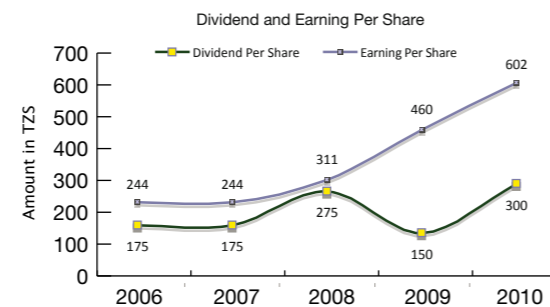
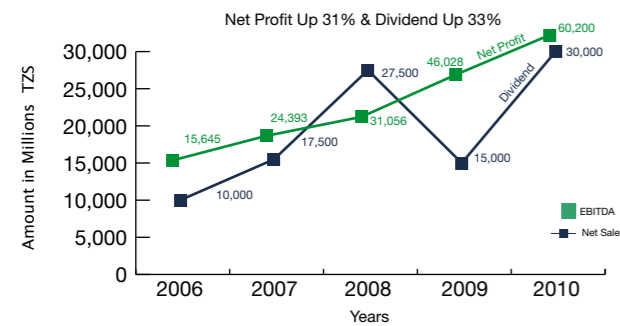
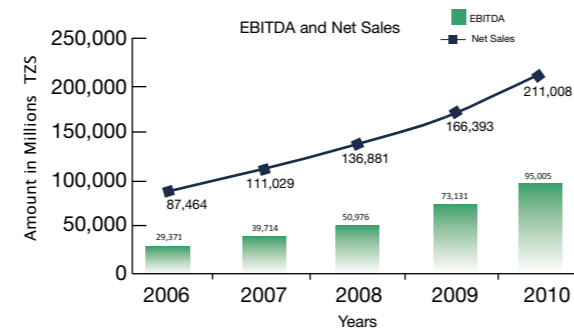
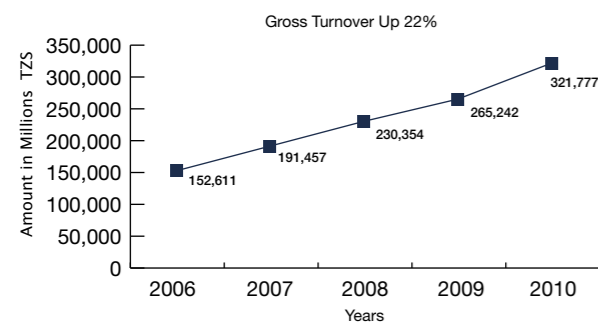
	2006	2007	2008	2009	2010
At year end:					
Net property, plant and equipment	38,921	39,090	37,115	48,057	70,236
Total assets	73,462	82,315	99,891	149,791	176,779
Interest bearing debts	-	255	-	10,000	-
Total liabilities	26,070	23,044	37,038	66,184	47,972
Total shareholders' equity	46,839	58,732	62,288	83,607	128,807

	2006	2007	2008	2009	2010
For the year:					
Net cash generated by operating activities	22,874	26,217	36,473	38,396	66,509
Net cash used in investing activities	(20,347)	(5,932)	(4,363)	(17,226)	(30,924)
Net cash used in financing activities	(6,439)	(18,621)	(27,755)	(10,000)	(25,000)
Cash flow for the year	(3,912)	1,664	4,355	11,170	10,585

	2006	2007	2008	2009	2010
Dividend per share	175.00	175.00	275.00	150.00	300.00
Earning per share	243.93	243.93	310.56	460.28	602.00

	2006	2007	2008	2009	2010
Profitability:					
Return on equity	34%	46%	51%	63%	57%
EBITDA margin	34%	36%	37%	44%	45%
Operating income margin	28%	30%	32%	40%	41%
Total assets turnover	1.30	1.43	1.50	1.33	1.29

	2006	2007	2008	2009	2010
Stability:					
Current ratio	137%	198%	177%	179%	267%
Debt ratio (Total liabilities/ Total assets)	35%	29%	38%	44%	27%



Dividend Per Share TZS

Year	Ordinary Dividend	Special Dividend	Total Dividend	Year	Ordinary Dividend	Special Dividend	Total Dividend
2000	117	-	117	2007	150	25	175
2001	147	80	227	2008	200	75	275
2002	147	160	307	2009	150	-	150
2003	156	63	219	2010	300	-	300
2004	156	-	156	Total dividend per share since IPO			2,082
2005	156	-	156				
2006	100	-	100				

History

Tanzania Cigarette Company Ltd (TCC) was inaugurated on December 4, 1961 by the then Prime Minister of Tanganyika, Mwalimu Julius Kambarage Nyerere, just five days before Tanzania became independent from Great Britain. Mwalimu went on to become the first President of Tanzania.

In 1967, the Government of Tanzania acquired a 60% shareholding under the Nationalization Program and in 1975 it bought the remaining 40%. In 1995, R J Reynolds of the USA acquired a 51% stake in TCC. In 1999, Japan Tobacco Inc (JT) acquired all non-US tobacco operations of RJ Reynolds, including its 51% stake in TCC.

Ownership structure

In September 2000, JT, through its international tobacco arm, Japan Tobacco International (JTI), increased its shareholding in TCC from 51% to 75%, making it the majority shareholder in the Company. The remaining 25% is owned by the Tanzania public through the Dar es Salaam Stock Exchange.

Location and number of employees

TCC is located at 20 Nyerere Road in Dar es Salaam. The Company has 595 employees. About 400 employees work at headquarters in Dar es Salaam and the rest are spread across the Company's 15 branch offices around the Country.

Contribution to the Tanzania economy

The Company's principal business is the manufacture, marketing and sale of tobacco products. TCC is one of the largest agro-processing companies in Tanzania, creating value addition to a locally available raw material, tobacco. In addition to providing 595 direct jobs, indirectly it supports over 100,000 tobacco farmers and 2,500 business partners. Through its exports, it generates foreign exchange earnings for the Country. TCC is one of the largest tax revenue contributors to the Treasury.

Our Brands

Super Premium



Launched in 2004, Camel is the 10th largest cigarette brand in the world. It is a global flagship brand in JTI's brand portfolio and is sold in over 100 countries.

Premium



Embassy was launched in 1966 and is the local premium cigarette brand. The brand has two variants, full flavor and lights.



Launched in 2008, Iceberg is a menthol flavored brand. It is the youngest brand in TCC's portfolio. The brand caters for the stylish and sophisticated menthol consumers.

Mid Price



Portsman, formerly known as Sportsman, was launched in 1932. The name was changed in 2009 to disassociate the brand name from sports in order to comply with regulations governing the tobacco industry. Portsman is seen as the national heritage brand.



Launched in 1961, Sweet Menthol (SM) is the local mainstream menthol brand. The brand caters for modern adult consumers.

Value



First launched in 1998, Club is a quality brand that provides value for money.



Safari was launched in 2005. The brand provides value for money for consumers looking for a full flavor and menthol offering.

Base



Launched in the 1930s, Crescent and Star is a non filter brand that offers the unique taste of dark fired cured tobaccos.

To Our Stakeholders
Message from the Chairman of the Board

The end and beginning of a new era

December 4, 2010 was an important milestone in the history of Tanzania Cigarette Company (TCC). It marked the beginning of TCC's 50th year of operation in Tanzania. TCC's long heritage in the Country is closely linked with the history of the Nation. On December 9, 2011, Tanzania will also celebrate its 50th year of independence. TCC is proud of this shared history, its long and successful existence since 1961. As the Company marks the end of one era and the beginning of a new one, the TCC Board of Directors is pleased to report solid results for the year ended December 31, 2010.

A solid performance for the year

Gross turnover increased by 21% to TZS 321.8 billion (2009: TZS 265.2 billion) driven primarily by pricing. In July 2010, the Company increased prices of its products to recover margin erosion caused by an 8% excise tax increase in July 2010, a 30% increase in tobacco leaf costs and a 15% depreciation of the Shilling. Profit before interest and tax (PBIT) increased to TZS 84.1 billion or 28% on prior year (2009: TZS 65.8 billion). Net profit increased by 31% on previous year to TZS 60.2 billion (2009: TZS 46.0 billion).

Value creation for stakeholders

The Company contributed TZS 110.8 billion in excise tax and VAT to the Government Treasury (2009: TZS 98.8 billion), a 12% increase in comparison with prior year. The TCC Board of Directors declared a final gross dividend of TZS 200 per share (2009: TZS 50 per share) for the year ended December 31, 2010. When added to the interim gross dividend of TZS 100 per share (2009: TZS 100 per share) paid in October 2010, the total gross dividend for the year ended December 31, 2010 was TZS 300 per share (2009: TZS 150 per share), an increase of 100% on prior year. In addition, TCC's performance has continued to sustain 595 jobs at its headquarters in Dar es Salaam and 15 branches up-country, and indirectly supports over 110,000 tobacco farmers and 2,500 business partners.

An optimistic future

The TCC's Board of Directors and Management are optimistic about the prospects for 2011. This optimism is based on the passion and quality of TCC's employees, a commitment to excellence in execution, the equity of TCC's brands, the strength of its sales and distribution infrastructure, the support of its parent company, Japan Tobacco International (JTI), and Management's ability to react to and address new challenges and opportunities.

Thank you for your support

On behalf of the TCC Board of Directors and Management, I wish to thank all stakeholders - the tobacco farmers and processors, suppliers, customers, consumers, employees, the Government and shareholders - for your continued support to TCC.



Simaan Matta,
CEO and Chairman of the Board of Directors

Kwa Wadau Wetu
Waraka kutoka kwa Mwenyekiti wa Bodi

Mwisho na mwanzo wa enzi mpya

Disemba 4, 2010 ilikuwa tarehe ya kihistoria kwa Kampuni ya Sigara Tanzania (TCC). TCC iliadhimisha mwanzo wa miaka 50 ya uwepo wake Tanzania. Kampuni ilianza rasmi shughuli zake nchini Disemba 4, 1961, siku tano tu kabla ya uhuru wa Tanganyika Disemba 9, 1961. Wakati Kampuni inafikisha mwisho wa enzi moja na mwanzo wa enzi mpya, Bodi ya Wakurugenzi ya TCC inayo furaha kuwasilisha kwenu mafanikio kamili kwa mwaka wa fedha ulioishia Disemba 31, 2010.

Utendaji thabiti kwa mwaka huu

Mapato ya jumla yaliongezeka kwa asilimia 21 kufikia Shilingi 321.8 bilioni (mwaka 2009: Shilingi 262.2 bilioni). Ongozezo hili linatokana hasa na ongezeko la bei za bidhaa za TCC. Mnamo Julai, 2010, Kampuni iliongeza bei za bidhaa zake kufidia pengo lililosababishwa na ongezeko la asilimia 8 la ushuru wa ndani (excise tax), kupanda kwa bei za malighafi kwa takriban asilimia 30 na kushuka kwa thamani ya Shilingi ya Tanzania kwa asilimia 15. Faida halisi kwa mwaka wa 2010 ilikuwa Shilingi 84.1 bilioni, sawa na ongezeko la asilimia 31 ikilinganishwa na mwaka uliopita (mwaka 2009: Shilingi 65.8 bilioni).

Faida kwa wadau

Kampuni ilichangia Shilingi 110.8 bilioni kwa ushuru wa bidhaa za ndani (excise tax) na kodi ya ongezeko la thamani (VAT) kwa Hazina ya Serikali (mwaka 2009: Shilingi 98.8 bilioni). Hii ni sawa na ongezeko la asilimia 12 ikilinganishwa na mwaka uliopita. Bodi ya Wakurugenzi wa TCC imependekezwa gawio la mwisho la jumla la Shilingi 200 kwa kila hisa kwa mwaka ulioishia tarehe 31 Desemba, 2010 (mwaka 2009: Shilingi 50 kwa hisa). Ukiiongeza gawio la jumla la kati la Shilingi 100 kwa kila hisa (mwaka 2009: Shilingi 100 kwa hisa) iliyolipwa mwezi Oktoba 2010, gawio la jumla kwa mwaka ulioishia tarehe 31 Desemba, 2010 lilikuwa Shilingi 300 kwa kila hisa (2009: Shilingi 150 kwa hisa). Hii ni sawa na ongezeko la asilimia 100 ikilinganishwa na mwaka uliopita. Vile vile, mafanikio haya yameendelea kulinda ajira ya wafanyakazi 595 wa TCC, zaidi ya wakulima 100,000 wa tumbaku na wabia wa biashara 2,500.

Matarajo ya baadaye

Bodi ya Wakurugenzi na Menejimenti ya TCC wana matarajo mazuri kuhusu mwaka 2011. Matarajo haya yanatokana na shauku kubwa na ubora wa wafanyakazi wa TCC, nia thabiti ya umahiri katika utendaji, uadilifu, ubora wa bidhaa, miundombinu imara ya usambazaji, ushirikiano kutoka kwa Kampuni yetu mama ya JTI na uwezo mkubwa wa Menejimenti kukabili na kushughulikia changamoto na kutumia fursa zinazopatikana.

Asante kwa mchango wenu

Kwa niaba ya Bodi ya Wakurugenzi, Menejimenti na Wafanyakazi wa TCC, ninapenda kuwashukuru wadau wote, wakiwemo wakulima wa tumbaku na wasindikaji, wagavi, wateja, wafanyakazi, Serikali na wanahisa kwa kuendelea kuchangia mafanikio ya TCC.



Simaan Matta,
Mkurugenzi Mkuu na Mwenyekiti wa Bodi



Simaan Matta, Jordanian
Chairman of the Board of Directors (Executive)
B.Sc (Mechanical Engineering), MBA

Mr. Simaan Matta joined TCC in 2008 as Chief Executive Officer and Chairman of the Board of Directors of TCC. Mr. Matta was previously the General Manager of JTI Jordan. He has over 20 years of experience in the marketing and advertising industry as well as the tobacco industry.



David Thorn, British
Director (Executive)
B.A. (Hons) Economics, A.C.A.

Mr. David Thorn joined TCC in 2002 as Chief Financial Officer and Director of Finance. In 2006 he was appointed Director in charge of exports, and recently was appointed General Manager of the East & Central Africa region. Mr. Thorn has held various senior positions in finance in different JTI markets, including Russia and Ukraine. David has over 16 years experience in the tobacco industry. He joined the Board of Directors of TCC in 2002.



Ramadhani Khijjah, Tanzanian
Director (Non Executive)
BA (Statistics), MA (Development Economics)

Mr. Ramadhani Khijjah is Principal Secretary in the Ministry of Finance and Economy and a representative of the Government on the Board of TCC. Mr. Khijjah joined the Board of Directors of TCC in 2009.



Hubertus Maria Antonius Ooms, Dutch
Director (Non Executive)
B.A. Business Economics, M.A Finance and Control

Mr. Hubertus Ooms is Head of Finance for the JTI Middle East, Near East, Africa and Turkey and World Wide Duty Free (MENEAT & WWDF) region. Mr. Ooms has held various senior positions in finance within JTI. He has 15 years experience in the tobacco industry. He joined the Board of Directors of TCC in 2008.



Paul Makanza, Tanzanian
Director (Executive)
B.Com, MBA

Mr. Paul Makanza joined TCC in 2001 as Director of Corporate Affairs & Communication. Prior to joining TCC, he worked for PricewaterhouseCoopers in Dar es Salaam. Mr. Makanza has 10 years of experience in the tobacco industry. He joined the Board of Directors of TCC in 2005.



Vintan Mbiro, Tanzanian
Secretary to the Board (Executive)
LLB, LL.M, Advocate of the High Court of Tanzania and Courts subordinate thereto save Primary Courts

Mr. Vintan Mbiro is Secretary to Board of Directors. He is also the Director of Legal Affairs at TCC. Mr. Mbiro joined TCC in 1999 from PricewaterhouseCoopers. He has over 10 years experience in the tobacco industry.



Ivo van Wingerden, Dutch
Director (Executive)
M.A Business Economics, CA (Holland)

Mr. Ivo van Wingerden joined TCC in 2009 as Chief Financial Officer and Director of Finance. Mr. van Wingerden has held various positions with JTI. Prior to joining TCC, he worked with the JTI Corporate Strategy Group in Geneva, Switzerland. Mr. Wingerden has over 10 years experience in the tobacco industry. He joined the Board of Directors of TCC in 2009.



Maria Kejo, Tanzanian
Director (Non Executive)
LLB, LL.M

Ms. Maria Kejo is Director of Civil and International Law in the Ministry of Justice and Constitutional Affairs and a representative of the Government on the Board of TCC. Ms. Kejo joined the Board of Directors of TCC in 2004.



Simaan Matta
General Manager



Roy Sizemore
Director Manufacturing



Vintan Mbiro
Director Legal



Caroline Kavishe
Director Human Resources



Paul Makanza
Director Corporate Affairs



Frank Usiri
Director Company Services



Moses Gunda
Director C&TM Operations



Ivo Van Wingerden
Director Finance



Stella Urjo
Director C&TM
Development and Planning



Chris Yamat
Director C&TM Portfolio
and Brand Strategy

Operating Environment

Political stability

Tanzania continued to be politically stable in 2010, with peaceful elections held in October 2010. The ruling party, Chama Cha Mapinduzi (CCM), was re-elected for a five year term in the most competitive election since the introduction of multi-party politics in 1992. However, a number of economic and regulatory challenges in 2010 impacted TCC's business operations and decisions.

A challenging economic environment

The economic growth of between 5% and 7% per annum achieved over the last five years is commendable, but is below the 10% annual growth rate required to make a dent on poverty. With inflationary pressures of just under 10% in 2010, the purchasing power of the average consumer continued to be relatively low. As a result, domestic volume grew marginally at 2.2% over prior year.

As a global commodity, tobacco leaf is priced in US Dollars. In an environment where a key raw material is US Dollar denominated and sales are in local currency, local currency depreciation significantly impacts costs and pricing decisions. In 2010, the Shilling depreciated on average 15% against the US Dollar, excise tax went up 8% in July, 2010 and the cost of raw materials increased by 30%. To protect margin erosion and shareholder value, the Company increased prices of its products in July, 2010.

Distribution of TCC's products in remote areas of the Country remained a challenge in 2010 due to poor roads, particularly in the rainy season. The Company continued to invest in its distribution infrastructure to reach its customers and consumers nation wide.

Unreliable power supply was also a concern in 2010. To secure its energy needs and ensure the market is adequately supplied with product, the Company commissioned a natural gas power plant in February 2010.

On January 1, 2010, the East African Customs Union became fully operational. Effectively, import duties on cigarettes made and sold within the East Africa Community (EAC) were removed. In addition, The East Africa Common Market was officially launched on July 1, 2010. These events signify EAC Partner States' commitment to regional integration, as well as, a changing business environment in the region, with challenges and opportunities for manufacturers.

A limited talent pool

Over the last five years, the Government has made significant progress in producing a larger pool of college and university graduates. However, talent remains limited. In addition to continuous training to upgrade skills, TCC has continued to implement its Young Graduate Trainee Program to address this challenge. This program exposes young graduates to first class business practices and processes, work ethics and a culture of excellence in execution.

An uncertain regulatory environment

Tanzania is a signatory to the Framework Convention on Tobacco Control (FCTC). The Convention provides a framework for setting tobacco regulations for member countries. Parliament ratified the FCTC in April 2007, paving the way for a re-alignment of the existing Tobacco Products (Regulations) Act of 2003 and the FCTC. However, re-alignment of the Act and the Convention on key aspects, such as the size of the health warning on cigarette packs, did not take place in 2010 as anticipated.

Review of Operations

TCC's vision is to be the best company in East Africa. Its mission is to grow volume and profit while defending market share by delivering quality brands, maximizing customer and consumer satisfaction. Management has remained focused on the Company's vision and mission and implemented a number of programs and initiatives.

Invested in product quality, production capacity and power generation

TCC maintained its quality accreditation, ISO 14001 and OHSAS 18001, following a rigorous evaluation exercise conducted by Environmental Resources Management Certification and Verification Services (ERM CVS) in September 2010. ERM CVS is a UK based international certification organization.

During the year, the Company invested TZS 27 billion to enhance production capacity and efficiency. Installation of a modern primary tobacco processing line began in August 2010. When completed in October 2011, the new line will increase primary tobacco processing capacity by 50%. In addition, TCC bought an adjacent land for construction of warehousing facilities.

To secure its energy needs and ensure the market is adequately supplied with product, TCC commissioned a TZS 4.5 billion natural gas power plant in February 2010. The use of natural gas has reduced TCC's carbon dioxide emissions by 30%, allowing for a cleaner environment.



Enhanced brand portfolio

Sweet Menthol and Portsman remained the top selling menthol and full flavor brands in 2010, with a combined market share of 70%. To reinforce the Portsman brand equity, a new thematic campaign was launched in mid 2010. Sweet Menthol continued to delight its consumers through its music

platform with powerful engaging events featuring local and renowned international music artists.

Club and Safari are the Company's menthol and full flavor value offerings with a combined market share of about 10%. To support these two brands, a number of trade programs were conducted in 2010, with a particular focus in rural areas.

Embassy and Iceberg are TCC's premium full flavor and menthol offerings respectively, with a combined market share of just over 10%. They are destination brands for Portsman and Sweet Menthol consumers looking to up trade. Embassy was among the fastest growing brands in 2010, recording a 53% volume growth on prior year. To enhance the equity and presence of these brands, the Company implemented new thematic campaigns and consumer loyalty programs, as well as, powerful engaging events in premium outlets in major urban centers.

Optimized route to market

The Company enhanced its bicycle program driving efficiencies of the 1,800 plus bicycle salesmen program. The objective of the program is to improve distribution efficiency and reach in remote areas with poor road infrastructure.

Hotels, restaurants and cafes (Horecas), as well as, supermarkets are important distribution channels for TCC's products. They provide an opportunity for the Company to communicate with its customers and adult consumers, to build customer and consumer loyalty and to offer consumers a memorable brand experience through engaging brand events in premium Horeca outlets. The Company continued to develop these important outlets for its premium brands, Camel, Embassy and Iceberg.

Invested in training and development, bench strength and employees' welfare

A key success factor for TCC is the quality of its employees. TCC places a lot of emphasis on training to improve leadership, management and technical skills; to build a talent pool for sustainability of the business; and to ensure a healthy, committed and productive workforce.

In 2010, the Association of Tanzania Employers (ATE) voted TCC the Best Employer in Tanzania. The Company's programs on training and development, employee relations and welfare, gender equality and HIV/AIDS were voted best in their class in Tanzania. This recognition signifies the strength and quality of TCC's human resources management processes and practices. Key programs implemented in 2010 are highlighted below.

Training and Development

The cornerstone of the Company's commitment to enhance the quality of its human capital is in its training and development (T&D) program. The program focuses not only on the development of current employees but also on nurturing organizational bench strength of young, talented college and university graduates. In addition, it offers employees career path opportunities in other Japan Tobacco International (JTI) group of companies. JTI is the majority shareholder in TCC, with 89 offices and 26 factories around the world. In 2010, the Company invested Tshs 512 million in leadership, management and technical training for its employees.

Bench Strength Through the Young Graduate Program

With a limited talent pool in the Country and a need to ensure the long-term sustainability of the business, the Company continued to implement its Young Graduate Program (YGP) for fresh college and university graduates. The program began in 2008.

The YGP includes a six month internship program to expose interns to the real world of business. Interns, under a supervisor, are assigned real business challenges facing the Company and are required to develop and present a solution for implementation at the end of the six month internship period. Successful candidates, who demonstrate talent, are selected to join the two year Young Graduate Program. This program exposes participants to various aspects of TCC's business through rotation within or in other departments, provides training on soft skills and on the job coaching. Participants are paid a salary and benefits. On successful completion of the program, successful participants are offered permanent employment with the Company. In 2010, a total of 15 college and university graduates interned at TCC. Since its inception in 2008, a total of 37 participants have taken up permanent employment with the Company.

Employee Engagement Survey

It is widely recognized that employees do their best only if they are engaged in their work. That is, they have a strong sense of belonging and attachment to the Company, are highly motivated and believe in the Company's vision, mission, values and culture. In May 2010, the Company conducted a survey to assess the level of employee engagement. A total of 494 TCC employees, or 78% of the total workforce at the time, participated in the survey. Results of the survey indicated areas for further improvement. Management has developed programs to further enhance employees' engagement. These programs will be implemented in 2011.

Excellence in Execution

TCC believes excellence in execution of its strategies and programs will be key to sustaining its market leadership in Tanzania and in achieving its vision. To this end, the Company instituted an Excellence in Execution Program to entrench a strong culture of excellence in its employees. The program involved Company wide discussions on what excellence in execution means for individuals, teams and the Company as a whole. Following the discussions, each department developed an actionable charter to guide embedding a culture of excellence in execution.

Wellness Program

To ensure a productive work force and minimal absenteeism from work due to illness, the Company has in place a Wellness Program. This program includes annual medical check ups for all employees, preventive treatment and education on healthy living. Key interventions include HIV/AIDS prevention through sensitization and nutritional support for those living with HIV/AIDS, physical fitness programs and eating healthy.



Activities Contributing to the Environment and Society

Corporate Social Responsibility (CSR) has grown in importance over the years as a result of high expectations across the world for companies to behave in a responsible manner. CSR in broad terms is the process guiding all Company activities in the protection and promotion of human social endeavors. It implies a commitment to contribute to the economic, environmental and social sustainability of communities and society at large.

Many "CSR" activities are normal business practices for TCC and include Operating Guidelines (OGL) to ensure transparency and appropriate financial approvals, Policies and Procedures as well as programs such as responsible marketing of tobacco products under the International Marketing Standards (IMS), Know Your Customer (KYC), Code of Conduct (CoC) and Reporting Concerns Mechanism (RCM), Environmental Health and Safety (EHS), Assistance to Communities, referred to as Corporate Philanthropy (CP) and so forth. At TCC, all of the above are in place and are highlighted in the Report of the Directors. This section focuses on two important aspects of TCC's "CSR" activities, Environmental Health and Safety (EHS) and Corporate Philanthropy (CP).



Environmental Health and Safety – Reforestation and Community Support Program

Japan Tobacco (JT) is one of largest tobacco companies in the world. Its wholly owned subsidiary, Japan Tobacco International (JTI), is the majority shareholder in TCC, with a 75% shareholding. The remaining 25% is owned by the Tanzania public through the Dar es Salaam Stock Exchange (DSE).

JT has in place a reforestation and community support program in Sikonge and Urambo Districts in Tabora Region. The program is funded jointly by JT, JTI and TCC. Washington State University, through a local affiliate, Total Land Care (TLC), is the project implementer.

Phase one of this 4 year (2007-2010) US 1 million program ended in December 2010. The program has been renewed for another four years (2011-2014).

Program activities included various forms of tree planting on individual and communal lands; sustainable management of natural woodlands through regeneration; construction of fuel-efficient kitchen stoves to reduce wood consumption; increase and diversify farm productivity to improve household food security, nutrition, and incomes through low-cost, sustainable systems of irrigation linked to good markets; and enhancing rural health standards by introducing safe water and sanitation. Local communities participated actively in these activities. Overall, the program achieved its objectives as highlighted below.



Tree planting

Results on tree planting were in line with the target, with 6.2 million trees planted between 2007 and 2010. Based on the seedlings grown in nurseries between September and December 2010 the end of project target of 8 million is expected to be reached after planting is completed in January and February of 2011. This is the normal time for planting trees in the region.

Natural regeneration

Natural regeneration is popular among local communities because it promotes the restoration of the native landscape, its biodiversity and the multiple products and uses derived from indigenous plants. Natural regeneration is also vital in conserving watersheds. When combined with tree planting, improved stoves and tobacco barns, this practice helps to reduce deforestation especially the loss of indigenous woodlands and forests. Results achieved under this intervention were above target.

Improved wood stoves

The use of woodfuel in rural areas is by far the largest form of wood consumption. Consequently, a key strategy to reduce deforestation is to decrease the use of woodfuel through more efficient stoves, or by providing alternative sources of energy. The latter at present is not feasible in rural areas due to cost and supply problems for alternative fuels. The realities of the situation dictate a strategy to introduce simple fuel-efficient stoves into the targeted communities using models that can be made by one adult in 1-2 hours with local materials. Results achieved under this intervention were satisfactory.

Reforestation

The combined effects of tree planting, natural regeneration and use of improved kitchen stoves has reduced the rate of deforestation in the program areas.

Irrigation

A total of 836 households are involved in treadle pump irrigation vs. the target of 400 with a total distribution of 400 pumps, hoses and inputs.

Clean water supply

Many rural villages in Tanzania have no access to clean water, which presents huge health risks from debilitating diseases that lead to high mortality especially among young children, the elderly and the sick. It also reduces the productivity of farming, as well as school attendance among children. In addition, the distance to water increases the labor and time spent by girls and women to collect water for household use. A number of water wells were installed in various villages in Sikonge and Urambo. However, the number of wells installed was below target due to lengthy delays in securing hand pumps from India and port clearance delays at the Dar es Salaam Port.

Ecological Sanitation

Cultural barriers affected the adoption of this practice, especially in Tanzania where the number of households with

eco-latrines is only 38% of the target. A key step to addressing the cultural barrier is education and awareness, a key intervention that will be implemented in 2011.

Corporate Philanthropy Programs (CP)

As a Company drawing on local communities for employees and also for customers, TCC believes in putting something back into those communities. The Company has corporate policies to offer help with social projects and humanitarian causes. The Company's Corporate Philanthropy focus is on marginalized groups of society, adult education and promotion of local arts and culture. Every year, up to 1% of the Company's previous year's profit is set aside for Corporate Philanthropy activities.

Marginalized groups

TCC recognizes the plight of marginalized groups of society, such as the disabled and the destitute. The Company has in place a program to re-integrate such groups into the main stream of society. This 4 year program (2007-2010) provides food, shelter and skills training to targeted groups. The program will be renewed for another 4 years (2011-14)

Education

Education is key to poverty alleviation in Tanzania. In 2010, the Company supported a number of projects through the provision of construction materials, books and computers.



Arts and culture

Cultural and artistic sponsorships are important means through which TCC contributes to the community in a meaningful and sustainable manner. TCC is a key sponsor of the Vipaji Program. This 4 year program (2007 – 2010) is designed to develop local artists and organizations that promote innovative, high quality local art forms. The program is managed by the Vipaji Foundation. This program will be renewed for another 4 years (2011-2014). To date, the program has implemented a number of exciting projects. These include pastel painting, henna painting on canvas and conversion of used bottles into beads.

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DIRECTORS AND ADVISERS:

Directors

Mr. Simaan Matta (Chairman and CEO)
Mr. Ramadhani Khijjah*
Mr. Paul Makanza
Ms. Maria Kejo*
Mr. Hubertus Maria Antonius Ooms*
Mr. David Thorn
Mr. Ivo van Wingerden

* Non-executive Directors

SHAREHOLDING STRUCTURE:

Shareholder	Holding**
JT International Holding B. V.	75.0%
General Public	9.8%
Public Service Pension Fund	4.3%
Parastatal Pension Fund	3.0%
National Social Security Fund	3.0%
United Republic of Tanzania	2.5%
Unit Trust of Tanzania	0.5%
Registered Trustees of the TCC Employees	
Share Option Scheme	0.3%
The Local Authorities Provident Fund	0.6%
Alliance Insurance Corporation Limited	
Government Employees Provident Fund	0.2%
The Jubilee Insurance (T) Limited	0.2%
Total	100.00%

Principal bankers

Standard Chartered Bank Tanzania Ltd.
CRDB Bank Plc
NBC Ltd.
NMB Bank Plc
Citibank Tanzania Ltd.
Barclays Bank Tanzania Ltd.

Shareholder classification

	Holding**
Tanzanian	25.00%
Foreign	75.00%
Total	100.00%

**Based on share register as at 31 December 2010

Secretary, Registered Office and Principal place of business

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

Auditors
Deloitte & Touche
Certified Public Accountants (T)
10th Floor PPF Tower, Ohio Street
P.O. Box 155 Dar es Salaam



Report of the Directors

For The Year Ended 31 December 2010

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TANZANIA CIGARETTE COMPANY LTD.
Annual Report 2010

Report
of the
Directors

The directors present this report and the audited financial statements for the financial year ended 31 December 2010, which disclose the state of affairs of the Company.

INCORPORATION

Tanzania Cigarette Company Limited (TCC) 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 on 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 best Company in East. Its mission is "to grow volume and profit while defending market share by delivering quality brands and maximizing consumer and customer satisfaction through innovation, engaged employees, integrity and excellence in execution."

The Company's core values are: **Quality** - making a difference through quality must be evident in all areas of the business; **Commitment** - the Company respects the views of society on tobacco, and conducts its business in an ethical and responsible manner; **Innovation** - the Company constantly searches for fresh ideas and values its people for having the courage to do things differently; and **Synergy** - the Company encourages diversity of ideas and team work.

PRINCIPAL ACTIVITIES

The Company's principal activities are the production and sale of cigarettes. The Company's range of products include Camel, LD, Embassy, Iceberg, Monte Carlo, Portsman, Sweet Menthol, Safari, Club, Aspen, Crescent & Star serve domestic and export markets.

COMPOSITION OF THE BOARD OF DIRECTORS

The details of the directors of the Company at the date of this report who, except as otherwise stated, served throughout the period are set out on page 15:

NAME	POSITION	NATIONALITY
Mr. Simaan Matta	Chairman and CEO	Jordanian
Mr. Paul Makanza	Director	Tanzanian
Ms. Maria N. Kejo	Director	Tanzanian
Mr. Hubertus Maria Antonius Ooms	Director	Dutch
Mr. David Thorn	Director	British
Mr. Ramadhani Khijja	Director	Tanzanian
Mr. Ivo van Wingerden	Director	Dutch

The Company Secretary as at 31 December 2010 was Mr. Vintan Willgis Mbiro.

CORPORATE GOVERNANCE

The Board of Directors of Tanzania Cigarette Company Limited consists of seven Directors, out of whom four Directors hold executive positions in the Company. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles. The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the General Manager, who is assisted by the executive management team.

The Company is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability.

Tanzania Cigarette Company Limited (TCC) is a subsidiary of Japan Tobacco International (JTI). 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 improvement. TCC strictly follows its parent Company's global standards, policies and procedures and operating guidelines. These include amongst others, responsible marketing, being an equal opportunity employer, and an adherence to a strict code of conduct, environmental health and safety standards and corporate philanthropy.

Report of the Directors

For The Year Ended 31 December 2010

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TANZANIA CIGARETTE COMPANY LTD.
Annual Report 2010

Report
of the
Directors

Responsible Marketing

The Company adheres to the International Marketing Standards which set a baseline for acceptable tobacco marketing worldwide. TCC recognizes that it is right to restrict our marketing activities given the nature of our product. The unique nature of the product requires us to market the product responsibly. The Company believes that smoking is an adult choice so we ensure that our brand marketing has no particular appeal to youth. TCC also ensures that adult smokers are appropriately informed about the health risks of smoking.

Know Your Customer (KYC)

The Know-Your-Customer policy is designed to ensure that TCC sells products to customers who have integrity, fully comply with all local laws as well as TCC's own stringent standards. A comprehensive verification exercise was completed in the period under review and found all surveyed customers to be compliant. The KYC program also helps the Company in the battle against the use of its products in illegal or unethical activities.

Equal Opportunity Employer

The Company is an equal opportunity employer. Its policy is to recruit the right person, to the right position at the right time. The Company follows a standard recruitment procedure which ensures optimal selection and appropriate terms and conditions of employment. TCC maintains a work environment free from discrimination based on race, color, religion, nationality, gender, disability, marital status or any other status protected by law with regards to any term or condition of employment.

Code of Conduct

TCC adheres to the Code of Conduct of its parent Company JTI. The Company is fully committed to achieving business results which are driven and supported by the highest level of integrity and are compliant with laws and regulations.

The Code of Conduct represents the values and responsibilities against which we are measured.

Reporting Concerns Mechanism

The Reporting Concerns Mechanism (RCM) is a confidential tool that is used for raising concerns or behavior that is inconsistent with the Code of Conduct, our policies and procedures, operating guidelines and all other applicable laws and regulations. Employees whose concerns have not been addressed through normal channels can use the tool to report on unethical business conduct or behavior.

Environment Health and Safety (EHS)

Environment, Health and Safety (EHS) is about protecting the health and safety of TCC employees, preventing accidents in the work place and minimizing the harm our activities can cause to the environment. A strong framework has been implemented to manage risks and make the most of EHS opportunities such as waste minimization and energy efficiency. In 2010, the Company maintained its quality accreditation, ISO 14001 and OHSAS 18001, following a rigorous evaluation exercise conducted by Environmental Resources Management Certification and Verification Services (ERM CVS).

CAPITAL STRUCTURE

The company capital structure as at 31 December 2010 is shown in page 2. The details of company's share capital are as shown below:

	2010 TZS M	2009 TZS M
Authorized: 125,000,000 Ordinary shares of TZS 20 each	2,500	2,500
Issued and fully paid: 100,000,000 Ordinary shares	2,000	2,000

The ordinary shares of the Company are held as follows:

Shareholder	Year	Number of Share	Year	Number of Shares
JTIH B.V	2010	75,000,000	2009	75,000,000
Minority	2010	25,000,000	2009	25,000,000



SHAREHOLDERS OF THE COMPANY

Japan Tobacco International (JTI) is the majority shareholder in TCC. It owns 75% of the issued and paid up ordinary shares of TCC. The Tanzanian public own the remaining 25%. The issued and paid up ordinary shares are listed on the Dar es Salaam Stock Exchange.

DIRECTORS' INTERESTS IN ISSUED AND PAID UP SHARE CAPITAL

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

MANAGEMENT

The Management of the Company is under the General Manager and is organized in the following departments:

- CEO's Office
- Finance
- Manufacturing
- East and Central Africa Division
- Human Resources
- Company Services
- Legal
- Corporate Affairs
- Consumer and Trade Marketing

STOCK EXCHANGE INFORMATION

In 2000, the Company was listed on the Dar es Salaam Stock Exchange. The average share price during the year was TZS 410/-. The performance of the Company's shares in the secondary market as measured by market capitalization as at 31 December 2010 was TZS 222,000 Million (2009: TZS 180,000 Million).

RESULTS AND DIVIDEND

During the year, the Directors declared an interim gross dividend of TZS 10 billion or TZS 100 per share, which was paid in October 2010 (2009: TZS 10 billion or TZS 100 per share). After the year-end, the Directors have proposed a final gross dividend of TZS 20 billion or TZS 200 per share (2009: TZS 5 billion or 50 per share). The final dividend is subject to adoption by shareholders at the Annual General Meeting and, once approved, the total gross dividend relating to current year will equal to TZS 30 billion or TZS 300 per share (2009: TZS 15 billion or TZS 150 per share).

PERFORMANCE FOR THE YEAR

During 2010, the market started to recover from the effects of the global increasing economic crisis. Domestic volume grew by 2.2% and export volume continued its growth momentum by 33% in comparison to 2009. Despite a significant loss in the exchange value of the Tanzanian Shilling versus the US Dollar, the Company registered a profit before tax of TZS 84 billion (2009: TZS 66 billion). Gross turnover increased by 22% in comparison to 15% in year 2009.

Company business fundamentals remained sound in 2010 with strong liquidity evidenced by cash and cash equivalent of TZS 31 billion (2009: TZS 21 billion). During 2010 the Company invested TZS 31 Billion (2009: TZS 18 billion) to ensure product quality, to improve production capacity, to enhance efficiency of operations and to strengthen channels of distribution. Working capital remained strong with 88% growth in current ratio from year 2009. The 2009 short term borrowing of TZS 10 billion has been fully repaid.

Tax Compliance and Rewards

The Company promotes voluntary tax compliance in all of its functions in order to be in line with the nation's motto of "paying tax for national development". Payment of the right taxes, at the right time, good reporting and record keeping are highly encouraged within the Company. As a result of these efforts, the Company has been awarded certificates and trophies from Tanzania Revenue Authority (TRA) as one of the largest tax payers with proper record keeping and high quality records, good financial reporting and the most compliant tax payer in the large taxpayer category in the country.

Report of the Directors

For The Year Ended 31 December 2010

Report of the Directors

For The Year Ended 31 December 2010

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Mkombozi Cigarette Company Ltd.
Annual Report 2010

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Mkombozi Cigarette Company Ltd.
Annual Report 2010

RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observation of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2010 and is of the opinion that they met accepted criteria.

Risk management is carried out by the Finance and Internal audit departments under policies approved by the Board of Directors.

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 Board of Directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

EMPLOYEES' WELFARE

Management and Employees' Relationship

There was continued good relation between employees and management during the period under review. There were no unresolved complaints received by Management from the employees during the year. A healthy relationship continues to exist between Management and the Trade Union. The Voluntary Agreement between Management and the Trade Union was signed in December 2009. The Voluntary Agreement provides for improved benefits and conducive, harmonious working environment for our employees.

Training and Development

For the year ending 31 Dec 2010, the Company spent a sum of TZS 512 million for staff training in order to improve employee's knowledge, skills and attitude and hence increase organizational effectiveness. (2009: TZS 624 million). For the year 2011, a total of TZS 768 million has been allocated for training and development. It should be noted that this amount covers only functional and soft skills development. It excludes specific departmental skills such as manufacturing technical training etc. We are committed to improve Training and Development in order to meet the demands of our dynamic growing business. Training programs have been and are continually being reviewed and developed to ensure employees are adequately trained at all levels.

Medical Assistance

All members of staff with a maximum number of four beneficiaries (dependants) for each employee were availed medical insurance guaranteed by the Board. Currently these services are outsourced and provided by Strategis Insurance Limited.

The Company has an Employee Wellness Program that deals with the main health issues that affect TCC's community (workforce); these being diabetes, hypertension, obesity, malaria and HIV/ AIDS. Through the program employees are imparted with knowledge on prevention, cure and treatment of these diseases. The program has assisted the Company to ensure that employees are healthier, happy, motivated and have workforce that understands that the Company cares for them hence increased productivity.



Mr. Simaan Matta
Chairman

Health and Safety

The Company has a strong health and safety section which ensures that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees and contractors by providing adequate and proper personal protective equipment, training and supervision as necessary.

Financial Assistance to Staff

The Company is ensuring that car loans are available to all eligible confirmed employees. Management has encouraged staff to join Mkombozi Savings and Credit Co-operative Society (SACCOS) to assist in promoting the welfare of its employees.

Wills Project

The Company encourages all employees to have a will in place in order to ensure the proper/elected beneficiaries are compensated in the event of an employee's untimely death. The Company, through external lawyers, facilitates the will writing and revision process.

Employees Benefit Plan

The Company pays contributions to publicly administered pension plans on mandatory basis which qualifies to be a defined contribution plan. In addition, the Company signed voluntary agreement with Trade Union for a defined benefit plan upon retirement. All permanent employees qualify for this benefit.

The average number of employees during the year was 595 (2009: 635).

GENDER PARITY

At December 31, 2010 the Company had 595 employees, out of which 103 were female and 492 were male (2009: Female 112, Male 523).

RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 22 to these financial statements.

POLITICAL AND CHARITABLE DONATIONS

The Company did not make any political donations during the year. Donations made to charitable organizations and Non Government Organizations during the year amounted to TZS 450 million (2009: TZS 508 million).

AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to continue in office and are eligible for reappointment. A resolution proposing their re-appointment as auditors of the Company for the year 2011 will be put to the Annual General Meeting.

Approved and authorized for issue by the Board of Directors on March 11, 2011 and signed on its behalf by:

Mr. Simaan Matta
Chairman



Mr Paul Makanza
Director
2011

The 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 and operating result of the Company as at the end of the financial year. It also requires the Directors to ensure that, the Company keep 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Tanzanian 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.

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 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 Company 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 Company will not remain a going concern for at least the next twelve months from the date of this statement.

Mr Paul Makanza
Director

March 11, 2011

Mr Simaan Matta
Chairman

March 11, 2011

Report on the Financial Statements

We have audited the financial statements of Tanzania Cigarette Company Limited, set out on pages 12 to 55 which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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, 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.

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 judgement, 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 Company'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 Company'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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Company as at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 Company, so far as it appears from our examination of those books; and
- iii) the Company's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) are in agreement with the books of account.

Certified Public Accountants (T)
Dar es Salaam

Signed by: David C Nchimbi

March 11, 2011

Statement of Comprehensive Income

For The Year Ended 31 December 2010

Statement of Financial Position

AS AT 31 DECEMBER 2010

Notes	2010 TZS M	2009 (Restated) TZS M
Gross Turnover	321,777	265,242
Excise duty and VAT	(110,769)	(98,849)
Net Turnover	211,008	166,393
Cost of sales	6 (73,787)	(53,113)
Gross profit	137,221	113,280
Marketing , Selling & Distribution expenses	(25,114)	(21,839)
Administration expenses	(26,949)	(23,870)
Other income/(expenses)	707	(1,363)
Other gains and losses	(1,703)	(820)
Interest income	397	457
Interest expense	(500)	(58)
Profit before Taxation	7 84,059	65,787
Taxation charge	8 (23,859)	(19,759)
Profit for the year	60,200	46,028
Other comprehensive income	-	-
Total comprehensive income	60,200	46,028
Earnings per share		
Basic and diluted (TZS per share)	9 602.00	460.28



Notes	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
ASSETS			
Non-current assets			
Property, plant and equipment	11 70,236	48,057	37,115
Intangible assets	12 1,323	1,587	1,851
Investment in subsidiary	13 -	-	-
Loan receivable	-	-	272
	71,559	49,644	39,238
Current assets			
Inventories	14 55,401	68,726	39,266
Trade and other receivables	15 18,578	10,189	11,812
Taxation recoverable	8(d) -	576	89
Cash and bank balances	16 31,241	20,656	9,486
	105,220	100,147	60,653
Total assets	176,779	149,791	99,891
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital and retained earnings	17 2,000	2,000	2,000
Non-current liabilities			
Deferred tax liability	18 126,807	81,607	55,579
Defined benefit plan	25 3,126	4,875	3,250
	5,435	5,470	5,274
	8,561	10,345	8,524
Current liabilities			
Trade and other payables	19 37,562	45,839	33,788
Short term Borrowings	20 -	10,000	-
Tax payable	8(d) 1,849	-	-
	39,411	55,839	33,788
Total liabilities	47,972	66,184	42,312
Total equity and liabilities	176,779	149,791	99,891

The financial statements on pages 24 to 53 were approved by the Board of Directors on March 11, 2011 and were signed on its behalf by the following directors:

Mr. Paul Makanza
Director

Statements of Changes In Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital TZS M	Retained earnings TZS M	Total TZS M
At 1 January 2009	2,000	60,853	62,853
Effect of prior year's adjustments	-	(5,274)	(5,274)
At 1 January 2009 (Restated)	2,000	55,579	57,579
Final dividend paid for year 2008	-	(10,000)	(10,000)
Interim dividend paid for year 2009	-	(10,000)	(10,000)
Profit for the year	-	46,028	46,028
At 31 December 2009 (Restated)	2,000	81,607	83,607
At 1 January 2010	2,000	81,607	81,607
Final dividend paid for year 2009	-	(5,000)	(5,000)
Interim dividend paid for year 2010	-	(10,000)	(10,000)
Profit for the year	-	60,200	60,200
At 31 December 2010	2,000	126,807	128,807



	Notes	2010 TZS M	2009 (Restated) TZS M
Cash flows from operating activities			
Cash generated from operations	21	90,128	56,825
Defined benefit paid		(333)	(207)
Interest received		397	457
Interest paid		(500)	(58)
Taxation paid	8 (d)	(23,183)	(18,621)
Net cash generated by operating activities		66,509	38,396
Cash flows from investing activities			
Amounts received from TCC LTIP		-	272
Payments for property, plant and equipment		(31,053)	(17,784)
Proceeds from disposal of property, plant and equipment		129	286
Net cash used in investing activities		(30,924)	(17,226)
Cash flows from financing activities			
(Decrease)/increase in short term borrowing		(10,000)	10,000
Dividends paid to owners	10	(15,000)	(20,000)
Net cash used in financing activities		(25,000)	(10,000)
Net increase in cash and cash equivalents		10,585	11,170
Cash and cash equivalents at the beginning of the year		20,656	9,486
Cash and cash equivalents at the end of the year		31,241	20,656
Represented by:			
Cash and bank balances		31,241	20,656

1. General Information

Tanzania Cigarette Company Limited (The Company) is a limited company incorporated in Tanzania. The addresses of its registered office and principal place of business are disclosed in the corporate information page of this report. The principal activities of the company is 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 31 December 2010.

Amendments and revised standards	Effective for annual periods beginning on or after
IFRS 1, First-time adoption of International Financial Reporting Standards – revised and restructured	1 July 2009
IFRS 1, First-time adoption of International Financial Reporting Standards – amendments relating to oil and gas assets and determining whether an arrangement contains a lease	1 January 2010
IFRS 2, Share-based payment – amendments relating to company cash-settled share-based payment transactions	1 January 2010
IFRS 3 (Revised 2008), Business Combinations – comprehensive revision on applying the acquisition method	1 July 2009
IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; and IAS 31, Interests in Joint Ventures – consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 39, Financial Instruments: Recognition and Measurement – amendments for eligible hedged items	1 July 2009
Various improvements resulting from May 2008, April 2009 and May 2010 Annual Improvements to IFRSs	1 July 2009 and 1 January 2010
New interpretations	
IFRIC 17, Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18, Transfers of Assets from Customers	Transfers received on or after 1 July 2009

b) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2010

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 1, First-time Adoption of International Financial Reporting Standards – limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of ‘fixed dates’ for certain exceptions with ‘the date of transition to IFRSs’; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets	1 January 2011
IFRS 9, Financial Instruments – Classification and Measurement	1 January 2013
IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 24, Related Party Disclosures – revised definition of related parties	1 January 2011
Various improvements resulting from May 2010 Annual Improvements to IFRSs	1 July 2010 and 1 January 2011
IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues	1 February 2010
New interpretation	
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods.

IAS 24 Related Party Disclosures (as revised in 2009)

This modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Company because the Company is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled Classification of Rights Issues

These address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Company has not entered into any arrangements that would fall within the scope of the amendments. However, if the Company does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

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IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

This provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Company has not entered into transactions of this nature. However, if the Company does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendment is effective date for annual periods beginning on or after 1 January 2011. The Company will apply this amendment prospectively. The directors, however, anticipate no material impact to the Company financial statements.

(d) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2010.

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are stated below:

Statement of compliance

The financial statements have been prepared in accordance 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 statement of comprehensive income.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are stated in TZS (Tanzanian Shillings).

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

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.

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 the year, 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.

Retirement benefits obligations

The voluntary agreement between management and trade union has given a rise for accounting for defined benefit plan. The Company operates an unfunded and unvested defined retirement benefit scheme to 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. Provisions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the scheme with actuarial valuations being carried out at the end of each reporting period. Past service cost are recognized immediately.

The retirement benefit obligation recognized 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) and Parastatal Pension Fund (PPF). The Company's obligations with respect to contributions are 10% and 15% of the employees' gross and basic emoluments for NSSF and PPF 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

Current Corporate tax

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

Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. 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.

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 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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.

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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, where VAT is incurred on a purchase of an assets or services is not claimable as input VAT as provided in the VAT Act, 1997 together with its subsequent amendments and regulations, in which case the VAT is recognized as part of cost of acquisition of the assets or part of the expense item as it seems to be appropriate.

Any unpaid or uncollected amounts due to suppliers or due from customers are stated and reported as gross amount with VAT being included.

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

Excise Tax

The excise tax paid/payable to tax 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 tax rates which are applicable at year end are as follows:

- Cigarettes without filter tip and containing domestic tobacco exceeding 75% is TZS 6,209 per 1,000 cigarettes.
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 14,649 per 1,000 cigarettes.
- Other cigarettes not mentioned in first and second bullet above is TZS 26,604 per 1,000 cigarettes.

The amount of excise tax payable to Tanzania Revenue Authority at the year end is included as part of 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.

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.

Finance leases are capitalized at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance charge is charged to the profit or loss over the lease period. Property, plant and equipment acquired under finance leasing contracts are depreciated over the term of the lease or useful life of the asset, whichever is shorter.

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 the 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
Advertising equipment	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.

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.

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.

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.

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Assets that are subject to 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.

A previously recognized impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in prior periods. 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 reporting date, are not recognized as liabilities at the reporting date.

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 include all financial assets, financial liabilities and equity instruments, including derivative instruments.

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the Company's Statement of Financial Position when the Company becomes party to the contractual provisions of the instrument.

Fair value methods and assumptions

The fair value of financial instruments, excluding derivative instruments, not traded in active, liquid and organised financial markets is determined using a variety of methods and assumptions that are based on market conditions and risks existing at reporting date, including independent appraisals and discounted cash flow methods.

The fair value of trade and other receivables, cash and cash equivalents and trade and other payables approximate their carrying amount due to the short-term maturities of these items.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of financial assets and financial liabilities and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts and future cash payments (including transactions costs and other premiums or discounts) through the expected life of the financial asset and financial liability, or where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

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Interest Income is recognised on an effective interest basis for held-to-maturity investments, available-for-sale financial assets and loans and receivables. Interest expense is recognised on an effective interest rate basis for financial liabilities held at amortised cost.

Amortised cost

Amortised cost is the amount at which the financial asset and financial liability is measured at initial recognition less principal repayments, cumulative amortisation and accumulated impairment losses. The cumulative amortisation of any difference between the initial amount and the maturity amount of the financial asset and financial liability is calculated by using the effective interest rate method and recognised in profit or loss as interest income or interest expense over the period of the investment or debt.

Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale 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.

The Company's principal financial assets are trade and other receivables (excluding Value Added Taxation, prepayments and operating lease 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 timeframe 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 120 days because historical experience has been that receivables that are past due beyond 120 days are difficult to recover.

Daily sales outstanding balance 2010 was 7 days (2009: 7 days)

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, net of outstanding bank overdrafts and duly reconciled to the related items in the statement of financial position. Cash and cash equivalents in the statement of financial position include cash on hand and cash in banks.

Financial liabilities

Financial liabilities are classified into the following categories: financial liabilities at fair value through profit or loss, financial liabilities held at amortised cost and financial guarantee contract liabilities. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

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The Company's principal financial liabilities are trade and other payables (Value Added Taxation, revenue charged in advance and reduced subscriptions excluded), bank borrowings and other short-term debt.

All financial liabilities are initially measured at fair value, including transaction costs except for those financial liabilities 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.

Financial liabilities held at amortised cost

Interest bearing debt, including non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in profit or loss by applying the effective interest rate.

Trade and other payables

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.

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, accounted for on accruals basis.

Derecognition

Financial assets, or a portion thereof are derecognised when the Company's contractual rights to the cash flow expire, when the Company transfers substantially all the risks and rewards of the transferred financial asset or when the Company neither transfers nor retains substantially all the risks and rewards of the transferred financial asset but loses control of the transferred financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in profit or loss.

If the Company retains substantially all the risks and rewards of the transferred financial asset, the Company continues to recognise the transferred financial asset. If the Company neither transfers nor retains substantially all the risks and rewards of the transferred financial asset, but retains control, it continues to recognise the transferred financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability for any amounts payable.

Financial liabilities, or a portion thereof, are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and settlement amounts paid are included 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.

Comparatives

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

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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment 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.

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

4.1 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.

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.

4.2 IAS 8 – Accounting Policies, Changes In Accounting Estimates And Errors

Defined benefit plan

The recent voluntary agreement between management and trade union has given rise for accounting for defined benefit plan. The Company operates a 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.

The Company has restated its 2009 financial statements in order to reflect the defined benefit liability, resulting in a restatement of retained earnings per 1 January 2009.

The restatement had the following impact on the financial statements

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	31 Dec 2009 TZS M	1 Jan 2009 TZS M
Statement of financial position		
Increase in defined benefit plan	196	5,274
Decrease in Retained earning balances	196	5,274
Statement of comprehensive income		
Increase in administration expenses	403	-

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. Domestic market has reported revenue from both external customers and intersegment sales or transfers of 95 per cent of the combined revenue, internal and external, of all operating segments, thus qualifying as reportable segment. The absolute measure of its reported profit or loss is more than 98 per cent in absolute amount, of the combined reported profit or loss of all operating segments that report a profit or loss.

The reportable operating segment is carrying on the business of manufacturing and selling of cigarette in Tanzania and other operating segment. The brands sold in domestic market are Camel, Club, Embassy, Portman, Sweet menthol, Iceberg, Crescent and star and Safari.

Export markets include Democratic Republic of Congo, Mozambique, Malawi, Zambia and Comoros. Export markets reported revenue of 6 per cent of the combined revenue (2009: 5 per cent)

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

	2010 TZS M	2009 TZS M
Revenue from top ten customers	23,997	18,644

The reportable segment has more than 500 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	
	2010 TZS M	2009 TZS M	2010 TZS M	2009 TZS M
Export Market	20,505	13,081	983	810
Domestic Market	301,272	252,161	136,238	112,470
Total	321,777	265,242	137,221	113,280
Marketing , Selling & Distribution expenses:				
Export market			(2,257)	(1,337)
Domestic market			(22,857)	(20,502)
Inter-segmental cross charges			-	-
General & Administration costs			(26,949)	(23,870)
Other expenses			707	(1,363)
Other gains and losses			(1,703)	(820)
Interest income			397	457
Interest expense			(500)	(58)
Profit before tax			84,059	65,787

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	2010 TZS M	2009 (Restated) TZS M
Segment assets		
Property, plant and equipment	70,236	48,057
Other intangible assets	1,323	1,587
Total segment non-current assets	71,559	49,644
Inventories	55,401	68,726
Trade and other receivables	18,578	10,189
Current tax assets	-	576
Cash and cash equivalents	31,241	20,656
Total segment Current Assets	105,220	100,147
Consolidated assets	176,779	149,791
Segment liabilities		
Deferred tax liabilities	3,126	4,875
Defined Benefit Plan	5,435	5,470
Total segment non-current liabilities	8,561	10,345
Trade and other payables	37,562	45,839
Short term Borrowings	-	10,000
Taxation Payable	1,949	-
Total segment current liabilities	39,511	55,839
Consolidated liabilities	47,972	66,184

For the purposes of monitoring segment performance and allocating resources between segments: All assets and liabilities are allocated to reportable segments.

Other segment information

	Depreciation and amortization		Additions to non-current assets	
	2010 TZS M	2009 TZS M	2010 TZS M	2009 TZS M
Leasehold	608	377	13,158	280
Plant and machinery	6,289	4,626	9,307	11,597
Other equipment	472	433	379	309
Motor vehicles	1,506	1,224	397	1,739
Capital work in progress	-	-	7,812	3,859
Intangible assets	265	265	-	-
Total	9,140	6,924	31,053	17,784

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The following is an analysis of the operating segment turnover (excluding VAT) from its major products.

	2010 TZS M	2009 TZS M
Embassy	38,394	22,613
Portsman	89,468	83,805
Sweet Menthol	99,263	85,110
Safari	12,044	1,822
	239,169	193,350

6. Cost of Sales

	2010 TZS M	2009 TZS M
Direct Costs	52,161	36,354
Indirect costs	21,626	16,759
	73,787	53,113

7. Profit Before Taxation

Profit before taxation has been arrived at after charging/ (crediting):

	2010 TZS M	2009 TZS M
Directors' emoluments	2,843	2,065
Staff costs	26,263	17,306
Depreciation and amortization	9,140	6,924
Technical & Management service fees	7,809	7,450
Auditor's remuneration:		
- Audit Services	163	150
- Non audit services	-	-
Profit on disposal of property, plant and equipment	(127)	(107)
Included within staff costs are:		
Defined benefit plan	299	196
NSSF and PPF contributions	1,265	1,047

8. Taxation

	2010 TZS M	2009 TZS M
(a) Taxation charge		
Current taxation		
Current taxation at 30% per tax computation	25,024	18,102
Prior year under/(over) provision	584	32
	25,608	18,134
Deferred taxation – (note 18)		
Deferred tax recognized in profit or loss	339	1,658
Prior years charge/(credit) - prior years	(2,088)	(33)
	23,859	19,759

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

	2010 TZS M	2009 TZS M
(b) Reconciliation of tax based on accounting profit to tax charge		
Accounting profit before taxation	84,059	65,787
Tax charge at 30%	25,218	19,736
Income subject to lower rate of tax or not subject to tax	(22)	(25)
Disallowable expenditure	167	49
Prior years under provision	584	32
Deferred tax adjustment – prior years	(2,088)	(33)
Taxation charge	23,859	19,759

The tax rate used for the 2010 and 2009 reconciliations above is the statutory income tax rate of 30% payable by corporate entities in Tanzania.

(c) 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 future.

(d) Taxation recoverable

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Balance at beginning of the year	576	89	107
Charge for the year (Note 8(a))	(25,608)	(18,134)	(13,152)
Corporation tax paid	23,183	18,621	13,134
Balance at end of year	(1,849)	576	89

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.

	2010 TZS M	Restated 2009 TZS M
Profit attributable to ordinary shareholders (TZS M)	60,200	46,028
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (TZS)	602.00	460.28

There were no potential dilutive shares outstanding at 31 December 2010 and 31 December 2009.

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10. Dividends

	2010 TZS M	2009 TZS M
Interim dividend for the year	10,000	10,000
Final dividend for the year	20,000	5,000
Total	30,000	15,000
Weighted average number of ordinary shares in issue (million)	100	100
Dividend per share (TZS)	300	150

During the year, the Directors declared an interim gross dividend of TZS 10 billion or TZS 100 per share, which was paid in October 2010 (2009: TZS 10 billion or TZS 100 per share). After the year-end, the Directors have proposed a final gross dividend of TZS 20 billion or TZS 200 per share (2009: TZS 5 billion or 50 per share. The final dividend is subject to adoption by shareholders at the Annual General Meeting and, once approved, the total gross dividend relating to current year will equal to TZS 30 billion or TZS 300 per share (2009: TZS 15 billion or TZS 150 per share).

11. Property, Plant and Equipment

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Cost	114,962	86,579	70,739
Accumulated depreciation	(44,726)	(38,522)	(33,624)
	70,236	48,057	37,115
Leasehold property	20,579	7,977	8,080
Plant and machinery	39,042	34,749	25,335
Other equipment	1,343	1,427	1,551
Motor vehicles	3,179	2,458	1,943
Capital work in progress	6,093	1,446	206
	70,236	48,057	37,115



	Leasehold property TZS M	Plant & machinery TZS M	Other equipment TZS M	Motor vehicles TZS M	Capital work in progress TZS M	Total TZS M
COST						
At 1 January 2009	11,691	48,367	4,469	6,006	206	70,739
Additions	280	11,597	309	1,739	3,859	17,784
Transfers	5	2,613	1	-	(2,619)	-
Disposals	(59)	-	(1,773)	(112)	-	(1,944)
At 31 December 2009	11,917	62,577	3,006	7,633	1,446	86,579
At 1 January 2010	11,917	62,577	3,006	7,633	1,446	86,579
Additions	13,158	9,307	379	397	7,812	31,053
Transfers	52	1,274	10	1,829	(3,165)	-
Disposals	-	(2,130)	(179)	(361)	-	(2,670)
At 31 December 2010	25,127	71,028	3,216	9,498	6,093	114,962
DEPRECIATION						
At 1 January 2009	3,611	23,033	2,918	4,063	-	33,625
Charge for the year	376	4,626	433	1,224	-	6,659
Disposals/transfers	(47)	169	(1,772)	(112)	-	(1,762)
At 31 December 2009	3,940	27,828	1,579	5,175	-	38,522
At 1 January 2010	3,940	27,828	1,579	5,175	-	38,522
Charge for the year	608	6,289	472	1,506	-	8,875
Disposals/transfers	-	(2,131)	(178)	(362)	-	(2,670)
At 31 December 2010	4,548	31,986	1,873	6,319	-	44,726
NET BOOK VALUE						
At 31 December 2010	20,579	39,042	1,343	3,179	6,093	70,236
At 31 December 2009	7,977	34,749	1,427	2,458	1,446	48,057

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

12. Intangible Assets

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Cost			
At beginning and end of year	2,646	2,646	2646
Amortization			
At beginning of year	1,058	794	530
Charge for the year	265	265	265
At end of year	1,323	1,059	795
Net book value	1,323	1,587	1,851

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.

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13. Investment in Subsidiary

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
TCC (Kenya) Limited	534	534	534
Allowance for impairment	(534)	(534)	(534)
	-	-	-

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 and full impairment provision of the investment has been made in the financial statements.

The subsidiary has not been consolidated because 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 Company also took advantage of exemptions available under paragraph 10 of the IAS 27, Consolidated and separate financial statements..

14. Inventories

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Raw materials	38,649	44,758	26,646
Work in progress	122	104	47
Consumable stores	2,657	1,965	1,965
Goods in transit	5,312	12,456	3,971
Finished goods	9,018	9,821	7,048
	55,758	69,104	39,677
Allowance for obsolete materials	(357)	(378)	(411)
	55,401	68,726	39,266

15. Trade and Other Receivables

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Trade receivables	3,680	5,533	4,810
Amounts due from related companies	107	298	839
Prepayments and other receivables	14,925	4,445	6,769
	18,712	10,276	12,418
Allowance for doubtful receivables	(134)	(87)	(606)
	18,578	10,189	11,812

Movement in the allowance for doubtful debts is as given below:

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
At the beginning of the year	87	164	621
Amounts recovered during the year	(28)	(169)	(15)
Increase in allowance during the year	75	221	-
Amounts written off during the year	-	(129)	-
At the end of the year	134	87	606

16. Cash and Bank Balances

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Cash in hand	58	45	42
Bank balances	31,183	20,611	9,444
	31,241	20,656	9,486

17. Share Capital

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Authorized: 125,000,000 Ordinary shares of TZS. 20 each	2,500	2,500	2,500
Issued and fully paid: 100,000,000 Ordinary shares of TZS. 20 each	2,000	2,000	2,000

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:

	2010 Ordinary Shares Million	2009 Ordinary Shares Million
Resident shareholders:		
General public	9.8	8.8
Public Service Pension Fund	4.3	4.3
Parastatal Pension Fund	3.0	3.0
National Social Security Fund	3.1	4.1
United Republic of Tanzania	2.5	2.5
Unit Trust of Tanzania	0.5	0.5
Registered Trustees of the TCC Employees Share Option Scheme	0.3	0.3
The Local Authorities Provident Fund	0.6	0.6
Alliance Insurance Corporation Limited	0.5	0.5
The Jubilee Insurance (T) Limited	0.2	0.2
Government Employees Provident Fund	0.2	0.2
	25.0	25.0
Non-resident shareholders		
JT International Holding B.V.	75.0	75.0
Total ordinary shares in issue	100	100

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18. Deferred Tax Liability

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

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
The net deferred tax liability is attributable to the following:			
Accelerated capital allowances	5,429	4,875	3,250
Other timing difference	(2,303)	-	-
	3,126	4,875	3,250
The movement on the deferred tax account is as follows:			
Balance at beginning of year	4,875	3,250	2,894
Charge to profit or loss (note 8(a))	339	1,658	342
Deferred tax adjustment - prior years	(2,088)	(33)	14
Balance at end of the year	3,126	4,875	3,250

19. Trade and other Payables

	2010 TZS M	31.12.2009 (Restated) TZS M	01.01.2009 (Restated) TZS M
Trade payables	4,585	3,504	4,383
Amounts due to related companies	12,234	11,472	5,353
Excise tax and VAT payable	8,698	7,190	7,848
Other liabilities and accruals	12,045	23,673	16,204
	37,562	45,839	33,788

20. Short Term Borrowings

There were no short term borrowings (2009: 10bn)

21. Reconciliation of Profit Before Taxation to Cash Generated From Operations

	2010 TZS M	2009 TZS M
Profit before taxation	84,059	65,787
Adjustments for:		
Depreciation and amortization	9,140	6,924
Defined benefit plan	299	403
Interest expense	500	58
Interest income	(397)	(457)
Profit on disposal of property, plant and equipment	(129)	(107)
	93,472	72,608
Working capital changes:		
- Decrease/(increase) in inventories	13,326	(29,460)
- Movement in related parties Companies	950	6,660
- (Increase)/decrease/in trade and other receivables	(8,580)	1,082
- (Decrease)/increase in trade and other payables	(9,040)	5,935
Cash generated from operations	90,128	56,825

22. Related Party Transactions

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 technical and know-how services agreement with JT International Holding B.V, the parent Company, for the provision of technical and know-how services to the Company which was in place since 1 January 2000 expired on 31 December 2007. New agreements with JT International SA and JT International Holding B.V for managerial, technical and administrative services have been in place since 1 January 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 7,809 million (2009: TZS 7,450 million).

Other transactions with related parties

i. Purchase of goods and services

	2010 TZS M	2009 TZS M
Payable to JT International Companies	12,234	11,472
Receivable from JT International Companies	107	298

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.

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 personnel management.

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

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

	2010 TZS M	2009 TZS M
Key management remuneration	2,843	2,065
Non-executive directors emoluments	35	30

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23. Capital Commitments

	2010 TZS M	2009 TZS M
Authorized but not contracted for	32,401	6,950
Authorized and contracted for	19,656	793
	52,057	7,743

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

24. Contingent Liabilities

As at the reporting 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.

25. Retirement Benefits

The Company has an obligation to provide for retirement benefits to its staff in addition to their retirement benefits under the defined contribution scheme. 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 2010 contributions to the funds amounted to TZS 1,265M (2009: TZS 1,047 M).

The company provides for retirement benefit cost for its staff based on assessment made by independent actuaries.

Actuarial valuations of the Company's obligation were carried out as at 31 December 2010 using the following actuarial assumptions:-

Discount rate	16%
Salary inflation	11%
Cost of living increase	8%

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

	2010 TZS M	2009 TZS M
Opening balance	(5,470)	(5,274)
Charge for the year	(1,241)	(403)
Curtailment (credit)/charge	943	-
Total charge recorded	(298)	(403)
Amount paid	333	207
Closing balance	(5,435)	(5,470)

26. Financial Risk Management Objective 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 and interest 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, 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

A description of the significant risk factors is given below together with the risk management policies applicable

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 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 at 31 December 2010 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	3,787	-	134
Cash and bank balances	31,241	-	-
Total credit exposure	35,028	-	134

The amount that best represents the company's maximum exposure to credit risk at 31 December 2009 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	5,799	-	87
Cash and bank balances	20,662	-	-
Total credit exposure	26,461	-	87

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:

	2010 TZS M	2009 TZS M
At the beginning of the year	(87)	(163)
Amounts recovered during the year	28	169
Increase in allowance during the year	(75)	(221)
Amounts written off during the year	-	129
At the end of the year	(134)	(87)

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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

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 31 December 2010 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	(1,591)	(15,228)	-	-	(16,819)

Maturity analysis for financial liabilities as at 31 December 2009 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	(1,188)	(13,244)	-	-	(14,432)

Maturity analysis for financial assets as at 31 December 2010 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	3,287	366	-	-	3,653
Cash & bank balances	31,241	-	-	-	31,241
	34,528	366	-	-	34,894

Maturity analysis for financial assets as at 31 December 2009 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	5,551	193	-	-	5,744
Cash & bank balances	20,662	-	-	-	20,662
	26,213	193	-	-	26,406

Market risk

(i) Interest rate risk

The Company has short term borrowings at floating rate of interest. The Company's exposure to the interest rate is not significant as at 31 December 2010 because its draw down were not significant.

The Company earned interest on short term deposit of TZS 397 M (2009 - TZS 457 M).

(ii) Foreign exchange risk

The Company's costs and expenses are principally incurred in Tanzanian Shillings (TZS) and US Dollars (USD). The Company does not enter into a large number of 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 31 December 2010, 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 674 M (2009 – TZS 562 M).

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 31 December 2010 are as follows:

	Total TZS M
Trade and other receivables- net	1,567
Trade and other payables	(15,051)
Open position	(13,483)

The carrying amounts of the company'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 2009 were as follows:

	Total TZS M
Trade and other receivables	2,115
Trade and other payables	(13,355)
Open position	(11,240)

Capital risk management

The Company manages its capital to ensure that entities in 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 debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the Company.

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

	2010 TZS M	2009 TZS M
Share capital	2,000	2,000
Retained earnings	126,807	81,037
Equity	128,807	83,037
Short term borrowings	-	10,000
Cash and bank balances	(31,241)	(20,656)
Net debt	(31,241)	(10,656)
Net debt to equity ratio	N/A	N/A

The Company 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 Company's overall strategy remains unchanged from 2009.

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Financial instruments categorization

	Loans and Receivables	Financial Liabilities Carried at amortized Costs	Non Financial Liabilities or Assets	Equity	Total
As at 31 December 2010					
ASSETS					
Non-current assets					
Property, plant and equipment	-	-	70,236	-	70,237
Intangible assets	-	-	1,323	-	1,323
Current assets					
Inventories	-	-	55,401	-	55,401
Trade and other receivables	3,653	-	14,925	-	18,578
Taxation recoverable	-	-	-	-	-
Cash and bank balances	31,241	-	-	-	31,241
Total assets	34,894	-	141,885	-	176,779
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	126,807	126,807
Non-current liabilities					
Deferred tax liability	-	-	3,126	-	3,126
Defined benefit plan	-	-	5,435	-	5,435
Current liabilities					
Trade and other payables	-	16,819	20,743	-	37,562
Taxation payables	-	-	1,849	-	1,849
	-	16,819	31,153	128,807	176,779



	Loans and Receivables	Financial Liabilities Carried at amortized Costs	Non Financial Liabilities or Assets	Equity	Total
As at 31 December 2009					
ASSETS					
Non-current assets					
Property, plant and equipment	-	-	48,057	-	48,057
Intangible assets	-	-	1,587	-	1,587
Current assets					
Inventories	-	-	68,726	-	68,726
Trade and other receivables	5,744	-	4,445	-	10,189
Taxation recoverable	-	-	576	-	576
Cash and bank balances	20,662	-	-	-	31,241
Total assets	26,406	-	123,391	-	149,791
QUITY AND LIABILITIES					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	81,037	81,037
Non-current liabilities					
Deferred tax liability	-	-	4,875	-	4,875
Defined benefit plan	-	-	5,470	-	5,470
Current liabilities					
Trade and other payables	-	14,432	31,407	-	45,839
Short term Borrowing	-	10,000	-	-	10,000
Total equity and liabilities	-	24,432	41,752	83,037	149,791

27. Fair Value

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

28. 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.

29. Incorporation

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

30. 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.

31. Functional and Presentation Currency

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

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YEARS

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