

Tanzania Cigarette Company Ltd (TCC)
Rasilimali Ya Tanzania



Annual report

for the year ended 31 December 2011

Contents

01. Financial highlights	1
02. TCC at a glance	
Our history	5
Our organization	5
Our mission and values	5
Our brands	6
Our contribution to the economy	6
Our engagement	6
03. To our stakeholders	
Message from the chairman	11
04. Directors and management team	
Members of the board	15
Management team	16
05. Business review	
Operating environment	19
Review of operations	19
06. Financial information	
Corporate information	25
Report of the directors	26
Statement of directors' responsibilities	33
Independent auditor's report	34
Statements of comprehensive income	35
Statements of financial position	36
Statements of changes in equity	37
Statement of cash flows	38
Notes to the financial statements	39

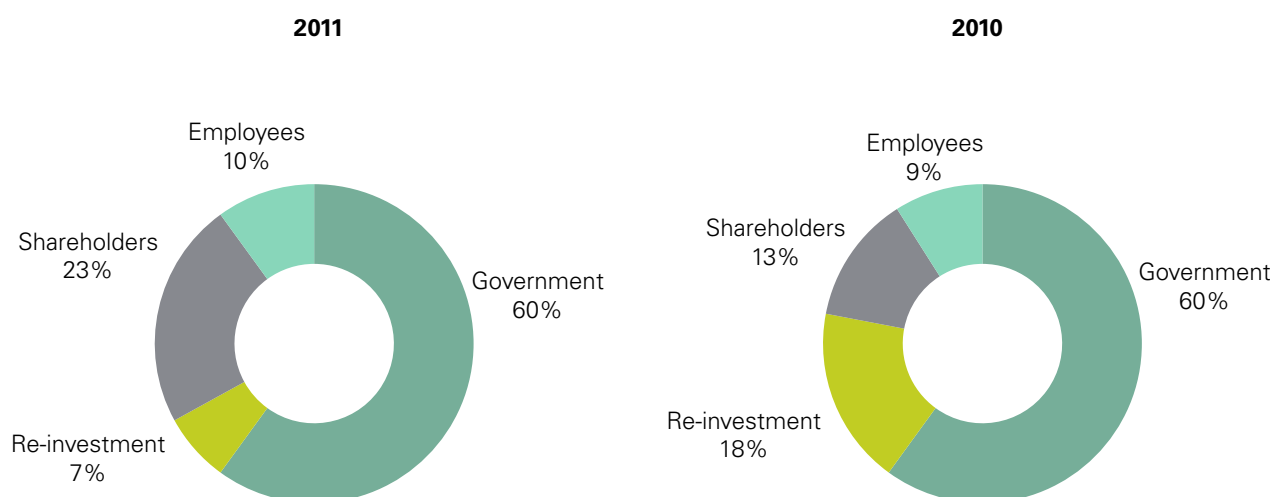
01. Financial highlights

Financial highlights

Value added (TZS M)

	2011 TZS M	%	2010 TZS M	%
Gross turnover	376,778		321,777	
Operating expenditure	(113,404)		(97,016)	
Total value added	263,374	100.0	224,761	100.0
Value distributed as follows:				
To employees – remuneration	25,550	9.7	20,793	9.3
To government – VAT, excise duties	126,434	48.0	110,769	49.3
To government – corporate tax	30,433	11.6	23,859	10.6
To shareholders - dividends	60,000	22.8	30,000	13.3
To reinvestment:				
- Depreciation and amortization	10,015	3.8	9,140	4.1
- Retained income	10,942	4.1	30,200	13.4
Total distributions	263,374	100.0	224,761	100.0

Value distributed (%)



Financial highlights

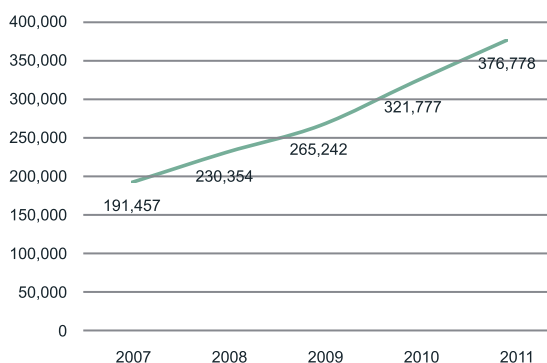
Consolidated five year financial summary

	2007	2008	2009	2010	2011
For the year:	TZS M	TZS M	TZS M	TZS M	TZS M
Gross turnover	191,457	230,354	265,242	321,777	376,778
VAT	31,322	36,972	40,098	45,886	52,985
Revenue	160,135	193,382	225,144	275,891	323,793
Excise duty	49,106	56,501	58,751	64,883	73,449
Net sales	111,029	136,881	166,393	211,008	250,344
EBITDA	39,714	50,976	73,131	95,005	108,939
Depreciation and amortization	6,230	6,554	6,924	9,140	10,015
Gross Profit	66,465	85,166	113,280	137,221	160,567
Operating income	33,489	44,429	66,207	85,865	98,923
Net finance (income) expense	138	142	421	1,806	(2,452)
Taxation	9,229	13,508	19,759	23,859	30,433
Net income	24,398	31,063	46,028	60,200	70,942
At year end:					
Net property, plant and equipment	39,090	37,115	48,057	70,236	93,761
Total assets	82,315	99,891	149,791	176,779	204,616
Interest bearing debts	255	-	10,000	-	-
Total liabilities	23,044	37,038	66,184	47,972	56,182
Total shareholders' equity	58,732	62,288	83,607	128,807	148,434
For the year:					
Net cash generated by operating activities	26,217	36,473	38,396	66,509	85,638
Net cash used in investing activities	(5,932)	(4,363)	(17,226)	(30,924)	(33,048)
Net cash used in financing activities	(18,621)	(27,755)	(10,000)	(25,000)	(50,000)
Cash flow for the year	1,664	4,355	11,170	10,585	2,590
Dividend per Share (TZS)	175.00	275.00	150.00	300.00	600.00
Earning per Share (TZS)	243.93	310.56	460.28	602.00	709.42
Profitability:					
Return on equity	46%	51%	63%	57%	51%
EBITDA margin	36%	37%	44%	45%	44%
Operating income margin	30%	32%	40%	41%	40%
Total assets turnover	1.43	1.50	1.33	1.29	1.31
Stability:					
Current ratio	198%	177%	179%	267%	264%
Debt ratio (total liabilities/total assets)	29%	38%	44%	27%	27%

Financial highlights

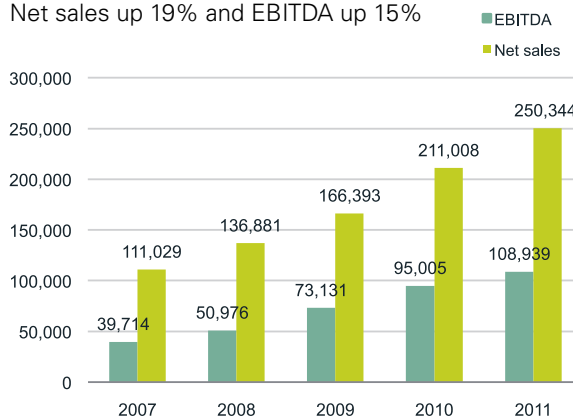
Gross turnover (TZS M)

Gross turnover up 17%



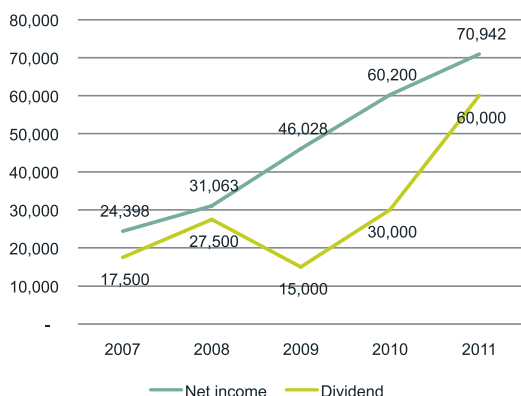
Net sales and EBITDA (TZS M)

Net sales up 19% and EBITDA up 15%

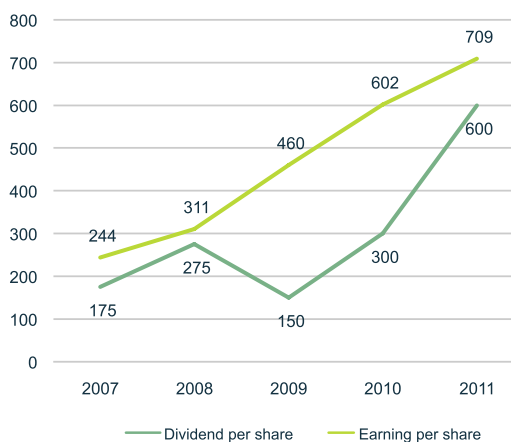


Net income and dividend (TZS M)

Net income up 18% and dividend up 100%



Dividend and earnings per share (TZS/share)



Dividend per share since IPO in 2000

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	2011	400	200	600
2005	156	-	156	Total			2,782
2006	100	-	100				

02. TCC at a glance

TCC at a glance

The history of Tanzania Cigarette Company

Tanzania Cigarette Company Ltd (TCC), formerly East African Tobacco, was inaugurated on December 4, 1961 by the then Prime Minister of Tanganyika, Mwalimu Julius Kambarage Nyerere. Mwalimu went on to become the first President of Tanzania.

Our history

In 1967, the Government of Tanzania acquired a 60% shareholding in the Company 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 R.J Reynolds, including its 51% stake in TCC.

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

Our organization

TCC's main offices and factory are located at 20 Nyerere Road in Dar es Salaam. The Company has 15 branch offices organized in 3 regional geographical areas, the Coast Region, the West Region and the South Region. The Coast region comprises Dar es Salaam, Arusha, Moshi, Tanga, Mtwara and Zanzibar. The West Region comprises Mwaza, Shinyanga, Bukoba, Musoma and Kigoma. The South Region comprises Mbeya, Morogoro, Dodoma, Iringa and Songea. The Company employs about 600 people.

Our mission and values

TCC's mission is to grow volume while defending market share, by delivering quality brands, maximizing consumer and customer satisfaction, through innovation, engaged

employees, integrity and excellence in execution. TCC's values are:

Enterprising

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

Open

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

Challenging

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

Our brands

TCC produces and markets 8 leading brands in the domestic market for different consumer segments. The Company's brand portfolio includes Camel – the original American blend cigarette dating back to 1913; Embassy – the leading domestic premium brand and Iceberg – a premium menthol brand; Portsman, formerly Sportsman, and Sweet Menthol – the two top selling domestic brands; Club and Safari – value brands; and Crescent & Star – a non filter brand.

Our contribution to the economy

The Company's principal business is the manufacturing, marketing, sales and

distribution of tobacco products. TCC is one of the largest agro-processing companies in Tanzania, adding value to a locally available raw material, tobacco. In addition to providing 600 direct jobs, indirectly the Company supports over 100,000 tobacco farmers and 2,500 business partners. Through its exports business, TCC generates foreign exchange earnings for the Country. TCC is also one of the largest tax revenue contributors to the Treasury.

Our engagement

TCC recognizes that its products generate controversy. As such, the Company does not encourage people to smoke and discourages youth smoking. TCC recognizes the health risks of smoking and try to reduce them.

The Company is committed to developing reduced-risk products and fostering understanding between smokers and non-smokers, while respecting local legislation, norms and cultures.

TCC is also committed to providing a safe workplace for its employees and to conducting its business in a way that is environmentally sustainable.

The Company engages in corporate philanthropy. Its programs focus on both helping the less advantaged people to improve the quality of life and promoting local arts and talents.



TCC kwa muhtasari

Historia yetu Kampuni ya Sigara Tanzania

Tanzania Cigarette Company (TCC), iliyokuwa ikiitwa Kampuni ya Tumbaku ya Afrika Mashariki (EAT), ilizinduliwa tarehe 4 Desemba, 1961 na aliyekuwa Waziri Mkuu wa Tanganyika, Mwalimu Julius Kambarage Nyerere. Mwalimu Nyerere alikuwa Raisi wa kwanza wa Tanzania.

Historia yetu

Mwaka 1967, Serikali ya Tanzania ilichukua 60% ya hisa za TCC chini ya programu ya utafishaji, na mwaka 1975 ilinunua 40% ya hisa zilizobaki.

Mwaka 1995 kampuni ya R.J.Reynolds ya Marekani ilinunua 51% ya hisa za TCC. Mwaka 1999 Japan Tobacco Inc. (JT), ilinunua hisa za makapuni ya tumbaku

zilizomilikiwa na R.J Reynolds nje ya Marekani, zikiwemo 51% ya hisa za TCC.

Mwezi Septemba 2000, JT, kupitia kampuni yake ya tumbaku ya kimataifa, Japan Tobacco International (JTI), iliongeza hisa zake TCC kutoka 51% hadi 75%. Watanzania wanamiliki 25% ya hisa zilizobaki kupitia soko la hisa la Dar es Salaam (DSE).

Kampuni yetu

Kampuni ya TCC ina ofisi zake kuu na kiwanda kwenye kiwanja namba 20, barabara ya Nyerere, Dar es Salaam. Kampuni ina matawi 15 yaliyogawiwa katika maeneo ya kanda tatu za kijijografia - Pwani, Magharibi na Kusini. Kanda ya Pwani inajumuisha mikoa ya Dar es Salaam, Arusha, Moshi, Tanga, Mtwara na Zanzibar. Kanda ya Magharibi inajumuisha mikoa ya Mwanza, Shinyanga, Bukoba, Musoma na Kigoma. Kanda ya Kusini inajumuisha mikoa ya Mbeya, Morogoro, Dodoma, Iringa na Songea. Kampuni ina wafanyakazi 600.

Azma na maadili yetu

Azma ya TCC ni kukuza biashara yake na faida kwa wanahisa wake, pamoja na kulinda soko lake, kwa kuwapatia wateja wake bidhaa bora, ikitumia ubunifu,

ushirikishi wa wafanyakazi, uadilifu na umahiri katika utendaji. Maadili ya TCC ni:

Ujasiri

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

Uwazi

Tunaamini umuhimu wa kuzingatia dhana ya uwazi na kueleza bayana mambo tunayofanya. Tamaduni za aina mbalimbali zinatupa ari, maarifa yanatuongezea ujuzi na uadilifu unatuongoza. Hii inamaanisha kufanya maamuzi sahihi, kupata sifa, heshima na sauti yenye mamlaka inayoaminika katika sekta yetu.

Changamoto

Tunahakikisha uboreshaji endelevu. Hii inamaanisha kuwa bora kwa kila kitu tunachokifanya na kamwe hatukubali kuwa wa pili kwa ubora. Tunaweka viwango vitakavyo kuwa vigezo na alama linganishi kwa tasnia yote. Hii inatuwezesha kukabili utendaji halisi wa sasa na kuwa kiongozi wa soko na si mfuasi katika soko.

Bidhaa zetu

TCC inazalisha na kuuza aina 8 ya bidhaa za sigara katika soko la ndani kwa walaji mbalimbali. Bidhaa za TCC ni pamoja na Camel – hii ni sigara ya Kimarekani iliyozinduliwa tangu mwaka 1913; Embassy, Iceberg; Portsman (zamani iliitwa Sportsman), Sweet Menthol, Club, Safari, na Crescent & Star au Nyota – sigara isiyo na kichungi.

Mchango wetu katika uchumi

Shughuli kuu za TCC ni kuzalisha, kusambaza na kuuza bidhaa za tumbaku. TCC ni miongoni mwa makampuni makubwa Tanzania yanayo tumia malighafi ya hapa nchini,

tumbuka, kutengeneza bidhaa zake. Pia, TCC inatoa ajira za moja kwa moja kwa wafanyakazi 600 na kulinda ajira za wakulima wa tumbaku zaidi 100,000. Zaidi ya wadau 2,500 hufaidika na biashara ya TCC. Kupitia biashara yake ya mauzo ya nje, TCC inaingizia nchi fedha za kigeni. Vilevile, TCC ni miongoni mwa wachangiaji wakubwa wa mapato ya kodi kwenye Hazina ya Serikali.

Ushiriki wetu

TCC inatambua kuwa bidhaa zake zina utata. Kwa hiyo TCC haiwahimizi watu kuvuta sigara na huwakataza vijana kuvuta. TCC inatambua madhara ya kiafya yanayosababishwa na kuvuta sigara na inajitahidi kuyapunguza.

Kampuni imedhamiria kutengeneza bidhaa zilizopunguzwa madhara na kukuza maelewano kati ya wavutaji sigara na wasiovuta, wakati huo huo kuheshimu sheria, kanuni, desturi na utamaduni wa nchi.

TCC imedhamiria pia kuwahakikishia wafanyakazi mahali salama pa kazi za kuendesha shughuli zake katika mazingira yanayofaa. Kampuni inashiriki katika kusaidia na kufadhili maendeleo ya jamii. Programu zake zinalenga wasiojiweza ili kuboresha maisha yao, na kukuza sanaa na vipaji vya nchini.



03. To our stakeholders

To our stakeholders

Message from the chairman

50 years of operations

December 4, 2011 marked 50 years of TCC's operations in Tanzania. 5 days later, on December 9, 2011, Tanzania also celebrated 50 years of independence. TCC is proud of its common heritage and rich history with the Nation.

The Company withstood a number of social, political and economic challenges along its 50 year journey. Today, TCC is a much stronger company because of its ability to adapt to its rapidly changing operating environment and its relentless long-term focus on product quality, people and brands. I am confident that TCC's success will continue in the future.

On behalf of the TCC Board of Directors, I am pleased to report solid results for the year ended December 31, 2011.

Solid results in 2011

2011 was one of the most challenging economic periods in recent times. It was marked by acute power cuts, a 30% depreciation of the Shilling against the US Dollar between August and September, a 10% excise tax increase announced in June 2011, and high inflation of 19.7% to December 2011. These factors negatively impacted consumer spending and put pressure on operating costs.

Despite the challenging economic environment, year on year growth continued. Domestic sales volume grew 3%, gross turnover grew 17% to TZS 376.8 billion (2010: TZS 321.8 billion), driven primarily by pricing. Profit before tax (PBT) increased 21% to TZS 101.4 billion (2010: 84.1 billion) and profit for the year went up by 18% to TZS 70.9 billion (2010: 60.2 billion).

Value creation for stakeholders

TCC's stakeholders are varied, with different expectations. Suppliers and customers want long term business relations. Consumers expect nothing less but the best quality products. Employees want career and growth opportunities. The Government expects tax revenues to fund social projects. And shareholders expect a substantial return on their investment.

In 2011, the Company invested TZS 33 billion (2010: TZS 31 billion) in product quality, capacity expansion and distribution infrastructure to meet consumers' expectations; TZS 556 million (2010: TZS 512 million) in training and development of employees; and contributed TZS 156.9 billion (2010: 134.6 billion) in excise, VAT and corporate tax to the Treasury or 42% of gross turnover.

In addition, the Directors of TCC recommended an ordinary final gross dividend of TZS 100 per share (2010: TZS 200 per share) for the year ended December 31, 2011 and a special gross dividend of TZS 200 per share. When added to the interim gross dividend of TZS 300 per share (2010: TZS 100 per share) paid in October 2011, the total gross dividend for the year ended December 31, 2011 will be TZS 600 per share (2010: TZS 300 per share) or 85% (2010: 50%) of net income.

Furthermore, over 2,500 business partners and 100,000 tobacco farmers continued to benefit, directly or indirectly, from TCC's business.

Optimistic future

The TCC Board of Directors and Management are optimistic about prospects for 2012. This optimism is



“Tanzania Cigarette Company Ltd. (TCC) was inaugurated on December 4, 1961”

based on Management's ability to adapt to changes in the operating environment, the quality of our product, the equity of our brands, the strength of our distribution infrastructure and the commitment of our employees to embed quality in everything they do.

Thank you

On behalf of the TCC Board of Directors, Management and Employees, I wish to thank all TCC's stakeholders who celebrated with us the Company's 50th anniversary on June 7, 2011. I also wish to thank employees, the tobacco farmers, processors, suppliers, customers, consumers, corporate philanthropy partners, the media, the Government, shareholders and our parent company, JTI, for their continued support to the TCC.

A handwritten signature in blue ink, appearing to read 'Majd Abdou'.

Majd Abdou
Chairman and CEO

Kwa wadau wetu

Waraka kutoka kwa mwenyekiti

Miaka 50 ya biashara

Desemba 4, 2011, TCC ilihitimisha miaka 50 ya shughuli zake Tanzania. Siku tano baadaye, Desemba 9, 2011, Tanzania nayo ilisherehekea miaka 50 ya uhuru wake. TCC inajivunia urithi wa muda mrefu na historia ya pamoja na Taifa.

Katika safari yake ya miaka 50, TCC imekabiliwa na changamoto nyingi – kijamii, kisiasa na kiuchumi, lakini Kampuni ilizimudu changamoto hizi. Hivi sasa TCC ni kampuni imara zaidi kutokana na uwezo wake wa kuendana na mazingira ya uendeshaji yanayobadilika haraka sana na kuzingatia bila ya kuchoka, malengo yake ya muda mrefu ya ubora wa bidhaa, watu na ubora wa chapa za bidhaa zake. Nina imani kwamba TCC itaendelea kuwa kampuni imara.

Kwa niaba ya Bodi ya Wakurugenzi ya TCC, ninayo furaha kuwasilisha kwenu mafanikio kamili kwa mwaka wa fedha ulioishia Desemba 31, 2011.

Mafanikio 2011

Mwaka 2011 ilikuwa miongoni mwa vipindi vyenye changamoto kubwa za kiuchumi. Tatizo la umeme wa gridi ya taifa la mara kwa mara, kushuka kwa thamani ya Shilingi ya Tanzania kwa asilimia 30 kati ya Agosti na Septemba ikilinganishwa na Dola ya Marekani, ongezeko la asilimia 10 la ushuru wa ndani lililotangazwa Juni, 2011 na mfumuko mkubwa wa bei wa asilimia 19.7 hadi Desemba, 2011 viliathiri sana mfuko wa mlaji na kuongeza gharama za uendeshaji.

Licha ya mazingira ya kiuchumi yenye changamoto, ukuaji wa mwaka hadi mwaka uliendelea. Mauzo ya ndani yaliongezeka kwa asilimia 3, mapato ya jumla yaliongezeka kwa asilimia 17 kufikia shilingi 376.8 bilioni (mwaka 2010: shilingi 321.8 bilioni), hasa kutokana na ongezeko la bei. Faida kabla ya kutoa kodi (PBT) iliongezeka kwa asilimia 21 hadi kufikia shilingi 101.4

bilioni (mwaka 2010: shilingi 84.1 bilioni) na faida kwa mwaka iliongezeka kwa asilimia 18 kufikia shilingi 70.9 bilioni (mwaka 2010: shilingi 60.2 bilioni).

Faida kwa wadau

TCC ina wadau wa aina mbalimbali na wenye matarajio tofauti. Wagavi na wateja wanahitaji uhusiano wa biashara wa muda mrefu. Walaji wanatarajia zaidi bidhaa bora. Wafanyakazi wanataka kazi na fursa za kujiendeleza. Serikali inatarajia mapato ya kodi ili kugharimia miradi ya kijamii na wanahisa nao wanatarajia faida ya kutosha kwa uwekezaji wao.

Mwaka 2011, Kampuni iliwekeza shilingi 33 bilioni (mwaka 2010: shilingi 31 bilioni) katika ubora wa bidhaa, upanuzi wa uwezo na miundombinu ya usambazaji ili kutimiza matarajio ya walaji; shilingi 556 milioni (mwaka 2010: shilingi 512 milioni) katika mafunzo na maendeleo ya wafanyakazi, na ilichangia shilingi 156.9 bilioni (mwaka 2010: shilingi 134.6 bilioni) Hazina kama kodi ya ushuru wa ndani (excise tax), ongezeko la thamani (VAT) na kodi ya mapato (corporate tax), au asilimia 42 ya mapato ya jumla kwa mwaka wa 2011.

Pia, Bodi ya Wakurugenzi ya TCC ilipendekeza gawio la mwisho la kawaida la shilingi 100 kwa hisa (mwaka 2010: shilingi 200 kwa hisa) na gawio maalum la shilingi 200 kwa hisa kwa mwaka ulioishia Desemba 31, 2011. Ukiongeza gawio la kati la shilingi 300 kwa hisa (mwaka 2010: shilingi 100 kwa hisa) lililolipwa Oktoba, 2011, jumla ya gawio la jumla kwa mwaka ulioishia Desemba 31, 2011 litakuwa shilingi 600 kwa hisa (mwaka 2010: shilingi 300 kwa hisa) au asilimia 85 (2010: asilimia 50) ya pato halisi. Vilevile, zaidi ya wabia wa biashara 2,500 na wakulima wa tumbaku 100,000 waliendelea kunufaika kwa namna moja au nyingine kutokana na biashara ya TCC.



“Kampuni ya sigara Tanzania (TCC) ilizinduliwa tarehe 4 Desemba, 1961”

Matarajio

Bodi ya Wakurugenzi na Menejimenti ya TCC wana matarajio mazuri kwa mwaka 2012. Matarajio hayo yanatokana na uwezo wa Menejimenti kufanya kazi kulingana na mabadiliko katika mazingira ya uendeshaji wa shughuli, ubora wa bidhaa zetu, miundombinu imara ya usambazaji na nia thabiti ya wafanyakazi kuwa bora kwa kila kitu wanachofanya.

Shukrani

Kwa niaba ya Bodi ya Wakurugenzi, Menejimenti na Wafanyakazi wa TCC, ninapenda kuwashukuru wadau wote waliojumuika nasi kusherehekea miaka 50 ya Kampuni Juni 7, 2011. Pia napenda kuwashukuru wafanyakazi wa TCC, wakulima wa tumbaku, wasindikaji, wagavi, walaji, wateja, wabia wa kusaidia na kufadhili maendeleo ya jamii, vyombo vya habari, Serikali, wanahisa na Kampuni yetu mama, JTI, kwa kuendelea kuisaidia TCC.

Majd Abdou
Mwenyekiti na Mkurugenzi Mkuu

50
YEARS | **TCC**

A BOLD HISTORY
A FUTURE OF EXCELLENCE

This plaque was unveiled on June 7, 2011 by

Pierre de Labrousse - President & CEO of JTI

in commemoration of

TANZANIA CIGARETTE COMPANY'S 50th Anniversary

04. Directors and management team

Members of the board



Simaan Matta, Jordanian
Out-going Chairman & CEO (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. Mr. Matta resigned from the Board on January 20, 2012.



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

Mr. Paul Makanza joined TCC in 2001 as Director of Corporate Affairs & Communications. 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.



Majd Abdou, Canadian
In-coming Chairman & CEO (Executive)
Master in Finance, B.Sc Mathematics (focus on economics)

Mr. Majd Abdou joined TCC in January 2012 as Chairman and CEO. Prior to joining TCC, he was General Manager for JTI Middle East. He brings to TCC a wealth of experience in sales and marketing and general management. Majd has over 10 years experience in the tobacco industry. His previous positions include Sales Director for JTI Levant and Saudi-Gulf. Majd was appointed to the TCC Board of Directors on January 20, 2012.



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

Mr. Ramadhani Kijjah 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)
M.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 & WWVD) region. Mr. Ooms has held various senior positions in finance within JTI. He has 15 years of experience in the tobacco industry. He joined the Board of Directors of TCC in 2008.



Christo Kruger, South African
Director (Executive)
CA (South Africa)

Mr. Christo Kruger joined TCC in February, 2012 as Chief Financial Officer (CFO) and Director of Finance & IT. Prior to transferring to TCC, he held various positions in the Corporate Finance Function at JTI headquarters in Geneva- Switzerland. Christo joined JTI from Deloitte South Africa where he served in the partnership for 8 years. Christo was appointed to the TCC Board of Directors on February 10, 2012.



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. He is currently General Manager of JTI West, East and Central Africa sub-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.



Maria Kejo, Tanzanian
Director (Non Executive)
LLB, LLM

Ms. Maria Kejo was Director of Civil and International Law in the Attorney General's Chambers. Ms. Kejo joined the Board of Directors of TCC in 2004. She resigned from the Board on February 1, 2011.



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. Mr. Wingerden resigned from the Board on February 10, 2012.



Vintan Mbiro, Tanzanian
Secretary to the Board (Executive)
LLB (Hons), LLM, Advocate of the High Court of Tanzania and Courts subordinate thereto except Primary Courts

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

Julius Mallaba
Director (Non-executive)
LLB (Hons), LLM (Maritime Law)

Mr. Julius Mallaba is Director of Elections at the National Electoral Commission. He is also a board member of the Veterinary Council of Tanzania, the Muhimbili Orthopedic Institute Council, and the Architects & Quantity Surveyors Board. He joined the Board of Directors of TCC on April 12, 2011.

Management team



Majd Abdou
Chairman and CEO



Bony Scheerschmidt
Director Manufacturing



Vintan Mbiro
Director Legal



Caroline Kavishe
Director Human Resources



Paul Makanza
Director Corporate Affairs



Frank Usiri
Director Company Service



Moses Gunda
Director C&TM Operations



Christo Kruger
Director Finance & IT



Stella Urio
Director C&TM Portfolio
and Brand Strategy



Chris Yamat
Director C&TM
Development and Planning



05. Business review

Business review

Operating environment

Tanzania was relatively stable politically in 2011. However, it experienced one of its most challenging economic periods in recent times.

The combined effects of acute power cuts, a 30% depreciation of the Shilling against the US Dollar between August and September and an inflation rate of almost 20% by the end of 2011, negatively impacted consumer spending and put pressure on operating costs. As a result, the Company increased prices of its products in April and July 2011 to recover some margin erosion.

In addition, the anticipated revision of the existing Tobacco Products (Regulations) Act of 2003 did not take place in 2011. The uncertainty around anticipated tobacco regulatory changes, in particular on the size of health warning, advertising and promotion, continued to affect planning and investment decisions.

Review of operations

Despite the tough economic situation and an uncertain regulatory environment in 2011, the Company remained focused on developing the fundamentals of the business: product quality, people, brands and distribution.

Product quality

TCC believes in safety first. The Company's safety program continued to deliver on its key objective – zero accidents at the work place. Through on-going company-wide safety awareness programs and measures put in place, the number of work related accidents declined from 6 in 2006 to 1 in 2011.

The Company invested TZS 33 billion in plant and machinery in 2011 to enhance product quality, production capacity and efficiency. As a result, TCC's product quality continued to rank at par with those of other JTI production facilities around the world. Consumer complaints, a qualitative measure of product quality, remained low in 2011 at 15 complaints per billion cigarettes. Production efficiency, measured as cigarettes produced per man hour (CpMH), increased by 12% over the previous year. And production volumes went up 11% on the corresponding period last year.

TCC maintained its Environmental, Health and Safety (EHS) management system accreditation, ISO 14001 and OHSAS 18001, following a rigorous surveillance audit conducted by Environmental Resources Management Certification and Verification Services (ERMCVS) in November, 2011. TCC's EHS program won top recognition from the Occupational Health and Safety Authority (OSHA) in 2011.

Distribution and brand activities

The Company maintained its market leadership position in 2011, with Portsman and Sweet Menthol as the top selling domestic brands. Portsman, the fastest growing brand in 2011, grew 13% on prior year.

TCC's sales operations are organized into 3 geographical regions, Coast, West and South Regions. The Coast Region was by far the biggest contributor to sales volume, followed by the South and the West Regions respectively.

TCC's bicycle program continued to be an important distribution tool. Over 1,000 people are self employed through the bicycle program. A digital mapping program to identify and fill distribution gaps began in 2011 and will be completed in 2012.

A number of programs to enhance and re-enforce brand equity were also implemented in 2011. These included new thematic campaigns for Camel, Embassy, Portsman and Sweet Menthol, as well as, music events that featured local, regional and international renowned artists.

People

Training and development, building a pool of future talent and the wellness of employees continued to be key pillars of TCC's people programs in 2011. The Company invested TZS 556 million in these areas.

Business review (continued)

Review of operations (continued)

People (continued)

In December 2011, the Company received the "INVESTOR IN PEOPLE" (IIP) certification, after a rigorous assessment by the UK based Investor in People Ltd. in July 2011. IIP is an international human resource quality standard for continuous business improvement through people. It is used in 70 countries worldwide to assess the connection between people and business performance, good leadership practices and how well they support organizations in planning, implementing and evaluating effective strategies.

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 Internship and Young Graduate Development Programs for fresh college and university graduates. The program began in 2008. It includes a six month internship program followed by a 2 year Young Graduate Development Program for successful candidates, leading to permanent employment with the Company. 24 fresh college graduates were interned at TCC in 2011. 22 successfully completed the program, of which 19 will join the 2 year Young Graduate Development Program in March 2012 and 3 will be permanently employed with TCC.

In response to areas for improvement identified by employees in an employee engagement survey conducted in May 2010, the Company implemented a number of initiatives. These included management

training for all sales managers and supervisors and also reward and recognition programs for outstanding employees. Another employee engagement survey is scheduled for May 2012 to assess improvements made since 2010.

TCC's wellness program continued to sustain momentum in 2011. Key interventions of the program included annual medical check-ups for all employees, HIV/AIDS prevention through sensitization and nutritional support for those living with HIV/AIDS, as well as, awareness on the importance of physical fitness and nutrition.

Corporate philanthropy

As a company drawing on local communities for employees and also for customers, TCC believes in meaningful, considered and voluntary contributions to societies in which TCC operates.

TCC's corporate philanthropy programs are focused on adult education, promotion of local arts and culture and marginalized groups. Up to 1% of previous year's profit is set aside for corporate philanthropy initiatives. In 2011, the Company contributed TZS 473 million to various corporate philanthropy initiatives.

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. In 2011, the Company supported various

initiatives towards the provision of food, shelter and skills training for marginalized groups, including victims of the Somali famine located in various refugee camps in Northern Kenya.

Education

Education is key to poverty alleviation in Tanzania. In 2011, the Company supported a number of projects through the provision of construction materials, books and computers. A new 3 year pre-college entry program for female adults was initiated in 2011 as part of the Company's 50th Anniversary celebrations and will be officially launched in 2012. The program objective is to provide education opportunities for 100 bright adult females per annum over the period 2011-13 at a cost of TZS 100 million per annum.

Arts and culture

Sponsorship of arts and culture is an 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 (2011– 2014) is designed to develop local artists and organizations that promote innovative, high quality local art forms. The program is managed by the Vipaji Foundation. 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 and a dance exhibition in Geneva, Switzerland.

Mapitio ya biashara

Mazingira ya biashara

Katika mwaka 2011, Tanzania ilikuwa na utulivu wa kisiasa. Hata hivyo ilikabiliwa na miongoni mwa vipindi vyenye changamoto kubwa za kiuchumi.

Kukatika umeme mara kwa mara, kushuka kwa thamani ya Shilingi ya Tanzania kwa asilimia 30 kati ya mwezi Agosti na Septemba ikilinganishwa na Dola ya Marekani, mfumuko wa bei wa karibu asilimia 20 hadi kufikia mwisho wa mwaka 2011, viliathiri sana matumizi ya mlaji na kuongeza gharama za uendeshaji. Kutokana na hali hiyo, Kampuni iliongeza bei za bidhaa zake Aprili na Julai, 2011 kufidia gharama.

Aidha, marekebisho ya Sheria ya Bidhaa za Tumbaku (Kanuni) ya mwaka 2003, hasa katika ukubwa wa tahadhari ya uvutaji wa tumbaku iwekwayo kwenye pakiti za sigara na upigaji marufuku matangazo ya tumbaku hayakufanyika mwaka 2011 kama ilivyotarajiwa na kuathiri uamuzi wa mipango na uwekezaji wa Kampuni.

Mapitio ya shughuli za kampuni

Licha ya changamoto za uchumi na kutokuwa na uhakika wa mabadiliko ya Sheria ya Tumbaku, mwaka 2011, Kampuni iliendelea kuzingatia misingi

ya muda mrefu ya biashara - ubora wa bidhaa, watu, chapa za bidhaa za TCC na miundo mbinu ya usambazaji distribution.

Ubora wa bidhaa

TCC inaamini katika usalama kazini kwanza. Programu ya usalama kazini ya kampuni iliendelea kuwa na mafanikio makubwa. Lengo kuu la programu hii ni kutokuwa na ajali kabisa mahali pa kazi. Kutokana na programu za uhamasishaji kuhusu usalama, idadi ya ajali kazini ilipungua kutoka 6 mwaka 2006 programu ilipoanza hadi 1 mwaka 2011.

Kampuni iliwekeza shilingi 33 bilioni katika mitambo na mashine mwaka 2011 ili kuongeza ubora wa bidhaa, uwezo na ufanisi wa uzalishaji wa bidhaa. Kutokana na uwekezaji huo, bidhaa za TCC ziliendelea kuwa za kiwango cha kimataifa. Malalamiko ya mlaji, kipimo cha ubora wa kiwango cha bidhaa, yalikuwa machache sana mwaka 2011, yaani malalamiko 15 kwa sigara bilioni moja. Tija inayopimwa kwa idadi ya sigara zinazozalishwa kwa mtu kwa saa, iliongezeka kwa asilimia 12 ikilinganishwa na mwaka uliopita. Uzalishaji uliongezeka kwa asilimia 11 pia.

Mnamo Novemba, 2011, mfumo wa Kampuni wa Mazingira, Afya na Usalama ulitathminiwa upya na kampuni ya kimataifa ya ERM CVS na kuthibitishwa uko imara. Kampuni ilitunukiwa tuzo na Mamlaka ya Afya na Usalama Mahali pa Kazi (OSHA) kwa ubora wa programu yake ya Mazingira, Afya na Usalama Kazini.

Bidhaa na usambazaji

TCC iliendelea kuwa Kampuni yenye soko kubwa la bidhaa za tumbaku hapa nchini mwaka 2011. Bidhaa zake za Portsman na Sweet Menthol ziliongoza kwa mauzo. Mauzo ya Portsman yaliongezeka kwa asilimia 13 ikilinganishwa na mwaka uliopita.

Kampuni imegawanya shughuli zake za mauzo katika kanda tatu za Pwani, Magharibi na Kusini. Kanda ya Pwani ndiyo iliyo ongoza kwa mauzo ikifuatiwa na Kanda ya Kusini na Magharibi.

Programu ya usambazaji wa bidhaa kwa kutumia baiskeli ilikuwa zana muhimu ya usambazaji. Zaidi ya watu 1,000 wamejiajiri kupitia programu hii. Mnamo mwaka 2011 Kampuni pia ilianzisha programu ya ubainishaji kwa tarakimu ya kutambua na kujaza upungufu katika masoko yake. Programu hii itakamilika mwaka 2012.

Programu nyingi pia zilitekelezwa mwaka 2011 kuimarisha na kuongeza hisa ya bidhaa. Programu hizo ni pamoja na kampeni za maeneo yaliyodhamiriwa kwa ajili ya Camel, Embassy, Portsman na Sweet Menthol, pamoja na maonyesho ya muziki yaliyowashirikisha wasanii maarufu nchini, kikanda na kimataifa.

Rasilimali watu

Nguzo kuu tatu katika programu ya rasilimali watu ya Kampuni zilikuwa ni mafunzo na maendeleo ya wafanyakazi, kujenga vipaji vya wahitimu kutoka vyaoni ili wawe wafanyakazi wa baadaye wa

Mapitio ya biashara (inaendelea)

Mapitio ya shuguli za kampuni (inaendelea)

Rasilimali watu (inaendelea)

Kampuni na afya bora kwa wafanyakazi. Katika mwaka wa 2011, Kampuni iliwekeza shilingi 556 milioni katika maeneo haya.

Desemba 2011, Kampuni ilipewa tuzo ya uwekezaji katika rasilimali watu, kufuatia tathmini iliyofanywa mwezi Julai, 2011 na kampuni ya Uingereza iitwayo "Investor In People Ltd". Tathmini hii inatumika na zaidi ya nchi 70 duniani kupima uhusiano kati ya watu na utendaji wa kazi, na jinsi kanuni za uongozi wa kampuni zinavyosaidia kupanga utekelezaji na kutathmini mikakati yenye kuleta tija.

Kutokana na haja ya kuhakikisha uendeleu wa biashara wa muda mrefu, Kampuni iliendelea kutekeleza Programu za maandalizi na Mpango wa Wahitimu Wapya kwa Wahitimu wa Vyuo mbalimbali nchini. Programu hii ilianza mwaka 2008 na inajumuisha programu ya awali ya miezi sita, ikifuatiwa na programu ya miaka miwili kwa waliofaulu programu ya awali. Wahitimu wa programu ya miaka miwili hupewa ajira TCC. Jumla ya wahitimu wapya 24 walifanya programu ya awali ya miezi sita. Miongoni mwao, 22 walifanikiwa kuingia programu ya miaka miwili. Kati yao, 19 watajiunga na programu ya miaka miwili mwezi Machi, 2012 na 3 watapelelewa ajira ya kudumu.

Kutokana na maeneo ya kuboreshwa yaliyobainishwa na wafanyakazi wakati wa utafiti wa ushirikishaji wafanyakazi uliofanywa mwezi Mei, 2010, Kampuni imetekeleza hatua nyingi. Hatua hizo ni pamoja na kufanya mafunzo ya

uongozi kwa mameneja wa mauzo wote na wasimamizi na kuwatunuku na kuwatambua wafanyakazi bora zaidi. Utafiti wa Ushirikishaji Wafanyakazi mwingine umepangwa kufanyika Mei, 2012 kupima maendeleo yaliyofikiwa tangu 2010.

Programu ya afya katika Kampuni iliendelea mwaka 2011. Shughuli muhimu za programu ni pamoja na upimaji wa afya wa kila mwaka kwa wafanyakazi wote, kinga dhidi ya WU/UKIMWI kupitia uhamasishaji na msaada wa lishe kwa wale wanaoishi na WU/UKIMWI, pamoja na uelimishaji kuhusu mazoezi ya viungo na lishe.

Kusaidia na kufadhili maendeleo ya Jamii

Kwa kuwa kampuni inategemea jamii kwa wafanyakazi na wateja pia, TCC inaamini kurudisha fadhila kwa kutoa michango ya hiari na yenye manufaa kwa jamii. Programu za TCC za kusaidia na kufadhili maendeleo ya jamii zinalenga elimu ya watu wazima, ukuzaji wa vikundi vya sanaa na utamaduni na wasiojiweza. Asilimia 1 ya faida ya mwaka uliopita inatengwa kila mwaka kwa ajili ya shughuli hizi. Mwaka 2011, Kampuni ilichangia shilingi 473 milioni kwa shughuli mbalimbali.

Watu wasiojiweza

TCC ina programu ya kuwasaidia watu wasiojiweza katika jamii ili nao waishi kama watu wengine. Mwaka 2011, kampuni ilisaidia utoaji wa chakula, makazi/nyumba na mafunzo ya stadi kwa makundi ya watu wasiojiweza wakiwemo waathirika wa ukame wa Somalia walioko kwenye kambi mbalimbali za wakimbizi Kaskazini ya Kenya

Elimu

Elimu ni muhimu sana katika kupunguza umaskini nchini Tanzania. Kampuni ilisaidia miradi mbalimbali kwa kuwapa vifaa vya ujenzi, vitabu na kompyuta. Programu ya mafunzo ya kabla ya kujiunga na chuo kikuu kwa wanawake watu wazima ilianzishwa mwaka 2011 kama sehemu ya Sherehe za Maadhimisho ya miaka 50 ya Kampuni na itazinduliwa rasmi mwaka 2012. Lengo la programu ni kutoa fursa za elimu kwa wanawake watu wazima 100 kila mwaka kwa kipindi cha mwaka 2011 – 13 kwa gharama ya shilingi 100 milioni kwa mwaka.

Sanaa na utamaduni

Ufadhili wa masomo ya sanaa na utamaduni ni njia muhimu sana ambapo TCC inachangia kwa jamii kwa manufaa na uendeleu. TCC ni mfadhili mkuu wa wasanii wenye vipaji maalum, iitwayo Vipaji Program. Lengo la programu hii ya miaka minne (2011 – 2014) ni kuendeleza wasanii na kukuza vipaji vyao. Programu hii inasimamiwa na Vipaji Foundation. Mpaka sasa, programu imetekeleza miradi mingi ya kufurahisha. Miradi hiyo ni pamoja na uchoraji kwa chaki za rangi ya mafuta, uchoraji wa henna kwenye turubali, utengenezaji wa shanga kwa kutumia chupa zilizotumika na maonyesho ya ngoma, Geneva, Uswisi.



06. Financial information

Corporate information

for the year ended 31 December 2011

Directors and advisers:

Directors

Mr. Simaan Matta (Chairman and CEO)
(Resigned on 20 January, 2012)

Mr. Majd Abdou (Chairman and CEO)
(Appointed on 20 January, 2012)

Mr. Ramadhani Khijja*

Ms. Maria Kejo*
(Resigned on 1 February, 2011)

Mr. Julius Mallaba*
(Appointed on 12 April, 2011)

Mr. Hubertus Maria Antonius Ooms*

Mr. Paul Makanza

Mr. David Thorn

Mr. Ivo van Wingerden
(Resigned on 10 February, 2012)

Mr. Christo Kruger
(Appointed on 10 February, 2012)

* Non-executive directors

Principal bankers

Standard Chartered Bank Tanzania Ltd.
CRDB Bank Plc.
National Bank of Commerce Ltd.
NMB Bank Plc.
Citibank Tanzania Ltd.
Barclays Bank Tanzania Ltd.

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

Shareholding structure:

Shareholder

Holding**

JT International Holding B. V.	75.0%
General public	11.5%
Public Service Pension Fund	4.3%
Parastatal Pension Fund	3.0%
United Republic of Tanzania	2.5%
National Social Security Fund	2.2%
The Local Authorities Provident Fund	0.6%
Alliance Insurance Corporation Limited	0.4%
Trustees of the TCC Employees	
Share Option Scheme	0.3%
Government Employees Provident Fund	0.2%
Total	100%

Shareholder classification

Holding**

Local	25.00%
Foreign	75.00%
Total	100.00%

**Based on share register as at 31 December 2011

Auditors

Deloitte & Touche
Certified Public Accountants (Tanzania)
10th Floor PPF Tower
Corner of Ohio Street & Garden Avenue
P.O. Box 1559
Dar es Salaam

Report of the directors

for the year ended 31 December 2011

The directors present this report and the audited financial statements for the financial year ended 31 December 2011, 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 and values

The Company's vision is to be the best Company in East and Central Africa. 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". TCC's values are;

- Enterprising – this means we have the courage to do things differently. We work together to achieve our long-term goal. This leads to new ideas resulting in fresh perspectives and innovation;
- Open – this means we believe in openness and transparency in everything we do. Diverse cultures inspire us, knowledge informs us and integrity guides us; and
- Challenging – this means we strive for continuous improvement. This means embedding quality into everything we do and never accepting second best. We set the standards that become benchmarks for the entire industry.

Principal activities

The Company's principal activities are the production and sale of cigarettes. The Company's brand portfolio includes Camel – the original American blend cigarette dating back to 1913; Embassy – the leading domestic premium brand; Iceberg; Portsman, formerly Sportsman, and Sweet Menthol – the two top selling domestic brands; Club and Safari; and Crescent & Star – a non-filter brand.

Composition of board of directors

The details of the Directors of the Company for the year under review and at the date of this report who, except as otherwise stated, served throughout the period are as follows:

Name	Position	Nationality
Mr. Simaan Matta (Resigned 20 January 2012)	Chairman & CEO	Jordanian
Mr. Majd Abdou (Appointed 20 January 2012)	Chairman & CEO	Canadian
Mr. Ramadhani Khijja	Director	Tanzanian
Ms. Maria Kejo (Resigned 1 February 2011)	Director	Tanzanian
Mr. Julius Mallaba (Appointed 12 April 2011)	Director	Tanzanian
Mr. Paul Makanza	Director	Tanzanian
Mr. Hubertus Maria Antonius Ooms	Director	Dutch
Mr. David Thorn	Director	British
Mr. Ivo van Wingerden (Resigned 10 February 2012)	Director	Dutch
Mr. Christo Kruger (Appointed 10 February 2012)	Director	South African

Report of the directors

for the year ended 31 December 2011 (continued)

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.

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.

Report of the directors

for the year ended 31 December 2011 (continued)

Corporate governance (continued)

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. The company is ISO 14001 and OHSAS 18001 certified since 2004 and it has been able to maintain the certification through its well established Environmental Health and Safety Management system.

Capital structure

The Company capital structure as at 31 December 2011 is shown in page 25. The details of Company's share capital are shown below:

	2011	2010
	TZS M	TZS M
Authorized:		
125,000,000 Ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid:		
100,000,000 Ordinary shares	<u>2,000</u>	<u>2,000</u>

Report of the directors

for the year ended 31 December 2011 (continued)

Capital structure (continued)

The Ordinary shares of the Company are held as follows:

Shareholder	2011 Number of Shares	2010 Number of Shares
JTIH B.V	75,000,000	75,000,000
Minority shareholders	25,000,000	25,000,000
	100,000,000	100,000,000

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 Tanzania public owns the remaining 25%. The issued and paid up ordinary shares is listed on the Dar Es Salaam Stock Exchange.

Directors' interest in issued and paid up share capital

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

Management

The Company is organized into 8 departments, headed by a director, reporting to the General Manager.

These departments are:

- Consumer and Trade Marketing
- East & Central Africa Division
- Manufacturing
- Finance & IT
- Human Resources
- Company Services and Security
- Legal Affairs
- Corporate Affairs and Communications

Stock exchange information

In 2000, the Company was listed on the Dar es Salaam Stock Exchange at an initial public offering (IPO) price of TZS 410 per share. The performance of the Company's shares in the secondary market as measured by market capitalization as at 31 December 2011 was TZS 314 billion (2010: TZS 222 billion).

Report of the directors

for the year ended 31 December 2011 (continued)

Results and dividend

During the year, the Directors declared an interim gross dividend of TZS 30 billion or TZS 300 per share, which was paid in October 2011 (2010: TZS 10 billion or TZS 100 per share). After the year-end, the Directors have proposed the declaration of a final gross dividend of TZS 10 billion or TZS 100 per share (2010: TZS 20 billion or 200 per share) and a special gross dividend of TZS 20 billion or TZS 200 (2010: Nil). 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 TZS 60 billion or TZS 600 per share (2010: TZS 30 billion or TZS 300 per share).

Performance for the year

Domestic sales volume continued growing at a slow pace of 3% over the previous year. However, export sales volume recorded a strong growth of 23% compared to the previous year. Despite a tough domestic economic environment and highly competitive export markets, gross revenues and profit before tax increased by 17% and 21% respectively, driven primarily by pricing.

The Company's business fundamentals remained sound in 2011 with strong liquidity evidenced by cash and cash equivalent of TZS 34 billion (2010: TZS 31 billion). During 2011 the Company invested TZS 33 billion (2010: TZS 31 billion) in product quality, production capacity and sales distribution infrastructure.

Tax compliance and rewards

The Company was fully tax compliant in 2011, with no tax disputes with the Tanzania Revenue Authorities (TRA). It was awarded a certificate of compliance by the TRA and recognized as one of the top 3 most compliant and largest tax payers in Tanzania at the TRA 5th Annual Tax Payers Day held on December 6, 2011.

Risk management and internal control

The Board accepts final responsibility for the risk management and internal control systems of the Company. It is management's task 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 2011 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.

Report of the directors

for the year ended 31 December 2011 (continued)

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.

Employee's welfare

Management and employees' relationship

Management and employees maintained sound relations in 2011. There were no industrial actions or labor disputes between the two parties. The Voluntary Agreement signed in December 2009 between Management and the Company's Labor Union remained in effect.

Training and development

For the year ended 31 Dec 2011, the Company invested a sum of TZS 556 million for staff training in order to improve employee's knowledge, skills and attitude and hence increase organizational effectiveness. (2010: TZS 512 million). For the year 2012, a total of TZS 651 million has been budgeted for training and development. It should be noted that this amount covers only functional and soft skills development and excludes specific departmental skills training requirements such as manufacturing technical training. The company is 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

The Company has a medical insurance scheme for all staff members, including a maximum of 5 dependents. In addition, there is an employee wellness program to raise awareness and educate employees of prevention of common ailments such as diabetes, hypertension, obesity, malaria and HIV/ AIDS. During 2011, the Company, through the Human Resources department, implemented a number of employee wellness programs. Currently these services are outsourced and provided by Momentum Tanzania Insurance Company Limited.

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.

Report of the directors

for the year ended 31 December 2011 (continued)

Employee's welfare (continued)

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, through external lawyers, facilitates employees in writing and revising their wills. All employees are encouraged to have a will to ensure their families or beneficiaries are compensated should employee die.

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 the mandatory pension plans and the defined benefit plan.

The average number of employees during the year was 617 (2010: 595).

Gender parity

At 31 December 2011 the Company had 630 employees, out of which 112 were female and 518 were male (2010: Female 103, Male 492).

Related party transactions and balances

All related party transactions and balances are disclosed in note 21 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 473 million (2010: TZS 450 million).

Auditors

The auditors, Deloitte & Touche, have expressed their willingness to continue in office and are eligible for reappointment in accordance with Section 170(1) of the Tanzanian Companies Act, 2002. A resolution proposing their re-appointment as auditors of the Company for the year 2012 will be put to the Annual General Meeting.

Approved and authorized for issue by the Board of Directors on 28 March 2012 and signed on its behalf by:



Mr. Majd Abdou
Chairman

Statement of directors' responsibilities

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 keeps proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the 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. Majd Abdou
Chairman



Mr. Paul Makanza
Director

28 March 2012

Independent auditor's report

to the members of Tanzania Cigarette Company Limited

Report on the financial statements

We have audited the accompanying financial statements of Tanzania Cigarette Company Limited, set out on pages 35 to 79 which comprise the statement of financial position as at 31 December 2011, 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.

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the 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.

Auditor's 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 of financial statements that give a true and fair view 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 2011 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 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.

Deloitte & Touche

Certified Public Accountants (Tanzania)

Dar es Salaam

Signed by: **David C. Nchimbi**

28 March 2012

Statement of comprehensive income

for the year ended 31 December 2011

	Notes	2011 TZS M	2010 TZS M
Gross turnover		376,778	321,777
- VAT		(52,985)	(45,886)
Revenue	5	323,793	275,891
- Excise duty		(73,449)	(64,883)
Net sales		250,344	211,008
Cost of sales	6	(89,777)	(73,787)
Gross profit	5	160,567	137,221
Marketing, selling & distribution expenses		(27,974)	(25,114)
Administration expenses		(32,917)	(26,949)
Other expenses		(1,080)	(1,814)
Other gains		1,893	818
Interest income		891	397
Interest expense		(5)	(500)
Profit before taxation	7	101,375	84,059
Income tax expense	8	(30,433)	(23,859)
Profit for the year		70,942	60,200
Other comprehensive income		-	-
- Defined benefit actuarial loss	25	(1,879)	-
- Tax relating to components of Other comprehensive income	8	564	-
Total comprehensive income		69,627	60,200
Earnings per share			
Basic and diluted (TZS per share)	9	709	602

Statement of financial position

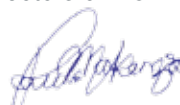
as at 31 December 2011

	Notes	2011 TZS M	2010 TZS M
Assets			
Non-current assets			
Property, plant and equipment	11	93,761	70,236
Intangible assets	12	1,058	1,323
Investment in subsidiary	13	-	-
Total non-current assets		94,819	71,559
Current assets			
Inventories	14	57,530	55,401
Trade and other receivables	15	18,436	18,578
Cash and bank balances	16	33,831	31,241
Total current assets		109,797	105,220
Total assets		204,616	176,779
Equity and liabilities			
Capital and reserves			
Share capital	17	2,000	2,000
Defined benefit actuarial losses		(1,315)	-
Retained earnings		147,749	126,807
Shareholders' equity		148,434	128,807
Non-current liabilities			
Deferred tax liability	18	5,923	3,126
Defined benefit obligation	25	8,598	5,435
Total non-current liabilities		14,521	8,561
Current liabilities			
Trade and other payables	19	41,077	37,562
Tax payable	8	584	1,849
Total current liabilities		41,661	39,411
Total liabilities		56,182	47,972
Total equity and liabilities		204,616	176,779

The financial statements on pages 35 to 79 were approved by the Board of Directors on 28 March 2012 and were signed on its behalf by the following Directors:



Mr. Majd Abdou
Chairman



Mr. Paul Makanza
Director

Statement of changes in equity

for the year ended 31 December 2011

		Share capital	Defined benefit actuarial losses	Retained earnings	Total
	Notes	TZS M	TZS M	TZS M	TZS M
At 1 January 2010		2,000	-	81,607	83,607
Profit for the year		-	-	60,200	60,200
Total		2,000	-	141,807	143,807
Dividend paid (2009 final and 2010 interim)	10	-	-	(15,000)	(15,000)
Balance at 31 December 2010		2,000	-	126,807	128,807
At 1 January 2011		2,000	-	126,807	128,807
Profit for the year		-	-	70,942	70,942
Other comprehensive income, net of tax		-	(1,315)	-	(1,315)
Total		2,000	(1,315)	197,749	198,434
Dividend paid (2010 final and 2011 interim)	10	-	-	(50,000)	(50,000)
Balance at 31 December 2011		2,000	(1,315)	147,749	148,434

Statement of cash flows

for the year ended 31 December 2011

	Notes	2011 TZS M	2010 TZS M
Profit before taxation		101,375	84,059
<i>Adjustments for:</i>			
Depreciation and amortization		10,015	9,140
Defined benefit obligation		1,624	299
Interest expense		5	500
Interest income		(891)	(397)
Profit on disposal of property, plant and equipment		(227)	(129)
		111,901	93,472
<i>Working capital changes:</i>			
(Increase)/decrease in inventories		(2,129)	13,326
Movement in related party balances		(10,080)	950
Decrease/(increase) in trade and other receivables		79	(8,580)
Increase/(decrease) in trade and other payables		13,658	(9,040)
Cash flows from operations		113,429	90,128
Defined benefit paid	25	(340)	(333)
Interest received/(paid)		886	(103)
Taxation paid	8 (d)	(28,337)	(23,183)
Net cash generated by operating activities		85,638	66,509
Cash flows from investing activities:			
Payments for property, plant and equipment	11	(33,281)	(31,053)
Proceeds from disposal of property, plant and equipment		233	129
Net cash used in investing activities		(33,048)	(30,924)
Cash flows from financing activities:			
Repayment of short term borrowing		-	(10,000)
Dividends paid to owners	10	(50,000)	(15,000)
Net cash used in financing activities		(50,000)	(25,000)
Net increase in cash and cash equivalents		2,590	10,585
Cash and cash equivalents at the beginning of the year		31,241	20,656
Cash and cash equivalents at the end of the year		33,831	31,241
Represented by:			
Cash and bank balances		33,831	31,241

Notes to the financial statements

for the year ended 31 December 2011

1. General information

Tanzania Cigarette Company Limited (The Company) is a limited Company incorporated in the United Republic of Tanzania. The addresses of its registered office and principal place of business are disclosed in the corporate information on page 25 of this report. The principal activities of the Company are described in the Directors report.

2. Adoption of new and revised International Financial Reporting Standards

a) New standards and amendments to published standards effective for the year ended 31 December 2011

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 disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, the company has chosen to present such an analysis in the statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these financial statements have been modified to reflect the change (see the statement of changes in equity).

IAS 24 Related Party Disclosures
(as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiary are not government-related entities. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.

Amendments to IAS 32
Classification of Rights Issues

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

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

a) New standards and amendments to published standards effective for the year ended 31 December 2011 (continued)

Amendments to IAS 32 Classification of Rights Issues (continued)	The application of the amendments had no effect on the amounts reported in the current and prior years because the Company has not issued instruments of this nature.
--	---

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.
---	---

The application of the amendments had no effect on the financial statement because the Company benefit plan is not funded.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.
--	---

The application of IFRIC 19 had no effect on the amounts reported in the current and prior years because the company has not entered into any transactions of this nature.

Improvements to IFRSs issued in 2010	Except for the amendments to IAS 1 described earlier in section 2.a, the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the financial statements.
---	---

Notes to the financial statements

for the year ended 31 December 2011 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2011

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets ¹
IFRS 9	Financial Instruments ⁶
IFRS 10	Consolidated Financial Statements ²
IFRS 11	Joint Arrangements ²
IFRS 12	Disclosure of Interests in Other Entities ²
IFRS 13	Fair Value Measurement ²
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income ³
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets ⁴
IAS 19 (as revised in 2011)	Employee Benefits ²
IAS 27 (as revised in 2011)	Separate Financial Statements ²
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
IAS 32 (as revised in 2011)	Financial instruments: Presentation ⁵

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 January 2014.

⁶ Effective for annual periods beginning on or after 1 January 2015.

Amendments to IFRS 7, Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the company's disclosures regarding transfers of trade receivables previously affected. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9, Financial Instruments

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for de-recognition.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2011 (continued)

IFRS 9, Financial Instruments (continued)

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of IFRS 9 may have an impact on amounts reported in respect of the Company's financial assets and liabilities.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below:

IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2011 (continued)

In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Ventures' has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12, Disclosure of Interests in other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these five standards will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that their application will not have a significant impact on amounts reported in respect of the Company's interest in other entities.

IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2011 (continued)

IFRS 13, Fair Value Measurement (continued)

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

IAS 1, Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

IAS 12, Deferred Tax – Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The Directors anticipate that the application of the amendments to IAS 12 in future accounting periods may not result in significant adjustments as the Company does not own any investment properties.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2011 (continued)

IAS 19, Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs.

The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Directors anticipate that the amendments to IAS 19 will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may not have an impact on amounts reported in respect of the Company's defined benefit plan.

IAS 32, Financial instruments: Presentation

The amendments to IAS 32 prescribe rules for the offsetting of financial assets and financial liabilities. The amendments specify that a financial asset and a financial liability should be offset and the net amount reported when and only when, an entity:

- has a legally enforceable right to set off the amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014.

The directors anticipate that the amendments to IAS 32 will be adopted in the Company's financial statements for the annual period beginning 1 January 2014 and that the application of the amendments to IAS 32 may not have a significant impact on the presentation of financial assets and liabilities of the company.

c) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2011.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies

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 financial statements as statement of comprehensive income.

Basis of preparation

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies (continued)

Foreign currency translation

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

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

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 for its employees. Provision is made in the financial statement for the estimated cost of the future benefits under the scheme. No employee contributions are made to the scheme. Provisions to defined contribution retirement benefit plans are recognized as an expense in profit or loss when employees have rendered service entitling them to the scheme with actuarial valuations being carried out at the end of each reporting period. Actuarial gains or losses are fully recognized in other comprehensive income. Past service cost are recognized immediately in profit or loss.

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

The Company and its employees also make statutory contributions to the National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). The Company's obligations with respect to contributions are 10% and 15% of the employees' gross 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.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. *Significant accounting policies (continued)*

Taxation

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

Current Corporate tax

The current corporate tax charge in profit or loss is based on statutory income tax rate of 30% applied on taxable profit for the year under review. The taxable profit 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 account profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in different accounting periods (temporary differences) and items that are never taxable or deductible (permanent differences). The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies (continued)

Taxation (continued)

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 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, 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 6,830, per 1,000 cigarettes.
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 16,114 per 1,000 cigarettes.
- Other cigarettes not mentioned in first and second bullet above is TZS 29,264 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.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies (continued)

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 profit or loss over the lease period. Property 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 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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

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.

Trademarks

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

Impairment of tangible and intangible assets

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

Assets that are subject to 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.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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.

Financial instruments

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

Initial recognition

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Effective interest rate method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets

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

The Company's principal financial assets are trade and other receivables (excluding Value Added Tax, 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.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. *Significant accounting policies (continued)*

Financial instruments (continued)

Financial assets (continued)

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 2011 was 7 days (2010: 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.

Impairment of financial assets

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

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

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

De-recognition of financial assets

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

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

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

Financial liabilities at FVTPL

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

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

Other financial liabilities

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

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

3. *Significant accounting policies (continued)*

Financial instruments (continued)

De-recognition of financial liabilities

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

Offset

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

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.

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

Provisions

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

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

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

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

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.

Defined benefit plan

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

5. *Operation 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, Safari, Crescent & Star.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

5. Operating segments (continued)

Export markets include Democratic Republic of Congo, Mozambique, Malawi, Zambia, Burundi and Comoros. Export markets reported revenue of 9 per cent of the combined revenue (2010: 7 per cent).

Information about transactions with major customers

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

	2011	2010
	TZS M	TZS M
Revenue from top ten customers	<u>34,588</u>	<u>23,997</u>

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	
	2011	2010	2011	2010
	TZS M	TZS M	TZS M	TZS M
Domestic Market	295,537	255,386	158,961	136,238
Export Market	28,256	20,505	1,606	983
Total	<u>323,793</u>	<u>275,891</u>	160,567	137,221
Marketing , Selling & Distribution expenses:				
- Export market			(4,096)	(2,257)
- Domestic market			(23,878)	(22,857)
General & Administration costs			(32,917)	(26,949)
Other expenses			(1,080)	(1,814)
Other gains			1,893	818
Interest income			891	397
Interest expense			(5)	(500)
Profit before tax			<u>101,375</u>	<u>84,059</u>

Notes to the financial statements

for the year ended 31 December 2011 (continued)

5. Operating segments (continued)

	2011	2010
	TZS M	TZS M
Segment assets		
Property, plant and equipment	93,761	70,236
Other intangible assets	1,058	1,323
Total segment non-current assets	94,819	71,559
Inventories	57,530	55,401
Trade and other receivables	18,436	18,578
Cash and cash equivalents	33,831	31,241
Total segment current assets	109,797	105,220
Consolidated assets	204,616	176,779
Segment liabilities		
Deferred tax liability	5,923	3,126
Defined benefit obligation	8,598	5,435
Total segment non-current liabilities	14,521	8,561
Trade and other payables	41,077	37,562
Taxation Payable	584	1,849
Total segment current liabilities	41,661	39,411
Consolidated liabilities	56,182	47,972

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

5. Operating segments (continued)

Other segment information

	Depreciation and amortization		Additions to non-current assets	
	2011	2010	2011	2010
	TZS M	TZS M	TZS M	TZS M
Leasehold	757	608	3,020	13,158
Plant and machinery	6,683	6,289	19,589	9,307
Other equipment	453	472	512	379
Motor vehicles	1,857	1,506	4,882	397
Capital work in progress	-	-	5,278	7,812
Intangible assets	265	265	-	-
Total	10,015	9,140	33,281	31,053

The following is an analysis of the operating segment Revenue from its major products.

	2011	2010
	TZS M	TZS M
Embassy	40,057	38,394
Portsman	112,234	89,468
Sweet Menthol	114,179	99,263
Safari	14,786	12,044
Other	14,281	16,217
	295,537	255,386

6. Cost of sales

Direct Costs	61,449	52,161
Indirect costs	28,328	21,626
	89,777	73,787

Notes to the financial statements

for the year ended 31 December 2011 (continued)

7. Profit before taxation

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

	2011	2010
	TZS M	TZS M
Directors' emoluments	3,357	2,843
Depreciation and amortization	10,015	9,140
Technical & Management service fees	10,221	7,809
Auditor's remuneration:		
- Audit Services	140	163
Profit on disposal of property, plant and equipment	(227)	(129)
Foreign exchange (gain) loss	(1,566)	1,703
Employee benefits:		
<i>Short term benefits:</i>		
- Salaries	15,851	13,594
- Bonus	2,187	2,245
- Fringe	2,303	1,888
- Vacation	1300	1,008
- Other	816	494
<i>Long term benefits:</i>		
Defined benefit obligation	1,624	299
NSSF and PPF contributions	1,469	1,265
Total employee benefits	25,550	20,793

8. Taxation

(a) Income tax recognized in profit or loss

Current taxation – current year at 30%	27,246	25,024
– prior year (over) under provision	(174)	584
	27,072	25,608
Deferred taxation – current year	3,414	339
– prior year over provision	(53)	(2,088)
	3,361	(1,749)
Total income tax charge to profit and loss	30,433	23,859

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

8. *Taxation (continued)*

(b) Reconciliation of accounting profit to tax charge

	2011 TZS M	2010 TZS M
Accounting profit before taxation	101,375	84,059
Tax charge at 30%	30,413	25,218
Income subject to lower rate of tax or not subject to tax	(16)	(22)
Disallowable expenditure	263	167
Current tax of prior years	(174)	584
Deferred tax adjustment – prior years	(53)	(2,088)
Taxation charge	30,433	23,859

(c) Income tax in other comprehensive income

Deferred tax credit – Defined benefit plan actuarial loss	(564)	-
---	-------	---

(d) Taxation payable

Balance at beginning of the year	(1,849)	576
Charge for the year (Note 8(a))	(27,072)	(25,608)
Corporation tax paid	28,337	23,183
Balance at end of year	(584)	(1,849)

9. *Earnings per share*

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

Profit attributable to ordinary shareholders (TZS M)	70,942	60,200
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (TZS)	709	602

There were no potential dilutive shares outstanding at 31 December 2011 and at 31 December 2010.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

10. Dividends

	2011 TZS M	2010 TZS M
Interim dividend for the year	30,000	10,000
Final dividend for the year	30,000	20,000
Total	60,000	30,000
Weighted average number of ordinary shares in issue (million)	100	100
Dividend per share (TZS)	600	300

During the year, the Directors declared an interim gross dividend of TZS 30 billion or TZS 300 per share, which was paid in October 2011 (2010: TZS 10 billion or TZS 100 per share). After the year-end, the Directors have proposed the declaration of a final gross dividend of TZS 10 billion or TZS 100 per share (2010: TZS 20 billion or 200 per share). And a special gross dividend of TZS 20 billion or TZS 200 (2010: Nil). 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 TZS 60 billion or TZS 600 per share (2010: TZS 30 billion or TZS 300 per share).

11. Property, plant and equipment

	2011 TZS M	2010 TZS M
Cost	146,776	114,962
Accumulated depreciation	(53,015)	(44,726)
	93,761	70,236
Leasehold property	23,132	20,579
Plant and machinery	61,816	39,042
Other equipment	1,403	1,343
Motor vehicles	6,204	3,179
Capital work in progress	1,206	6,093
	93,761	70,236

No assets were pledged as security at year end or during the year under review (2010: None).

Notes to the financial statements

for the year ended 31 December 2011 (continued)

11. Property, plant and equipment (continued)

	Leasehold property	Plant and machinery	Other equipment	Motor vehicles	Capital work in progress	Total
	TZS M	TZS M	TZS M	TZS M	TZS M	TZS M
Cost						
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
At 1 January 2011	25,127	71,028	3,216	9,498	6,093	114,962
Additions	3,020	19,589	512	4,882	5,278	33,281
Transfers	290	9,868	7	-	(10,165)	-
Disposals	-	-	(16)	(1,451)	-	(1,467)
At 31 December 2011	28,437	100,485	3,719	12,929	1,206	146,776
Accumulated depreciation						
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)	-	(2,671)
At 31 December 2010	4,548	31,986	1,873	6,319	-	44,726
At 1 January 2011	4,548	31,986	1,873	6,319	-	44,726
Charge for the year	757	6,683	453	1,857	-	9,750
Disposals/transfers	-	-	(10)	(1,451)	-	(1,461)
At 31 December 2011	5,305	38,669	2,316	6,725	-	53,015
Net book value						
At 31 December 2011	23,132	61,816	1,403	6,204	1,206	93,761
At 31 December 2010	20,579	39,042	1,343	3,179	6,093	70,236

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

Included in property, plant and equipment are assets with an original cost of TZS 1,466 million (2010: TZS 2,746 million) which are fully depreciated and whose normal depreciation charge for the year would have been TZS 381 million (2010: TZS 493 million).

Notes to the financial statements

for the year ended 31 December 2011 (continued)

12. Intangible assets

	2011 TZS M	2010 TZS M
Cost	2,646	2,646
Amortization		
At beginning of year	1,323	1,058
Charge for the year	265	265
At end of year	1,588	1,323
Net book value	1,058	1,323

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

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

13. Investment in subsidiary

	2011 TZS M	2010 TZS M
TCC (Kenya) Limited	534	534
Allowance for impairment	(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.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

14. Inventories

	2011	2010
	TZS M	TZS M
Raw materials	36,838	38,649
Work in progress	203	122
Consumable stores	5,187	2,657
Goods in transit	9,014	5,312
Finished goods	6,775	9,018
	58,017	55,758
Allowance for obsolete materials	(487)	(357)
	57,530	55,401
Inventories carried at net realizable value below cost:	-	-

15. Trade and other receivables

Trade receivables	5,791	3,680
Amounts due from related companies (Note 21)	44	107
Prepayments and other receivables	13,129	14,925
	18,964	18,712
Allowance for doubtful receivables	(528)	(134)
	18,436	18,578
Movement in the allowance for doubtful debts:-		
At the beginning of the year	134	87
Amounts recovered during the year	(15)	(28)
Increase in allowance during the year	409	75
At the end of the year	528	134

Notes to the financial statements

for the year ended 31 December 2011 (continued)

16. Cash and bank balances

	2011 TZS M	2010 TZS M
Cash in hand	56	58
Bank balances	33,775	31,183
	33,831	31,241

17. Share capital

Authorized:

125,000,000 Ordinary shares of TZS. 20 each

2,500	2,500
--------------	--------------

Issued and fully paid:

100,000,000 Ordinary shares of TZS. 20 each

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 fixed right to income. The ownership structure of the Company is as set out below:

	2011 Ordinary Shares Million	2010 Ordinary Shares Million
Resident shareholders:		
General public	11.5	10.5
Public Service Pension Fund	4.3	4.3
Parastatal Pension Fund	3.0	3.0
United Republic of Tanzania	2.5	2.5
National Social Security Fund	2.2	3.1
The Local Authorities Provident Fund	0.6	0.6
Alliance Insurance Corporation Limited	0.4	0.5
Trustees of the TCC Employees Share Option Scheme	0.3	0.3
Government Employees Provident Fund	0.2	0.2
	25.0	25.0
Non-resident shareholder:		
JT International Holding B.V.	75.0	75.0
Total ordinary shares in issue	100.0	100.0

Notes to the financial statements

for the year ended 31 December 2011 (continued)

18. *Deferred tax liability*

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

	2011 TZS M	2010 TZS M
The net deferred tax liability is attributable to the following:		
Accelerated capital allowances	9,159	5,429
Provisions	(3,236)	(2,303)
	5,923	3,126

The movement on the deferred tax account is as follows:

	Opening balance TZS M	Recognized in P&L TZS M	Recognized in OCI TZS M	Closing balance TZS M
Deferred tax liabilities (assets) in relation to:				
- Property, plant and equipment	5,429	3,730	-	9,159
- Provisions	(672)	15	-	(657)
- Defined benefit obligation	(1,631)	(384)	(564)	(2,579)
	3,126	3,361	(564)	5,923

19. *Trade and other payables*

Trade payables	12,169	4,585
Amounts due to related companies (Note 21)	2,091	12,234
Excise tax and VAT payable	9,681	8,698
Other liabilities and accruals	13,531	9,740
Provisions (Note 20)	3,605	2,305
	41,077	37,562

20. *Provisions*

Bonus provision	2,789	1,720
Provision for leave pay	816	585
	3,605	2,305

	Opening balance TZS M	Utilized / reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	1,720	(1,145)	2,214	2,789
Provision for leave pay	585	(75)	306	816
	2,305	(1,220)	2,520	3,605

Notes to the financial statements

for the year ended 31 December 2011 (continued)

21. Related party transactions and balances

Related companies

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

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

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

Contracts with related parties

The 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 10,221 million (2010: TZS 7,809 million).

Other transactions with related parties

i. Purchase of goods and services

	2011 TZS M	2010 TZS M
Payable to JT International Companies	(2,091)	(12,234)
Receivable from JT International Companies	44	107

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

21. Related party transactions and balances (Continued)

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

	2011	2010
	TZS M	TZS M
Key management remuneration	3,357	2,843
Non-executive Directors emoluments	40	35

22. Commitments

i. Capital commitments

Authorized but not contracted for	18,753	32,401
Authorized and contracted for	13,836	19,656
	<u>32,589</u>	<u>52,057</u>

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

ii. Other commitments

As at 31 December 2011 the company had a commitment for purchase of leaf totaling TZS 8,356 million (2010: TZS 19,889 million)

23. Contingent liabilities

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

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

Notes to the financial statements

for the year ended 31 December 2011 (continued)

24. Bank overdraft

The company had an overdraft facility with Standard Chartered Bank (Tanzania) up to a limit of TZS 3,000,000,000 in order to meet its working capital requirements. The facility is secured by a guarantee from the ultimate parent company Japan Tobacco Inc. The effective interest rate for the facility is a 91 Days Treasury Bills plus 2.7% p.a. and is charged on daily overdrawn amount and repayable monthly (minimum price floor of 6%). The facility expires on 20 July 2012. As at 31 December 2011, there were no drawdowns made by the company (2010: NIL).

25. Retirement benefits

Statutory retirement benefits

The Company has an obligation to make statutory contributions for retirement benefits to its employees. All eligible employees of the Company are members of the National Social Security Fund of Tanzania (NSSF) or Parastatal Pension Funds (PPF), to which the Company contributes 10% and 15% and the employee contributes 10% and 5% respectively every month. During the year ended 31 December 2011, the Company's contributions to the funds amounted to TZS 1,469 million (2010: TZS 1,265 million).

Defined benefit obligation

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

The Company provides for retirement benefit cost based on assessments made by independent actuaries. The most recent actuarial valuation was carried out at 31 December 2011 by Towers Watson, fellow of the Institute of Actuaries of the United Kingdom. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

	2011	2010
	Percentage	Percentage
Discount rate	13.25	13.00
Salary inflation	11.75	10.00
Cost of living increase	8.75	7.00

Amount recognized in statement of comprehensive income in respect of this defined benefit obligation:

	2011	2010
	TZS M	TZS M
Current service cost	391	322
Past service cost	400	-
(Gains) arising from curtailment	-	(943)
Interest cost	833	919
Actuarial loss recognized in Other comprehensive income	1,879	-
Net cost for the year	3,503	298

Notes to the financial statements

for the year ended 31 December 2011 (continued)

25. Retirement benefits (continued)

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

	2011	2010
	TZS M	TZS M
Opening defined benefit obligation	5,435	5,470
Current service cost	391	322
Past service cost	400	-
Interest cost	833	919
Losses/(gains) on curtailment	-	(943)
Actuarial losses recognized	1,879	-
Benefits paid	(340)	(333)
Closing defined benefit obligation	8,598	5,435

26. Operating lease arrangements

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

Payments recognized as an expense are:

	2011	2010
	TZS M	TZS M
Buildings	1,080	850
Motor vehicles	239	179
	1,319	1,029

27. Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates 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, standards and procedures management, 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 and market risk which is mainly due to foreign exchange risk and interest rate risk. A description of the significant risk factors is given below together with the risk management policies applicable.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

27. Financial risk management objectives and policies (continued)

Credit risk management

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

The amount that best represents the Company's maximum exposure to credit risk as at 31 December 2011 without taking account of the value of any collateral obtained was:

	Fully performing	Past due	Impaired
	TZS M	TZS M	TZS M
Trade and other receivables	5,835	-	528
Cash and bank balances	33,831	-	-
Total credit exposure	39,666	-	528

The amount that best represents the Company's maximum exposure to credit risk as at 31 December 2010 without taking account of the value of any collateral obtained was:

	Fully performing	Past due	Impaired
	TZS M	TZS M	TZS M
Trade and other receivables	3,787	-	134
Cash and bank balances	31,241	-	-
Total credit exposure	35,028	-	134

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is impaired has been fully provided for. However, management is actively following up recovery of the impaired debt. The movement in the provision for bad and doubtful debts is as set out below:

	2011	2010
	TZS M	TZS M
At the beginning of the year	(134)	(87)
Amounts recovered during the year	15	28
Increase in allowance during the year	(409)	(75)
At the end of the year	(528)	(134)

Notes to the financial statements

for the year ended 31 December 2011 (continued)

27. Financial risk management objectives and policies (continued)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already recognized.

Liquidity risk management

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

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

Maturity analysis for financial liabilities as at 31 December 2011 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	(2,554)	(11,706)	-	-	(14,260)

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 assets as at 31 December 2011 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	5,156	151	-	-	5,307
Cash and bank balances	33,831	-	-	-	33,831
Total	38,987	151	-	-	39,138

Notes to the financial statements

for the year ended 31 December 2011 (continued)

27. Financial risk management objectives and policies (continued)

Liquidity risk management (Continued)

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 and bank balances	31,241	-	-	-	31,241
Total	34,528	366	-	-	34,894

Market risk management

(i) Interest rate risk

The company is not exposed to interest rate risk because it does not have interest earning liabilities. The company has received interest income amounting to TZS 891 million (2010:397 million) from its short-term bank deposits.

(ii) Foreign exchange risk

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

At 31 December 2011, 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 617 million (2010 – TZS 674 million).

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 2011 are as follows:

	2011 TZS M	2010 TZS M
Trade and other receivables	1,000	1,568
Trade and other payables	(13,338)	(15,051)
Open position	(12,338)	(13,483)

Notes to the financial statements

for the year ended 31 December 2011 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization

	Loans and receivables	Financial liabilities carried at amortized cost	Non financial liabilities or assets	Equity	Total
As at 31 December 2011					
Assets					
Non-current assets					
Property, plant and equipment	-	-	93,761	-	93,761
Intangible assets	-	-	1,058	-	1,058
Current assets					
Inventories	-	-	57,530	-	57,530
Trade and other receivables	5,307	-	13,129	-	18,436
Cash and bank balances	33,831	-	-	-	33,831
Total assets	39,138	-	165,478	-	204,616
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	147,749	147,749
Defined benefit actuarial losses	-	-	-	(1,315)	(1,315)
Non-current liabilities					
Deferred tax liability	-	-	5,923	-	5,923
Defined benefit plan	-	-	8,598	-	8,598
Current liabilities					
Trade and other payables	-	14,260	26,817	-	41,077
Taxation Payable	-	-	584	-	584
	-	14,260	41,922	148,434	204,616

Notes to the financial statements

for the year ended 31 December 2011 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization

	Loans and receivables	Financial liabilities carried at amortized cost	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
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 Payable	-	-	1,849	-	1,849
	-	16,819	31,153	128,807	176,779

Notes to the financial statements

for the year ended 31 December 2011 (continued)

28. Capital risk management

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

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

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

The Company's overall strategy remains unchanged from 2010.

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

	2011	2010
	TZS M	TZS M
Share capital	2,000	2,000
Defined benefit actuarial losses	(1,315)	-
Retained earnings	147,749	126,807
Equity	148,434	128,807
Short term borrowings	-	-
Cash and bank balances	(33,831)	(31,241)
Net cash balances	(33,831)	(31,241)
Net debt to equity ratio	N/A	N/A

29. Fair values

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.

Notes to the financial statements

for the year ended 31 December 2011 (continued)

30. Comparatives

In the current year, the Company has defined Gross turnover, Revenue and Net sales to enhance visibility to users (refer to the Revenue recognition accounting policy).

Prior year numbers have been reclassified as follows for comparative purposes:

Previously disclosed in the Statement of Comprehensive Income:

	2010
	TZS M
Gross turnover	321,777
Excise duty and VAT	(110,769)
Net turnover	211,008

Current disclosure in the Statement of Comprehensive Income:

	2010
	TZS M
Gross turnover	321,777
-VAT	(45,886)
Revenue	275,891
-Excise duty	(64,883)
Net sales	211,008

The refinement had no impact on previously reported earnings or profits.

31. Events subsequent to the year end

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

31. Incorporation

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

32. Ultimate parent company

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

33. Functional and presentation currency

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



