

TCC



2007

# Annual Report

Tanzania Cigarette Company Limited

A Member of the **JTI** Group of Companies

# CORE VALUES

## QUALITY

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

## COMMITMENT

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

## INNOVATION

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

## SYNERGY

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

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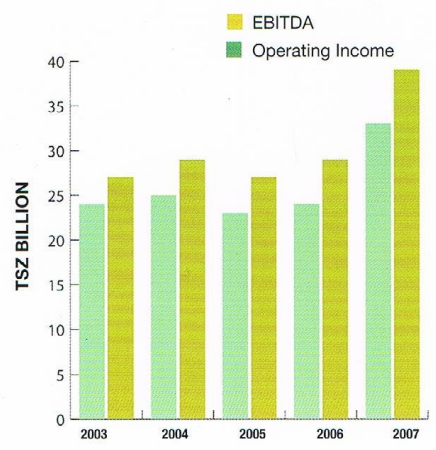
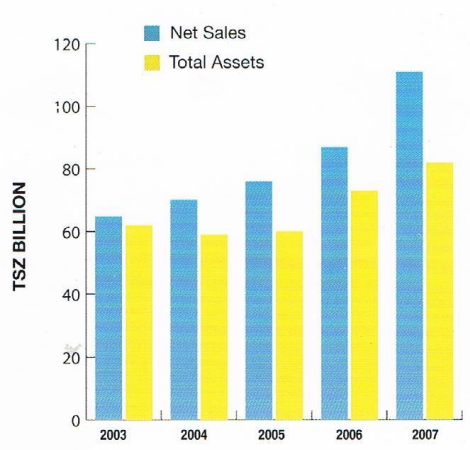
## FINANCIAL HIGHLIGHTS

### TANZANIA CIGARETTE COMPANY LIMITED

Consolidated Five-Year Financial summary

	TZS M				
	2003*	2004	2005	2006	2007
<b>For the year:</b>					
Gross Turnover	109,226	120,517	135,643	152,611	191,457
Excise Duty and VAT	44,406	50,529	59,305	65,146	80,428
<b>Net sales</b>	<b>64,820</b>	<b>69,988</b>	<b>76,338</b>	<b>87,465</b>	<b>111,029</b>
EBITDA <sup>(note 1)</sup>	27,489	28,833	27,173	29,371	39,714
Depreciation and amortization	2,978	3,279	3,782	5,075	6,230
Operating income	24,511	25,554	23,391	24,296	33,484
Taxation	1,127	7,787	6,716	6,719	9,229
<b>Net income</b>	<b>23,560</b>	<b>17,839</b>	<b>17,051</b>	<b>15,641</b>	<b>24,393</b>
<small>* Tax holiday ended Aug '03</small>					
<b>At year end:</b>					
Net Property, plant and equipment	20,273	21,937	23,084	38,921	39,090
Total assets	62,406	58,779	60,823	73,448	82,315
Interest bearing debts	-	-	-	6,376	255
Total Liabilities	15,837	16,265	16,836	26,609	23,583
Total shareholders' equity	46,569	42,514	43,987	46,839	58,732
<b>For the year:</b>					
Net cash generated					
by operating activities	27,501	21,167	12,774	22,875	26,217
Net cash used in investing activities	(3,202)	(4,426)	(7,352)	(20,347)	(5,932)
Net cash used in financing activities	(24,160)	(22,362)	(15,566)	(6,439)	(18,621)
Cash Flow for the year	139	(5,621)	(10,144)	(3,911)	1,664

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



\* EBITDA = operating income + depreciation+amortisation

## FINANCIAL HIGHLIGHTS

**TANZANIA CIGARETTE COMPANY LIMITED  
GROUP VALUE ADDED STATEMENT**

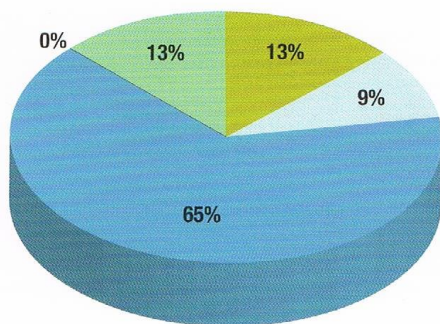
for the year ended 31 December 2007

	2007		2006	
	TZS M	%	TZS M	%
Gross turnover	191,457		152,611	
Operating expenditures - Suppliers	(53,255)		(57,456)	
Income from investments	-		-	
<b>Total Value added</b>	<b><u>138,202</u></b>	<b>100.0</b>	<b><u>95,155</u></b>	<b>100.0</b>
<b>Value distributed as follows:</b>				
To Employees - remuneration	12,922	9	10,644	11
To Government - vat,excise duties	80,428	58	55,141	58
To Government - corporate tax	9,229	7	6,719	7
To Shareholders - dividends	17,500	13	12,789	13
To Lending institutions - finance costs	-	0	1,936	2
<b>To Reinvestment:</b>				
Depreciation and amortisation	6,230	5	5,075	5
Retained income	11,893	9	2,852	3
<b>Total distributions</b>	<b><u>138,202</u></b>	<b>100.0</b>	<b><u>95,155</u></b>	<b>100.0</b>

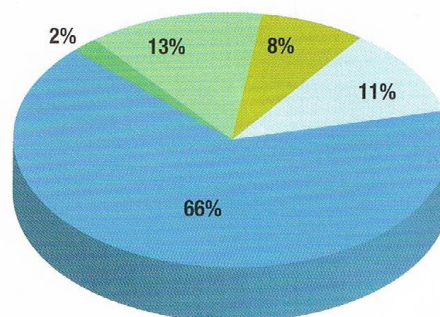
## VALUE DISTRIBUTED

■ Lenders   
 ■ Employees   
 ■ Government   
 ■ Reinvestment   
 ■ Shareholders

2007

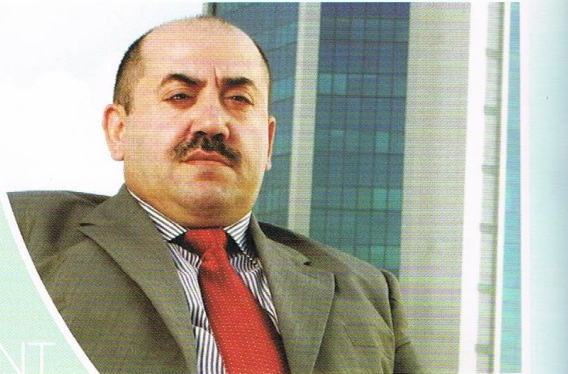


2006



## CHAIRMAN'S STATEMENT

## CHAIRMAN'S STATEMENT



I am pleased to report that Tanzania Cigarette Company (TCC) achieved excellent results for the year ended December 31, 2007.

Net turnover, operating and net profits, dividends and contribution to the Treasury were significantly higher than the previous year.

Net turnover was Tsh 111 billion, 27% higher than the previous year. Operating profit increased to Tsh 33.5 billion, a 38% increase on the corresponding period last year, and net profit was 56% better than the previous year, at Tsh 24.4 billion.

The double digit, year on year, increase in net turnover and profit was driven by strong volume growth and the full year impact of the price increase in July 2006. In addition, we were aided by a more conducive operating environment, in particular, a positive macro-economic environment, improved security and electricity supply.

As a result of the excellent performance, The Board of Directors of Tanzania Cigarette Company has proposed a final ordinary gross dividend of Tsh 75 per share. Together with the interim dividend of Tsh 75 per share paid to shareholders in October 2007 this brings the total gross ordinary dividend for the year to Tsh 150 per share. The Board of Directors of Tanzania Cigarette Company has also declared a gross special dividend of Tsh 25 per share. The total of the gross ordinary dividend and the gross special dividend will be Tsh 175 for the year, an increase of 75% on the previous year

In addition to dividend payments, the Company contributed to the Treasury approximately Tsh 90 billion in excise duty, VAT and corporate tax, which is 25% higher than the previous year.

Building on TCC's strategic direction of operational excellence through a highly motivated workforce, good progress was made in all areas of the business.

The Tsh 36 billion factory rejuvenation program, which began in 2005, is on track and will be completed in 2009. The program

aims to increase product quality, manufacturing efficiency and production capacity to meet future domestic and export demands.

To enhance distribution efficiency, dealer and retail evolution programs were successfully rolled out in 2007. Significant investments were made behind TCC's core brands of Embassy, Sportsman and Sweet Menthol.

TCC invested Tsh 786 million, or 6% of total payroll, in employees training and development to enhance the quality of its human capital.

In an effort to protect the environment and improve rural livelihoods in tobacco growing areas, a Tsh 1 billion reforestation and rural livelihood program was launched in Sikonge, Tabora. This 4 year program will plant 8 million trees by 2010, introduce more efficient tobacco curing barns and mud stoves, as well as low technology irrigation methods.

I am also pleased to report that TCC received a number of awards during the year in recognition of various achievements. These include the most compliant tax payer award for 2007, awarded by the Tanzania Revenue Authority, and "best in class" HIV/AIDS program award from the Association of Tanzania Employers.

As for our prospects for 2008, and in line with our strategy of investment for sustainable growth, we anticipate continued positive momentum in 2008, albeit at lower rates than those achieved in 2007. This assumes continued economic growth, a stable fiscal regime with no unfavorable excise tax changes, manageable cost inflation, a stable exchange rate and a reasonable tobacco regulatory environment.

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

**TAMKO LA MWENYEKITI**

Napenda kuchukua fursa hii kuwataarifu kwamba kampuni ya Sigara Tanzania, imepata mafanikio makubwa zaidi ya makadirio yake kwa mwaka ulioishia tarehe 31 Disemba, 2007.

Mapato na matumizi halisi, faida, gawio na mchango wa kodi uliongezeka ukilinganisha na mwaka uliopita.

Mapato halisi yalikuwa shilingi 111, ikiwa ni asilimia 25 zaidi ya kipindi kilichopita.

Faida kwa kipindi hicho iliongezeka na kufikia shilingi bilioni 33.5, ikiwa ni ongezeko la asilimia 38 kutoka kiwango cha mwaka uliopita na faida halisi iliongezeka kwa kiwango cha asilimia 56 zaidi ya mwaka uliopita kwa kiasi cha shilingi bilioni 24.4.

Aidha faida hii ya zaidi ya asilimia 10, mwaka hadi mwaka, kuongezeka kwa pato la kampuni na faida kwa ujumla vimetokana na mauzo mazuri sambamba na ongezeko la bei ya bidhaa zetu mnamo mwezi wa Julai, mwaka 2006.

Kwa upande mwingine tulisaidiwa na mazingira mazuri ya kiutendaji, mazingira mazuri ya kiuchumi, kuboreka kwa ulinzi, pamoja upatikanaji wa umeme.

Kutokana na mafanikio haya mazuri, Bodi ya Wakurugenzi ya Kampuni ya Sigara Tanzania, imependekezwa kuwa gawio la kawaida la jumla kwa Wanahisa wa Kampuni liwe shilingi 75 kwa hisa moja.

Hivyo basi, ukichanganya na gawio la muda mfupi la shilingi 75 kwa hisa walizolipwa wanahisa mwezi Oktoba mwaka 2007, inafanya jumla ya gawio la shilingi 150 kwa kila hisa kwa mwaka.

Bodi ya Wakurugenzi wa Kampuni ya Sigara Tanzania imeidhinisha gawio maalum la shilingi 25 kwa hisa, na hivyo kufanya gawio la kawaida la shilingi 150 likiongezwa na gawio maalum la shilingi 25, linafanya jumla ya gawio la shilingi 175 kwa mwaka, ikiwa ni ongezeko la asilimia 75 ikilinganishwa na mwaka uliopita.

Mball na ongezeko la malipo ya gawio, Kampuni pia imetoa mchango wake wa kodi wa takriban shilingi bilioni 90 ikiwa ni malipo ya ushuru wa bidhaa ikiwemo kodi ya ongezeko la thamani, na kodi ya makampuni ikiwa ni asilimia 25 zaidi ya mwaka jana.

Kupitia mkakakati maalum wa Kampuni ya Sigara Tanzania na utendaji bora kwa kuwa na wafanyakazi wenye ari ya kazi, kulikuwa na maendeleo mazuri kutoka katika maeneo yote ya biashara.

Hivi sasa kampuni yetu imeendelea kutekeleza mpango wake wa marekebisho na maboresho ya kiwanda, wenye thamani

ya shilingi bilioni 36. Mpango huu ulianza rasmi mwaka 2005 na unatarajiwa kukamilika mwaka 2009. Mpango huu unalenga kuongeza ubora wa bidhaa na kiwango kitakachokidhi mahitaji ya baadaye ya soko la ndani na nje.

Ili kuboresha usambazaji wenye tija, mipango ya maendeleo juu ya mauzo ya rejareja na jumla ilianzishwa kwa mafanikio makubwa mwaka 2007. Uwekezaji madhubuti ulifanywa katika chapa muhimu za Kampuni ya Sigara Tanzania ambazo ni Embassy, Sportsman na Sweet Menthol.


Kampuni imewekeza jumla ya shilingi milioni 786 au asilimia 6 ya jumla ya malipo ya mishahara ya wafanyakazi, kwa ajili ya mafunzo na maendeleo ya wafanyakazi ili kuongeza ubora wa wafanyakazi wake.

Katika jitihada za kutunza mazingira na kuboresha maisha ya watu wanaoishi katika maeneo yanayolima tumbaku, mpango maalum wenye thamani ya shilingi bilioni 1 wa upandaji miti ulizinduliwa katika wilaya ya Sikonge mkoani Tabora. Mpango huu wa miaka 4 utapanda miti milioni 8 hadi kufikia mwaka 2010, uzinduzi wa njia bora za kukausha tumbaku, majiko ya tope pamoja na njia za umwagiliaji kwa kutumia teknolojia nafuu.

Ninapenda pia kuwataarifu kwamba Kampuni ya Sigara Tanzania ilipata tuzo mbalimbali mwaka jana, ikiwa ni utambulisho wa mafanikio yake mbalimbali iliyoyapata. Tuzo hizi ni pamoja na tuzo ya Mlipakodi bora wa mwaka 2007, iliyotolewa na Mamlaka ya Mapato Tanzania pamoja na tuzo ya Mfano wa Kuigwa katika mpango wa UKIMWI iliyotolewa na Chama Cha Waajiri Tanzania.

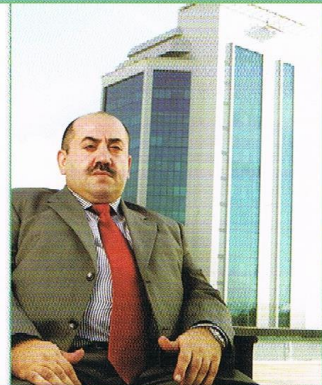
Malengo ya Kampuni kwa mwaka 2008, sambamba na mbinu yetu ya uwekezaji wenye kuzingatia ongezeko la mapato, tunatarajia kuongeza kasi zaidi mwaka huu, pamoja na mafanikio yaliyopatikana mwaka 2007. Hii ni kwa kuzingatia maendeleo ya ukuaji wa uchumi, uimara wa sera za kodi bila ongezeko katika ushuru wa bidhaa, usimamizi wa mfumuko wa bei, uimara katika viwango vya kubadilisha fedha za kigeni na utekelezaji wa sheria za tumbaku hapa nchini.

Kwa kuhitimisha, kwa niaba ya Bodi ya Wakurugenzi, napenda kutoa shukrani za dhati kwa washikadau wote waliochangia katika maendeleo na mafanikio ya Kampuni ya Sigara Tanzania, wakulima wa tumbaku na wasindikaji, wagavi, wateja, wafanyakazi, Serikali pamoja na wanahisa wetu.

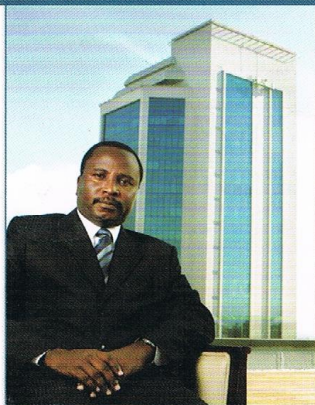


Simaan Matta  
Chairman, Tanzania Cigarette Company Ltd.

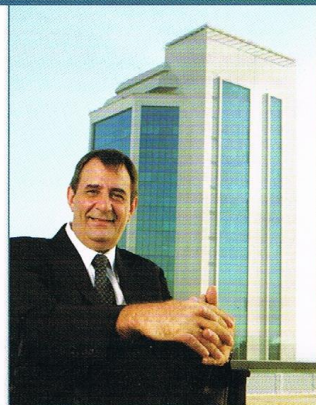
# MANAGEMENT TEAM



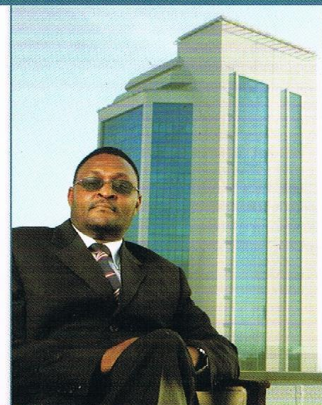
**SIMAAN MATTA**  
Chairman and General Manager



**VINTAN MBIRO**  
Director Legal Affairs



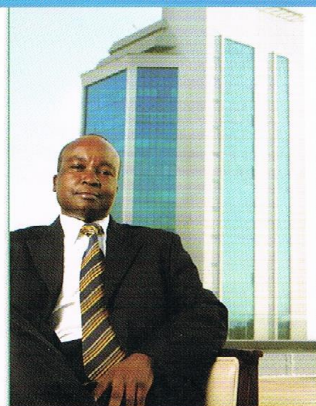
**ROY SIZEMORE**  
Director Manufacturing and Operations



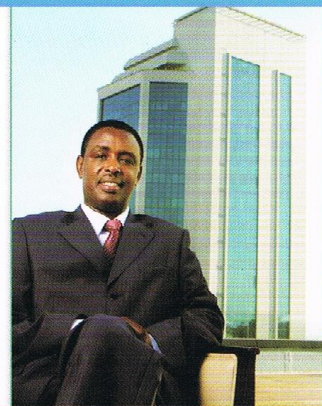
**FRANK USIRI**  
Director Company Services



**CHERYL GROBBELAAR**  
Director Finance



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



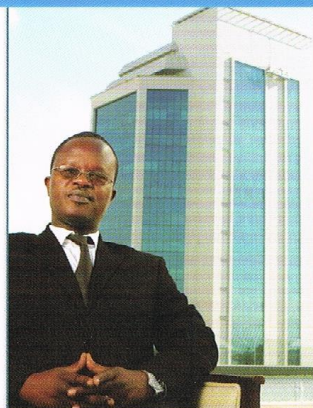
**CHRISTOPHER YAMAT**  
Director Consumer and Trade Marketing  
(Development and Planning)



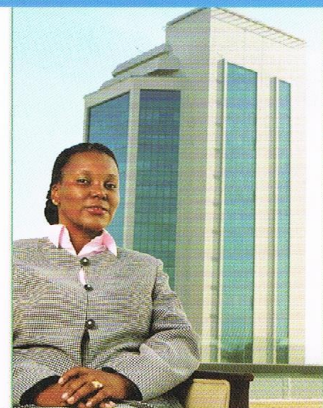
**THE MANAGEMENT TEAM**



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

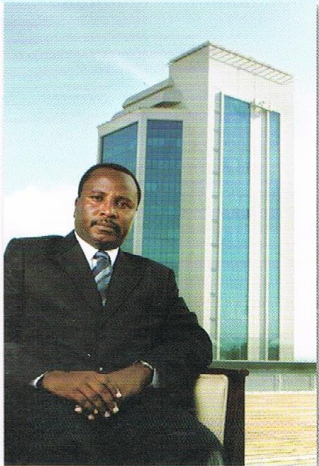


**PAUL MAKANZA**  
Director Corporate Affairs



**CAROLINE KAVISHE**  
Director Human Resources

BOARD OF DIRECTORS



**VINTAN MBIRO**  
Secretary to the Board



**MARIA KEJO**  
Director (Non Executive)



**HUBERTUS OOMS**  
Director (Non-Executive)

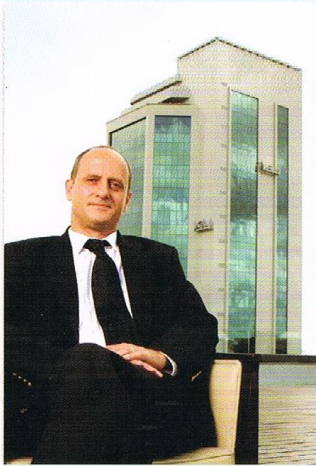


**SIMAAN MATTA**  
Chairman

BOARD OF



BOARD OF DIRECTORS



**DAVID THORN**  
Director (Executive)



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



**CHERYL GROBBELAAR**  
Director (Executive )

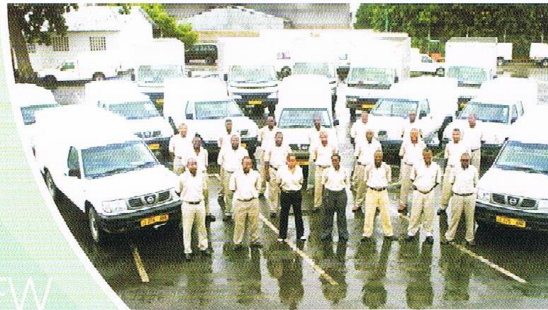
DIRECTORS



**PAUL MAKANZA**  
Director (Executive)



## BUSINESS REVIEW



efficiency by 10%, whilst increasing bicycle sales by 30%. Furthermore, the program has created 120 new jobs.

Good results were also achieved with the cash free model, a project introduced in 2006 to reduce the risks associated with handling cash. Cash handling in Dar es Salaam has been reduced from 50% in 2006 to 17% in 2007.

Export volumes grew 30% compared to 2006, with a particularly strong performance in Democratic Republic of Congo.

### Uuzaji wa bidhaa na masoko

Jumla ya mauzo ya ndani na nje yaliongezeka zaidi katika kipindi cha mwaka huu, ikiwa ni jumla ya ongezeko la asilimia 15 zaidi ya mwaka jana.

Msingi mkubwa wa mafanikio haya ni mikakati ya makusudi ya kuendeleza wateja na kukuza soko. Hii inahusisha kampeni mbalimbali za chapa kuu za kampuni ya sigara ambazo ni Embassy, Sweet Menthol na Sportsman.

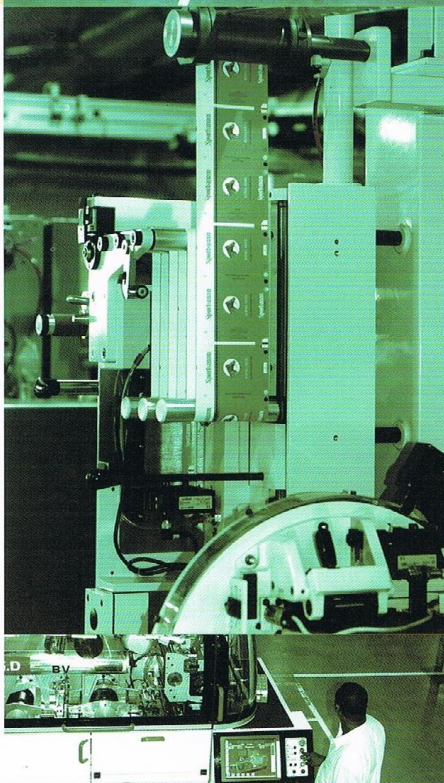
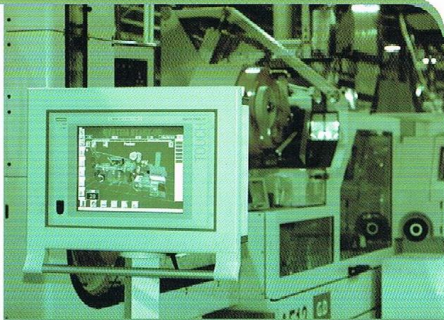
Matamasha mawili makubwa ya muziki yalifanyika mwaka 2007 kwa udhamini wa chapa ya Sweet Menthol. Tamasha la muziki la Mshike Mshike lililoshirikisha wasanii wa hapa Tanzania na Afrika Mashariki, lilivutia

karibu mashabiki 6,000 na walifanya ziara katika mikoa saba hapa nchini. Pia mashabiki 60,000 walihudhuria tamasha la kila mwaka la Fiesta lililofanya ziara katika mikoa nane ya Tanzania. Tamasha la Fiesta lililofanyika jijini Dar es Salaam lilipambwa pia na wanamuziki wa kimataifa, kama Kevin Lyttle kutoka Marekani.

Kampuni ya Sigara Tanzania imeendelea kujikita zaidi kwenye soko, ikiwa na mtazamo wa kuongeza zaidi usambazaji na ufanisi katika mauzo ya rejareja. Mpango wa mauzo kwa kutumia baiskeli ulizinduliwa mwaka 2006 kama sehemu ya jitihada hizi na umeonyesha ufanisi mkubwa. Idadi ya wauzaji wa kutumia baiskeli imeongezeka kutoka 40 hadi 120 mwaka 2007 na kuiwezesha kampuni kuongeza ufanisi wa wauzaji wa jumla hususan mawakala kwa asilimia 10, wakati huo huo mauzo kwa njia ya baiskeli yakiongezeka kwa asilimia 30. Zaidi ya hapo, mpango huo umeweza kuleta ajira mpya 120.

Matokeo mazuri pia yalipatikana kwa mfumo wa kutotumia fedha taslim kwa malipo. Mpango huu ulianzishwa mwaka 2006 ili kupunguza hatari ya kutembea na fedha taslim.

Kiwango cha mauzo ya nje ya nchi kiliongezeka kwa asilimia 30 ukilinganisha na mwaka 2006, huku mauzo yakifanya vizuri zaidi katika nchi ya Jamhuri ya Kidemokrasia ya Kongo.



### Manufacturing and operations

Following the successful commissioning of the first new production line, a second line was installed and commissioned in April 2007. The project, led by in-house engineers, has increased production capacity by 30% and reduced reject rates and overtime significantly. The higher production capacity has positioned TCC well to meet future domestic and export demands.

In line with TCC's strategic objective of zero accidents at the workplace, a safety behavioral change program was instituted in April 2007. Led by DuPont Safety Resources of the USA, the pre-imminent world authority on safety at the workplace, the program aims to change mind sets in the way safety is managed at the workplace. The strategy is to move away from policing to prevention, a culture that is being adopted by all employees.

Furthermore, a vehicle tracking system was successfully piloted in Dar es Salaam and Shinyanga. The system provides real time information to headquarters on safe driving and other key performance indicators. TCC's vehicle safety program was voted the best Environmental Health and Safety Program for 2007



## BUSINESS REVIEW

within the JTI group of companies. TCC's health and safety program is one of the few in the country that is ISO certified.

### Uzalishaji na uendeshaji

Kufuatia kufungwa kwa mtambo mpya wa uzalishaji, mtambo mwingine ulifungwa mwezi Aprili mwaka 2007. Mradi huo uliosimamiwa na wahandisi wa ndani, umeongeza uwezo wa uzalishaji kwa asilimia 30 na kupunguza kiwango cha bidhaa haffu na muda wa ziada kwa kiasi kikubwa. Kiwango cha juu cha uzalishaji kimeiweka Kampuni ya Sigara kwenye nafasi nzuri zaidi ya kukidhi mahitaji ya baadaye ya ndani na nje.

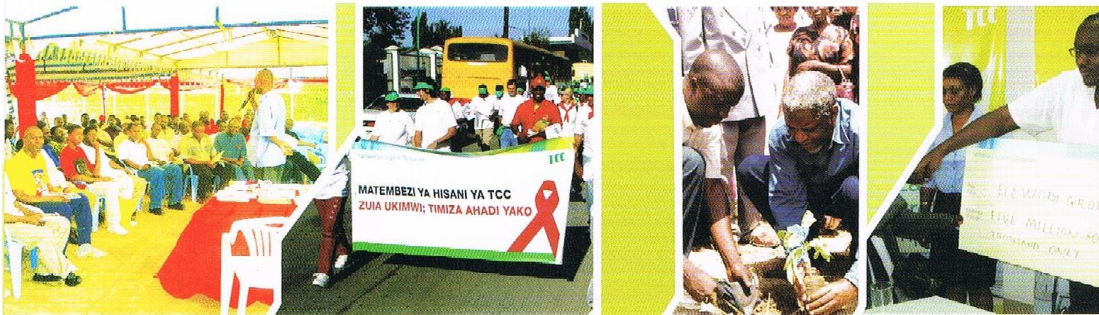
Kwa kufuata mkakati wa Kampuni wa kupunguza ajali sehemu ya kazi, mpango wa usalama na mabadiliko ya tabia ulianzishwa mwezi Aprili mwaka 2007. Mpango huu ulisimamiwa na kampuni ya DuPont Safety Resources ya Marekani, ambayo imeborea katika shughuli za usalama mahala pa kazi, mpango huu umelenga kubadilisha mtazamo wa jinsi usalama unavyosimamiwa mahala pa kazi. Mbinu hizi zitakuwa ni kuondokana na utaribu wa kuzuia ajali, utamaduni ambao umezoeleka kwa wafanyakazi.

Zaidi ya hayo, mfumo wa kufuatilia mwenendo wa uendeshaji magari ulizinduliwa katika mikoa ya Dar es salaam na Shinyanga. Mfumo huo hutoa taarifa makao makuu ya muda sahihi juu ya uendeshaji salama pamoja na viashiria vingine muhimu katika uendeshaji. Mpango wa Kampuni wa usalama wa magari ulichaguliwa kuwa bora ndani ya kundi la makampuni ya JTI. Mpango wa Kampuni wa afya na usalama ni mmoja kati ya mipango michache iliyothibitishwa kuwa ya viwango vya ISO hapa nchini.

### Human resources

TCC aspires to strengthen its position as "Employer of Choice in Tanzania". In pursuit of this aspiration, a number of initiatives were implemented in 2007, with a particular focus on providing a conducive environment for our employees to excel.

Attracting the best employees was the cornerstone of the 2007 human resource programs. Through the annual TCC Internship Program for college students, a number of the top students in Tanzania were recruited to join the company.



Emphasis was placed on instilling and managing a performance driven culture in the organization. The company has developed programs, like the The Nyota Awards which recognizes and awards employees who have demonstrated TCC's values of Innovation, Synergy, Quality and Commitment and also inspires and encourages other employees to demonstrate these values.

Training and development (T&D) continues to be a priority for TCC. The Company spent Tsh 786 million on various T&D activities or 6% of its total payroll. On average, each employee received 26.47 man hours of training and development. This level of investment reflects TCC's commitment to enhancing the quality of its human capital.

More focus was given to managing and retaining high performers through career and succession planning

The Company maintained its proud record of harmonious industrial relations through pro-active engagement with the union on major issues affecting employees. Union leaders and management jointly attended a training course on the new labor laws that became effective December 2006. TCC has in place a voluntary agreement, negotiated and signed in 2006.

To safeguard the interests of employees and their immediate families in the unfortunate event of death, the Company introduced the WILL PROJECT. The project serves to educate on the benefits of having a will and extends to facilitation of the actual writing of wills. Results to date are very encouraging, with a 45% adoption rate.

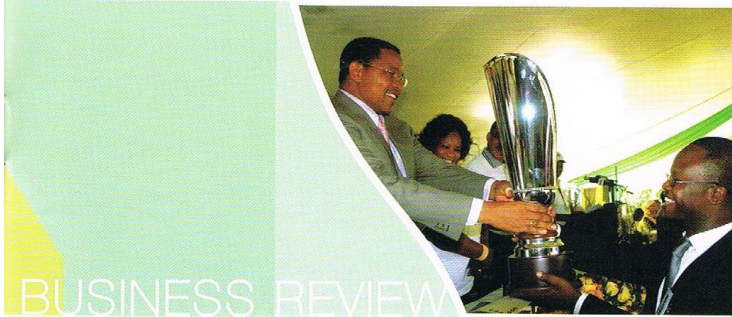
TCC recognizes that the ability to protect its employees is limited if education and outreach efforts on HIV/AIDS are not extended to employees' families and that the fight against HIV/AIDS is best fought in partnership with other stakeholders in society. To this end, the Company held an HIV/AIDS seminar for employees and their families to raise awareness on the pandemic and preventive measures. The seminar was conducted by WAMATA and funded by employees' contributions from a HIV/AIDS charity walk. About 400 participants attended the seminar. Over 100 participants undertook voluntary counseling and testing.

#### Rasilimali watu

Kampuni ya Sigara Tanzania ina lengo la kuimarisha nafasi yake kama "Mwajiri Bora Tanzania". Katika kutekeleza malengo haya, mambo kadhaa yametekelezwa mwaka 2007, lengo kuu likiwa ni kujenga mazingira yenye kuongeza ari ya kazi kwa wafanyakazi wetu ili waweze kuwa bora zaidi.

Kuajiri wafanyakazi bora ilikuwa ni muhimili katika programu ya Kitengo cha Utumishi kwa mwaka 2007. Kupitia mpango wa mafunzo wa kila mwaka kwa wanafunzi wa vyuo, idadi kadhaa ya wanafunzi waliofanya vizuri nchini Tanzania walijiriwa kujiunga na kampuni hii.

Msisitizo uliwekwa zaidi katika utendaji kulingana na malengo tuliyojiwekea. Kampuni imeanzisha utoaji wa tuzo mbali mbali kama ule wa Tuzo za Nyota, ambao unawatambua na kuwapa tuzo wafanyakazi ambao wamedhihirisha uwezo wa kufikia vigezo vya ufanisi, ushirikiano, ubora na uwajibikaji, ambapo huamsha



hamasa na kuwapa moyo wafanyakazi wengine kuongeza bidii mahala pa kazi ili kukidhi vigezo hivi.

Utoaji wa mafunzo kwa wafanyakazi unaendelea kupewa kipaumbele. Kampuni ilitumia shilingi milioni 786 kwa shughuli za mafunzo. Hii ni sawa na asilimia 6 ya malipo ya jumla ya malipo ya mishahara ya wafanyakazi. Kwa wastani, kila mfanyakazi alipata masaa 26.47 ya mafunzo. Kiwango hiki cha uwekezaji kwa rasilimali watu kinaashiria uwajibikaji wa Kampuni katika kuongeza ubora wa wafanyakazi wake.

Malengo zaidi yaliwekwa katika kuwadumisha watendaji wenye uwezo wa juu wa kiutendaji na kuwa na mipango endelevu.

Kampuni iliendeleza kukuza mahusiano na mashirikiano mazuri ya kiutendaji na chama cha wafanyakazi kwa kuwahusisha katika maswala yote yanayohusu wafanyakazi. Viongozi wa chama cha wafanyakazi na uongozi wa kampuni kwa pamoja walihudhuria mafunzo juu ya sheria mpya za kazi ambazo zilianza kufanya kazi rasmi mwezi Disemba mwaka 2006. Kampuni ina makubaliano ya hiari, yaliyojadiliwa na kutiwa saine mwaka 2006.

Katika kutoa kinga kwa maslahi ya wafanyakazi na familia zao kutokana na matukio ya vifo, kampuni ilianzisha mradi wa kuandika wosia. Madhumuni ya mradi huu ni kuelimisha juu ya faida ya kuandika wosia. Matokeo hadi hii leo yanatia moyo sana, mradi ukiwa umeridhiwa kwa asilimia 45 ya wafanyakazi wote.

Kampuni inatambua kwamba uwezo wa kuwakinga wafanyakazi wake hautakuwa na mafanikio iwapo

kama elimu ya kutosha juu ya athari za UKIMWI haitatolewa kwa familia za wafanyakazi, na kwamba vita dhidi ya UKIMWI vitashindwa kwa ushirikiano wa washikadau wengine katika jamii. Kwa hali hiyo basi, kampuni iliandaa semina kwa wafanyakazi na familia zao ili kuwahamasisha juu ya janga hili la UKIMWI pamoja na hatua za kuchukua ili kijikinga. Semina hiyo iliendeshwa na WAMATA na kufadhiliwa kwa michango ya wafanyakazi katika matembezi ya hiari ya kupambana na janga la UKIMWI. Takriban washiriki 400 walihudhuria semina hiyo. Zaidi ya washiriki 100 walipima pamoja na kupata ushauri kwa hiari.

### Corporate Social Responsibility

Corporate Social Responsibility is about the way a business is run and the way it assumes its responsibility towards its core stakeholders. As a Corporate citizen, the Company recognizes and is committed to fulfilling its social responsibility.

### Wajibu wa Kampuni katika jamii

Wajibu wa Kampuni katika jamii ni jinsi ambavyo inaendesha shughuli zake na jinsi ambavyo inawajibika kwa jamii na washikadau wake. Ikiwa kama Kampuni iliyopo nchini, Kampuni inatambua na imejikita katika kutimiza wajibu wake kwa jamii.

### Corporate governance

Tanzania Cigarette Company is a subsidiary of JT International (JTI). It is publicly listed on the Dar es Salaam Stock Exchange. The Company is committed to the principles and practices of good corporate



governance, and strictly follows its parent company's global standards, policies and procedures and operating guidelines. These include amongst others, responsible marketing, equal opportunity employer, code of conduct, environmental health and safety and corporate philanthropy.

#### **Uwajibikaji kulingana na sheria na taratibu zilizopo**

Kampuni ya Sigara Tanzania ni Kampuni tanzu ya JT International (JTI). Imeorodheshwa katika Soko la Hisa Dar Es Salaam. Kampuni imejikita katika misingi ya utawala bora, na kwa umakini mkubwa inafuata viwango vya Kampuni kimataifa, sera, taratibu na misingi ya uendeshaji wa kampuni mama. Misingi hii pamoja na mambo mengine, ni kufuata taratibu za soko, fursa sawa za ajira, taratibu za kiutendaji, mazingira ya usalama na afya, pamoja na utoaji misaada kwa wahitaji.

#### **Responsible marketing**

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

#### **Uwajibikaji kisoko**

Sigara ni bidhaa tata lakini halali. Kampuni imejikita katika uwajibikaji wa kisoko wa bidhaa zake. Kampuni

inaamini kuwa uvutaji wa sigara ni chaguo la mtu mzima; watoto wadogo hawapaswi kuvuta sigara; mtumiaji hapaswi kuvuta bila kufahamu athari za uvutaji sigara; na kwa muda wote, wavutaji sigara wanatakiwa kuwaheshimu wasio wavutaji sigara na jamii yote.

#### **Equal opportunity employer**

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

#### **Fursa sawa ya ajira**

Kampuni ni mwajiri mwenye kujali fursa sawa na haibagui. Inaajiri wafanyakazi wapya kwa kigezo cha uwezo na uelewa.

#### **Code of conduct**

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

All employees are required to undergo comprehensive training on the Company's Code of Conduct and sign off that they have understood and will abide by the Code of Conduct.



### ***Kanuni za kimaadili***

Kampuni mama ya, JTI, ina taratibu za kiutendaji. Taratibu za utendaji zinaelezea wajibu wa mambo muhimu ya sheria na maadili ambayo yanatakiwa kufuatwa katika utendaji wa shughuli za Kampuni. Pia zinaelezea kanuni na taratibu ambazo lazima zifuatwe katika kutimiza wajibu. Kampuni ya Sigara Tanzania, kwa umakini mkubwa inafuata taratibu za utendaji za kampuni mama.

Wafanyakazi wote wanatakiwa kupata mafunzo kamili juu ya taratibu za utendaji za Kampuni na kusaini kuwa wameelewa na watafuata taratibu hizo.

### ***Corporate philanthropy***

TCC has in place a number of community assistance programs. Referred to as Corporate Philanthropy (CP), TCC's CP programs focus on two main areas; corporate sponsorship in the name of the Company and donations to charitable organizations. Every year, TCC sets aside 1%-2% of its profits for CP programs. The Company spent Tsh 458 million on CP projects in 2007.

CP programs are carefully chosen on the basis of the most pressing current and anticipated social and economic challenges. TCC's CP programs are focused on three key areas, environmental protection and improvement to rural livelihoods in tobacco growing areas, education, and arts and culture.

Tobacco is a key input for TCC. As a major stakeholder in the industry, TCC and its parent Company embarked on a re-forestation and rural livelihood improvement programs in Sikonge, Tabora Region, the biggest tobacco producing region in Tanzania. This project will plant 8 million trees, introduce low cost irrigation schemes such as treadle pumps, provide safe drinking water through boreholes and wells, and introduce more efficient cooking stoves that use 75% less firewood than traditional stoves. The program, began in 2006, will run to 2010, at a total cost of Tsh 1 billion. The program is managed by Total Land Care and Washington State University, two institutions with extensive experience in managing similar programs in Africa.

Furthermore, TCC's Arts & Culture Program attracted a lot of public interest and participation from various local and international artists. The program, popularly known as VIPAJI, aims to promote local arts and culture and provide opportunities for local artists to exhibit and sell their art work. Projects undertaken in 2007 include a pastel painting workshop and exhibition, bottles to beads making project and henna painting in Zanzibar.

TCC also has in place a number of employee driven CP programs that aim to involve employees active community service.

### ***Wajibu wa kijamii wa kampuni***

Kampuni ina miradi kadhaa ya kusaidia jamii. Miradi hii ya kijamii inalenga katika maeneo makuu mawili; udhamini kwa jina la kampuni na utoaji wa misaada



BUSINESS REVIEW

kwa asasi za kimisaada. Kila mwaka, Kampuni hutenga asilimia 1 hadi 2 ya faida yake kwa ajili ya kutekeleza wajibu huu. Kampuni ilitumia shilingi milioni 458 mwaka 2007 katika miradi ya kijamii.

Miradi hii ya kijamii huchaguliwa kulingana na umuhimu wake na changamoto mbalimbali za kiuchumi na kijamii. Miradi ya kijamii ya kampuni inalenga katika maeneo makuu matatu, utunzaji wa mazingira na uboreshaji wa maisha katika maeneo yanayolima tumbaku, elimu na sanaa na utamaduni.

Zao la tumbaku ni malighafi muhimu kwa Kampuni. Kama mshikadau mkubwa katika sekta ya tumbaku Kampuni ya Sigara Tanzania, pamoja na kampuni mama ilianza mpango wa upandaji miti ili kutunza misitu na kuboresha maisha ya wananchi vijijini katika wilaya ya Sikonge, mkoani Tabora, mkoa ambao unaongoza kwa uzalishaji wa tumbaku nchini Tanzania. Mradi huu utaotesha miti milioni 8, utaleta mfumo wa umwagiliaji wenye gharama nafuu, kutoa maji safi ya kunywa kwa kutumia visima vyenye pampu, pamoja na kuleta majiko bora zaidi yanayotumia kiwango kidogo zaidi cha kuni kuliko majiko ya kienyeji. Mpango huu ulianza mwaka 2006, utaendelea hadi mwaka 2010, kwa gharama ya shilingi bilioni 1. Mpango huu unasimamiwa na taasisi isyo ya kiserikali ya Total Land Care pamoja na Chuo Kikuu cha Washington, taasisi hizi mbili zina uzoefu mkubwa katika miradi kama hii barani Afrika.

Mradi wa Sanaa na Utamaduni wa Kampuni ulivutia sana umma na ushiriki kutoka kwa wasanii mbalimbali wa hapa nchini na wa kimataifa. Mradi huo unaofahamika sana kama VIPAJI, unalenga kuwaimarisha wasanii wa hapa nchini na utamaduni, na kutoa fursa ya kazi za wasanii hao kuonekana na kuuzika. Miradi iliyofanyika mwaka 2007 ni pamoja na warsha ya uchoraji na maonyesho, utengenezaji wa chupa na shanga na uchoraji wa hina visiwani Zanzibar.

yenye lengo la kuwashirikisha kwa dhati wafanyakazi katika huduma za kijamii.

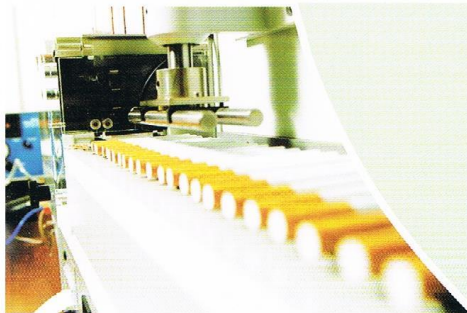
### **Environmental protection, health and safety (EHS)**

The Company has in place an environmental, health and safety program (EHS). This program aims to minimize waste, cut emissions, conserve energy and avoid accidents at the work place. The Company's environmental program was ISO 14001 certified in 2004. In addition, the Company's occupational health and safety program was OHSAS 18001 certified in 2005. This is in line with the direction set by the parent company, JTI, and is a requirement for all factories operating under the Japan Tobacco umbrella.

### **Utunzaji mazingira, afya na usalama**

Kampuni ina mradi wa mazingira, afya na usalama. Mradi huu unalenga kupunguza uchafu, kuhifadhi nishati na kuepuka ajali mahala pa kazi. Mpango wa mazingira wa kampuni ni wa kiwango cha ISO 14001 kilichothibitishwa mwaka 2004. Mpango wa kampuni wa afya na usalama ulikuwa OHSAS 18001 uliothibitishwa mwaka 2005. Hii ni sambamba na muongozo uliowekwa na kampuni mama ya JTI, na ni sharti mojawapo kwa viwanda vyote vinavyoendesha shughuli zake chini ya mwamvuli wa Kampuni ya Japan Tobacco.

CORPORATE INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2007



CORPORATE INFORMATION

**DIRECTORS AND ADVISORS:**

**Directors**

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

\* Non-executive Directors

**Principal bankers**

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

**Secretary & Registered Office**

Mr. Vintan Willgis Mbiro  
20 Nyerere Road  
P.O. Box 40114  
Dar es Salaam  
Tel: +255 22 216 6291

**Auditors**

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

**SHAREHOLDING STRUCTURE:**

Shareholder	%Holding**
JT International Holding B. V.	75.00
Public Service Pension Fund	3.94
Parastatal Pension Fund	2.95
National Social Security Fund	4.47
United Republic of Tanzania	2.50
Unit Trust of Tanzania	1.05
Registered Trustees of the TCC	
Employees Share Options Scheme	0.83
The Local Authorities Provident Fund	0.62
Alliance Insurance Corporation Ltd	0.47
The Jubilee Insurance (T) Limited	0.21
Government Employees Provident Fund	0.18
Others	7.78
<b>Total</b>	<b>100.00</b>
<b>Shareholder classification</b>	<b>%Holding**</b>
Tanzanian	25.00
Foreign	75.00
<b>Total</b>	<b>100.00</b>

\*\*Based on share register as at 15 December 2007

## REPORT OF THE DIRECTORS

### FOR THE YEAR ENDED 31 DECEMBER 2007

The directors are pleased to present their report and the audited financial statements for the year ended 31 December 2007.

#### Activities

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

#### Results

The group and company results for the year are set out on page 24. Group net profit for the year of TZS 24,393 million has been transferred to retained earnings (2006 – TZS 15,641 million).

#### Dividends

During the year, the directors declared an interim gross dividend of TZS 7.5 billion or TZS 75.0 per share, which was paid in October 2007 (2006: TZS 5.0 billion or TZS 50.0 per share). Directors have proposed a special dividend of TZS 2.5 billion or TZS 25.0 per share (2006: Nil) and a final ordinary dividend of TZS 7.5 billion or TZS 75 per share (2006: TZS 5.0 billion or TZS 50 per share). The final and special dividend are subject to adoption by shareholders at the Annual General Meeting and, once adopted, the total gross dividend relating to current year will equal to TZS 17.5 billion (2006: TZS 10.0 billion) or TZS 175.0 per share.

The total of the proposed final ordinary dividend and special dividend net of 5% withholding tax will be TZS 9.50 billion or TZS 95.0 per share (2006: final ordinary dividend of TZS 4.75 billion or TZS 47.5 per share). These will be paid to all shareholders registered at the Dar es Salaam Stock Exchange (DSE) at the date announced through public notice.

#### Directors

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

Mr. Jorge da Motta	Chairman and Chief Executive Officer
Mr. Gray Mgonja	Director (Non –Executive)
Mr. Paul Makanza	Director (Executive)
Ms. Maria Kejo	Director (Non –Executive)
Mr. Hubertus Maria Antonius Ooms	Director (Non –Executive)
Mr. David Thorn	Director (Executive)
Mrs. Cheryl Grobbelaar	Director (Executive)

In accordance with article 72 (a) of the amended Articles of Association, Paul Makanza and Gray Mgonja retire as directors by rotation at the forthcoming Annual General Meeting and offer themselves for re-election.

#### Directors' interests

The directors do not hold any material interest in the issued share capital of the company. Executive directors of Tanzanian nationality are permitted to receive share options from the Trust.

**Solvency**

The state of affairs of the group and company as at 31 December 2007 is set out on page 25 of these financial statements. The directors consider the company to be solvent, within the meaning ascribed by the Companies Act, 2002.

**Related party transactions**

Details of transactions and balances with related parties are included in note 18 to the financial statements.

**Contracts with related parties**

The Technical Services Agreement between JT International and the company signed in January 2000 expires on 31st December 2007. A new agreement will become effective from 1st January 2008. Details of the agreement have been summarized in note 18 of the financial statements.

**Contingent liabilities**

The Company is currently involved in litigation with various third parties with respect to commercial and labour disputes as stated in note 20 to the financial statements.

**Auditors**

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

**BY ORDER OF THE BOARD**

Paul Makanza  
Director



Maria Kejo  
Director

7 March 2008

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2007

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 of the group and the company as at the end of the financial year and of the operating results of the group and the company for that year. It also requires the directors to ensure that the group and the company keep proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the company and group. They are also responsible for safeguarding the assets of the company and group.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with 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 group and of their operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



Paul Makanza  
Director



Maria Kejo  
Director

7 March 2008

**Independent auditors' report to the members of TANZANIA CIGARETTE COMPANY LIMITED.**

We have audited the financial statements of Tanzania Cigarette Company Limited set out on pages 24 to 43 which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company cash flow statements for the year then ended, together with the summary of significant accounting policies and other explanatory notes, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

**Respective responsibilities of directors and auditors**

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

**Basis of opinion**

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 as to whether the financial statements are free from material misstatement.

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

We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion:

- (a) proper books of account have been kept by the company and the company's financial statements are in agreement therewith;
- (b) the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2007 and of the profit and cash flows of the company and group for the year then ended in accordance with International Financial Reporting Standards and comply with the Tanzanian Companies Act, 2002.

**Deloitte & Touche**

Certified Public Accountants (T)



E A Harunani  
Dar es Salaam

7 March 2008

**INCOME STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	GROUP		COMPANY	
		2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
<b>Gross turnover</b>		191,457	152,611	191,457	152,611
Excise duty and VAT		<u>(80,428)</u>	<u>(65,146)</u>	<u>(80,428)</u>	<u>(65,146)</u>
<b>Net turnover</b>		<b>111,029</b>	<b>87,465</b>	<b>111,029</b>	<b>87,465</b>
Cost of sales		<u>(44,564)</u>	<u>(35,579)</u>	<u>(44,564)</u>	<u>(35,579)</u>
<b>Gross profit</b>		<b>66,465</b>	<b>51,886</b>	<b>66,465</b>	<b>51,886</b>
Selling and distribution costs		(16,516)	(13,145)	(16,516)	(13,145)
General and administrative costs		(14,695)	(13,630)	(14,690)	(13,627)
Other income/(expenses)		<u>(1,770)</u>	<u>(815)</u>	<u>(1,770)</u>	<u>(815)</u>
<b>Operating profit</b>	3	<b>33,484</b>	<b>24,296</b>	<b>33,489</b>	<b>24,299</b>
Net finance (costs)/income	4	<u>138</u>	<u>(1,936)</u>	<u>138</u>	<u>(1,936)</u>
<b>Profit before taxation</b>		<b>33,622</b>	<b>22,360</b>	<b>33,627</b>	<b>22,363</b>
Taxation charge	5	<u>(9,229)</u>	<u>(6,719)</u>	<u>(9,229)</u>	<u>(6,719)</u>
<b>Net profit for the year</b>		<b><u>24,393</u></b>	<b><u>15,641</u></b>	<b><u>24,398</u></b>	<b><u>15,644</u></b>
		<b>TZS</b>	<b>TZS</b>		
<b>Earnings per share</b>					
Basic and diluted	6	<u>243.93</u>	<u>156.41</u>		
<b>Dividend per share</b>	7	<u>175.00</u>	<u>100.00</u>		

**BALANCE SHEET**  
AS AT 31 DECEMBER 2007

	Notes	GROUP		COMPANY	
		2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
<b>ASSETS</b>					
<b>Non current assets</b>					
Property, plant and equipment	8	39,090	38,921	39,090	38,921
Intangible assets	9	2,116	2,381	2,116	2,381
Investment in subsidiary	10(a)	-	-	-	-
Loan receivable	10(b)	150	150	150	150
		<u>41,356</u>	<u>41,452</u>	<u>41,356</u>	<u>41,452</u>
<b>Current assets</b>					
Inventories	11	31,342	23,239	31,342	23,239
Trade and other receivables	12	4,373	4,370	4,398	4,390
Taxation recoverable	5.4	107	914	107	914
Bank balances and cash		5,137	3,473	5,131	3,467
		<u>40,959</u>	<u>31,996</u>	<u>40,978</u>	<u>32,010</u>
<b>Total assets</b>		<b><u>82,315</u></b>	<b><u>73,448</u></b>	<b><u>82,334</u></b>	<b><u>73,462</u></b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	13	2,000	2,000	2,000	2,000
Retained earnings		<u>56,732</u>	<u>44,839</u>	<u>57,290</u>	<u>45,392</u>
Shareholders' equity		<u>58,732</u>	<u>46,839</u>	<u>59,290</u>	<u>47,392</u>
<b>Non current liabilities</b>					
Deferred tax liability	14	<u>2,894</u>	<u>2,709</u>	<u>2,894</u>	<u>2,709</u>
<b>Current liabilities</b>					
Trade and other payables	15	20,434	17,524	19,895	16,985
Short term borrowings	16	<u>255</u>	<u>6,376</u>	<u>255</u>	<u>6,376</u>
		<u>20,689</u>	<u>23,900</u>	<u>20,150</u>	<u>23,361</u>
<b>Total equity and liabilities</b>		<b><u>82,315</u></b>	<b><u>73,448</u></b>	<b><u>82,334</u></b>	<b><u>73,462</u></b>

The financial statements on pages 24 to 43 were approved by the board of directors on 7 March 2008 and were signed on their behalf by:



Paul Makanza  
Director



Maria Kejo  
Director

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital TZS M	Retained earnings TZS M	Total TZS M
<b>GROUP</b>			
At 1 January 2006	2,000	41,987	43,987
Net profit for the year	-	15,641	15,641
Final dividends paid for year 2005	-	(7,789)	(7,789)
Interim dividends paid for year 2006	-	(5,000)	(5,000)
At 31 December 2006	<u>2,000</u>	<u>44,839</u>	<u>46,839</u>
At 1 January 2007	2,000	44,839	46,839
Net profit for the year	-	24,393	24,393
Final dividends paid for year 2006	-	(5,000)	(5,000)
Interim dividends paid for year 2007	-	(7,500)	(7,500)
At 31 December 2007	<u>2,000</u>	<u>56,732</u>	<u>58,732</u>
<b>COMPANY</b>			
At 1 January 2006	2,000	42,537	44,537
Net profit for the year	-	15,644	15,644
Final dividends paid for year 2005	-	(7,789)	(7,789)
Interim dividends paid for year 2006	-	(5,000)	(5,000)
At 31 December 2006	<u>2,000</u>	<u>45,392</u>	<u>47,392</u>
At 1 January 2007	2,000	45,392	47,392
Net profit for the year	-	24,398	24,398
Final dividends paid for year 2006	-	(5,000)	(5,000)
Interim dividends paid for year 2007	-	(7,500)	(7,500)
At 31 December 2007	<u>2,000</u>	<u>57,290</u>	<u>59,290</u>

CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	GROUP		COMPANY	
		2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
<b>Operating activities</b>					
Cash generated from operations	17.1	34,272	27,684	34,272	27,683
Interest received		424	83	424	83
Interest paid		(242)	(349)	(242)	(349)
Taxation paid	5.4	<u>(8,237)</u>	<u>(4,543)</u>	<u>(8,327)</u>	<u>(4,543)</u>
Net cash generated by operating activities		<u>26,217</u>	<u>22,875</u>	<u>26,217</u>	<u>22,874</u>
<b>Investing activities</b>					
Proceeds on disposal of property, plant and equipment		401	1,576	401	1,576
Payments for property, plant and equipment		<u>(6,333)</u>	<u>(21,923)</u>	<u>(6,333)</u>	<u>(21,923)</u>
Net cash used in investing activities		<u>(5,932)</u>	<u>(20,347)</u>	<u>(5,932)</u>	<u>(20,347)</u>
<b>Financing activities</b>					
Short term borrowings		(6,121)	6,376	(6,121)	6,376
Dividends paid	17.2	<u>(12,500)</u>	<u>(12,815)</u>	<u>(12,500)</u>	<u>(12,815)</u>
Net cash used in financing activities		<u>(18,621)</u>	<u>(6,439)</u>	<u>(18,621)</u>	<u>(6,439)</u>
<b>Net increase/(decrease) in bank balances and cash</b>		1,664	(3,911)	1,664	(3,912)
<b>Bank and cash balances at beginning of year</b>		<u>3,473</u>	<u>7,384</u>	<u>3,467</u>	<u>7,379</u>
<b>Bank and cash balances at end of year</b>		<u>5,137</u>	<u>3,473</u>	<u>5,131</u>	<u>3,467</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 1 ACCOUNTING POLICIES

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

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

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

- IAS 1 (revised 2007) on Presentation of Financial Statements
- IFRS 8 on Operating Segments
- IFRIC 11 on IFRS: Group and Treasury Share Transactions
- IFRIC 12 on Services Concession Arrangements
- IFRIC 13 on Customer Loyalty Programmes
- IFRIC 14 on IAS 19 – The limit on a defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The adoption of these Standards and Interpretations, when effective, should have no material impact on the financial statements of the company.

### Basis of accounting

The financial statements have been prepared on the historical cost basis.

### Basis of consolidation

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

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

### Revenue recognition

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

Interest income is recognised when it accrues on a time proportion basis.

### Foreign currency translation

Transactions in currencies other than Tanzania Shilling are recorded at the average monthly exchange rates prevailing on the dates of the transactions. All assets and liabilities denominated in foreign currencies are translated into Tanzania Shillings at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the income statement in the year in which they arise.

### Retirement benefits obligations

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

**1 ACCOUNTING POLICIES (CONTINUED)****Taxation**

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax is calculated at currently enacted tax rates and the net movement charged or credited in the income statement.

**Investment in subsidiary company**

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

**Leases**

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

**Inventories**

Inventories are stated at the lower of cost and net realisable 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 realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Dividends**

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends declared after the balance sheet date are not recognised as liabilities at the balance sheet date. Dividends receivable are recognised to income upon notification of declaration of the dividends of investee companies.

**Impairment**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007

**1 ACCOUNTING POLICIES (CONTINUED)**

**Property, plant and equipment**

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

	<b>Years</b>
Permanent buildings	50
Temporary buildings	3
Plant and machinery	5 – 20
Other equipment	3 – 10
Motor vehicles	4
Advertising equipment	<u>4</u>

The useful lives and residual values are reviewed every year.

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

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

**Trademarks**

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

**Financial instruments**

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

**Trade and other receivables**

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

**Trade and other payables**

Trade and other payables are stated at their nominal value.

**Bank borrowings**

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

**Comparatives**

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

(CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 2 SEGMENTAL REPORTING

The major part of the business of the group comprises the manufacture and sale of cigarettes. Other income contributes less than 5% of total income. In respect of the sale of cigarettes, the company operates almost wholly within Tanzania with export sales comprising less than 10% of the cigarette sales. Segmental reporting is, therefore, not considered of any useful value and consequently, has not been disclosed in the financial statements.

## 3. OPERATING PROFIT

	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
<b>Operating profit has been arrived at after charging/(crediting):</b>				
Directors' emoluments	739	659	739	659
Staff costs	13,117	10,644	13,117	10,644
Depreciation and amortization	6,230	5,075	6,230	5,075
Technical service fees	4,222	3,122	4,222	3,122
Auditor's remuneration:				
- Audit Services	141	110	141	108
- Non audit services	-	-	-	-
Profit on disposal of property, plant and equipment	(202)	(300)	(202)	(300)
<b>Included within staff costs are:</b>				
NSSF and PPF contributions	790	683	790	683
	<b>2007 Number</b>	<b>2006 Number</b>	<b>2007 Number</b>	<b>2006 Number</b>
Average number of persons employed during the year	670	683	670	683

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007

4. NET FINANCE (INCOME)/ COSTS	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
Net foreign exchange losses	44	1,670	44	1,670
Interest expense	(424)	(83)	(424)	(83)
Interest income	242	349	242	349
	<u>(138)</u>	<u>1,936</u>	<u>(138)</u>	<u>1,936</u>
<b>5. TAXATION</b>				
<b>5.1 Taxation charge</b>				
<b>Current taxation</b>				
Current taxation at 30%	9,177	5,455	9,177	5,455
Prior years under/(over) provision	(133)	8	(133)	8
	9,044	5,463	9,044	5,463
<b>Deferred taxation – (note 14)</b>				
Current year charge/(credit)	185	1,256	185	1,256
	<u>9,229</u>	<u>6,719</u>	<u>9,229</u>	<u>6,719</u>
<b>5.2 Reconciliation of tax based on accounting profit to tax charge</b>				
Accounting profit before tax	<u>33,622</u>	<u>22,360</u>	<u>33,627</u>	<u>22,363</u>
Tax charge at 30%	10,087	6,708	10,088	6,709
Income subject to lower rate of tax or not subject to tax	(39)	(119)	(39)	(119)
Disallowable expenditure	191	121	190	121
Prior years under/(over) provision	(133)	8	(133)	8
Deferred tax asset movement not recognised (note 5.3)	-	1	-	-
Deferred tax adjustment prior years	(877)	-	(877)	-
Taxation charge	<u>9,229</u>	<u>6,719</u>	<u>9,229</u>	<u>6,719</u>

The tax rate used for the 2007 and 2006 reconciliations above is the statutory income tax rate of 30% payable by corporate entities in Tanzania.

The deferred tax overprovision TZS 877M arises from buildings which were not eligible for tax depreciation under the repealed Income Tax Act, 1973 and now qualify for the relief under the new Income Tax Act, 2004.

**5.3 Deferred tax asset relating to subsidiary**

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

(CONTINUED) NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

5 TAXATION (CONTINUED)	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
<b>5.4 Taxation recoverable</b>				
Balance at beginning of year	914	1,834	914	1,834
Income statement charge (note 5.1)	(9,044)	(5,463)	(9,044)	(5,463)
Payments during the year	<u>8,237</u>	<u>4,543</u>	<u>8,237</u>	<u>4,543</u>
Balance at end of year	<u>107</u>	<u>914</u>	<u>107</u>	<u>914</u>

#### 6. EARNINGS PER SHARE

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

	GROUP	
	2007	2006
Profit attributable to ordinary shareholders (TZS M)	<u>24,393</u>	<u>15,641</u>
Weighted average number of ordinary shares in issue (million)	<u>100</u>	<u>100</u>
Earnings per share (TZS)	<u>243.93</u>	<u>156.41</u>

There were no potentially dilutive shares outstanding at 31 December 2007 or 31 December 2006.

7. DIVIDENDS	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
Interim dividend for the year	7,500	5,000	7,500	5,000
Final dividend for the year	7,500	5,000	7,500	5,000
Special dividend	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>-</u>
<b>Total</b>	<u>17,500</u>	<u>10,000</u>	<u>17,500</u>	<u>10,000</u>
Weighted average number of ordinary shares in issue (million)	100	100		
Dividend per share (TZS)	<u>175</u>	<u>100</u>		

The dividend per share has been calculated based on the dividend declared in respect of each financial year. In October 2007, an interim dividend of TZS 7.5 billion was paid (2006: TZS 5.0 billion) was paid. After the year end, the directors have proposed a final gross dividend of TZS 7.5 billion (2006: TZS 5.0 billion). The directors have also proposed special dividend of TZS 2.5 billion (2006: Nil) for the year 2007. The final and special dividends are subject to adoption by shareholders at the Annual General Meeting and, the total gross dividend relating to current year will equal to TZS 17.5 billion.

For purposes of the cash flow statement, the amount of dividends paid during the year has been analysed on note 17.2 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007

8. PROPERTY, PLANT AND EQUIPMENT - GROUP AND COMPANY

	Leasehold property TZS M	Plant and machinery TZS M	Other equipment TZS M	Motor vehicles TZS M	Capital work in progress TZS M	Total TZS M
<b>COST</b>						
At 1 January 2006	12,074	24,195	3,311	4,111	2,229	45,920
Additions	282	8,492	158	1,813	11,178	21,923
Transfers	72	5,047	169	32	(5,320)	-
Disposals	<u>(1,312)</u>	<u>(2,178)</u>	<u>(8)</u>	<u>(137)</u>	<u>(59)</u>	<u>(3,694)</u>
At 31 December 2006	<u>11,116</u>	<u>35,556</u>	<u>3,630</u>	<u>5,819</u>	<u>8,028</u>	<u>64,149</u>
At 1 January 2007	11,116	35,556	3,630	5,819	8,028	64,149
Additions	154	2,134	389	1,162	2,494	6,333
Transfers	67	8,077	-	-	(8,144)	-
Disposals	<u>(15)</u>	<u>(317)</u>	<u>(202)</u>	<u>(929)</u>	<u>-</u>	<u>(1,463)</u>
At 31 December 2007	<u>11,322</u>	<u>45,450</u>	<u>3,817</u>	<u>6,052</u>	<u>2,378</u>	<u>69,019</u>
<b>DEPRECIATION</b>						
At 1 January 2006	2,660	15,805	2,228	2,143	-	22,836
Charge for the year	370	3,149	340	951	-	4,810
Eliminated on disposal	<u>(281)</u>	<u>(2,026)</u>	<u>(6)</u>	<u>(106)</u>	<u>-</u>	<u>(2,418)</u>
At 31 December 2006	<u>2,749</u>	<u>16,928</u>	<u>2,562</u>	<u>2,989</u>	<u>-</u>	<u>25,228</u>
At 1 January 2007	2,749	16,928	2,562	2,989	-	25,228
Charge for the year	398	4,027	325	1,215	-	5,965
Eliminated on disposals	<u>(8)</u>	<u>(233)</u>	<u>(156)</u>	<u>(867)</u>	<u>-</u>	<u>(1,264)</u>
At 31 December 2007	<u>3,139</u>	<u>20,722</u>	<u>2,731</u>	<u>3,337</u>	<u>-</u>	<u>29,929</u>
<b>NET BOOK VALUE</b>						
At 31 December 2007	<u>8,183</u>	<u>24,728</u>	<u>1,086</u>	<u>2,715</u>	<u>2,378</u>	<u>39,090</u>
At 31 December 2006	<u>8,367</u>	<u>18,628</u>	<u>1,068</u>	<u>2,830</u>	<u>8,028</u>	<u>38,921</u>

The capital work in progress represents expenditure incurred in respect of ongoing factory upgrade and is not depreciated until the assets are available for use at which stage they are transferred to the appropriate category and depreciated.

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

(CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

9. INTANGIBLE ASSETS	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
<b>Cost</b>				
As at 1 January	2,646	2,646	2,646	2,646
Addition	-	-	-	-
At 31 December	<u>2,646</u>	<u>2,646</u>	<u>2,646</u>	<u>2,646</u>
<b>Amortisation</b>				
As at 1 January	265	-	265	-
Charge for the year	<u>265</u>	<u>265</u>	<u>265</u>	<u>265</u>
At 31 December	<u>530</u>	<u>265</u>	<u>530</u>	<u>265</u>
Net book value	<u>2,116</u>	<u>2,381</u>	<u>2,116</u>	<u>2,381</u>

The intangible assets relate to cigarette trademarks purchased during the previous financial year.

10. (a) INVESTMENT IN SUBSIDIARY	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
TCC (Kenya) Limited	-	-	534	534
Provision for impairment	-	-	(534)	(534)
Investment in subsidiary	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

10 (b) LOAN RECEIVABLE	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
TCC ESOS	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>

**Loan receivable**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007

11. INVENTORIES	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
Raw materials	18,932	14,735	18,932	14,735
Work in progress	56	93	56	93
Consumable stores	1,596	1,764	1,596	1,764
Goods in transit	4,776	2,759	4,776	2,759
Finished goods	6,253	4,225	6,253	4,225
	31,613	23,576	31,613	23,576
Provision for obsolete inventories	(271)	(337)	(271)	(337)
	<u>31,342</u>	<u>23,239</u>	<u>31,342</u>	<u>23,239</u>
<b>12. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	2,651	2,687	2,651	2,687
Amounts due from related companies	-	15	-	35
Prepayments and other receivables	2,343	2,191	2,368	2,191
	4,994	4,893	5,019	4,913
Provision for doubtful receivables	(621)	(523)	(621)	(523)
	<u>4,373</u>	<u>4,370</u>	<u>4,398</u>	<u>4,390</u>

(CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

13. SHARE CAPITAL – GROUP AND COMPANY	2007 TZS M	2006 TZS M
<b>Authorised:</b>		
125,000,000 Ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
<b>Issued and fully paid:</b>		
100,000,000 Ordinary shares of TZS 20 each	<u>2,000</u>	<u>2,000</u>

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

	2007 Ordinary Shares Million	2006 Ordinary Shares Million	2007 Holding %	2006 Holding %
<b>Resident shareholders:</b>				
General Public	7.8	8.2	7.78	8.20
Public Service Pension Fund	3.9	3.9	3.94	3.94
Parastatal Pension Fund	3.0	3.0	2.95	2.95
National Social Security Fund	4.5	2.9	4.47	2.93
United Republic of Tanzania	2.5	2.5	2.50	2.50
Unit Trust of Tanzania	1.0	2.0	1.05	1.99
Others(below 1%)	2.3	2.5	2.31	2.49
	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>
<b>Non-resident shareholders</b>				
JT International Holding B. V.	75	75	75	75
<b>Total ordinary shares in issue</b>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007

**14. DEFERRED TAXATION**

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

	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
The net deferred tax liability is attributable to the following:				
Accelerated capital allowances	<u>2,894</u>	<u>2,709</u>	<u>2,894</u>	<u>2,709</u>
The movement on the deferred tax account is as follows:				
Balance at beginning of year	2,709	1,453	2,709	1,453
Income statement charge/(credit) - note 5.1	<u>185</u>	<u>1,256</u>	<u>185</u>	<u>1,256</u>
Balance at end of the year	<u>2,894</u>	<u>2,709</u>	<u>2,894</u>	<u>2,709</u>

**15. TRADE AND OTHER PAYABLES**

	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
Trade payables	5,193	6,331	5,193	6,331
Amounts due to related companies	979	1,553	979	1,553
Excise tax and VAT payable	4,823	4,522	4,823	4,522
Dividends payable	89	89	89	89
Other liabilities and accruals	<u>9,350</u>	<u>5,029</u>	<u>8,811</u>	<u>4,490</u>
	<u>20,434</u>	<u>17,524</u>	<u>19,895</u>	<u>16,985</u>

**16. SHORT TERM BORROWINGS**

The short term borrowings relate to facilities from Standard Chartered Bank Limited and Citibank Tanzania Limited.

The facility with Standard Chartered Bank Limited is secured by 100% guarantee from the parent company, Japan Tobacco Inc. for an amount of TZS 5 billion. The facility with Citibank Tanzania Limited is secured by 100% guarantee from the parent company, Japan Tobacco Inc. for an amount of USD 4 million.

The interest charges on the borrowing facilities are based on floating rates and calculated on daily overdrawn balances. The average effective interest rate during the year was 16.65% p.a. ( 2006-12.59% p.a)

(CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 17. NOTES TO THE CASH FLOW STATEMENT

## 17.1 Reconciliation of operating profit to cash generated from operations

	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
Operating profit	33,484	24,296	33,489	24,299
Adjustments for:				
Depreciation and amortization	6,230	5,075	6,230	5,075
Profit on disposal of property, plant and equipment	(202)	(300)	(202)	(300)
Net foreign exchange losses	(44)	(1,670)	(44)	(1,670)
	<u>39,468</u>	<u>27,401</u>	<u>39,473</u>	<u>27,404</u>
Working capital changes:				
Increase in inventories	(8,103)	(5,719)	(8,103)	(5,719)
Movement in related company balances	(559)	-	(539)	-
(Increase)/decrease in trade and other receivables	(18)	3,835	(43)	3,835
Increase in trade and other payables	<u>3,484</u>	<u>2,167</u>	<u>3,484</u>	<u>2,163</u>
Cash generated from operations	<u>34,272</u>	<u>27,684</u>	<u>34,272</u>	<u>27,683</u>

	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
<b>17.2 Dividends paid</b>				
Dividends payable at 1 January	89	115	89	115
Dividends payable in the year	12,500	12,789	12,500	12,789
Dividends payable at 31 December	<u>(89)</u>	<u>(89)</u>	<u>(89)</u>	<u>(89)</u>
Dividends paid in the year	<u>12,500</u>	<u>12,815</u>	<u>12,500</u>	<u>12,815</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007

**18. RELATED PARTY TRANSACTIONS - GROUP AND COMPANY**

**Related companies**

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

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

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

**Contracts with related parties**

A technical and know-how services agreement with JT International Holding BV the parent company, for the provision of technical and know-how services to the company has been in place since 1 January 2000. This agreement expires on 31 December 2007. A new agreement will be put in place effective 1 January 2008. Amounts payable under the agreement are included under purchase of goods and services below. The charge for the year is TZS 4,222 million (2006: TZS 3,122 million).

**Other transactions with related parties**

	2007 TZS M	2006 TZS M
<b>i. Purchase of goods and services</b>		
J. T. International Companies	<u>9,097</u>	<u>16,992</u>
<b>ii. Related party balances</b>		

Outstanding balances with related companies as at the year end are shown on the balance sheet are shown in notes 12 and 15 of these financial statements.

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

Guarantees received from a related company to secure the company's borrowings are disclosed in note 16.

**iii. Compensation of key management personnel**

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

	2007 TZS M	2006 TZS M
Short-term benefits	1,567	1,398
Directors' fees (Non - Executive)	<u>17</u>	<u>17</u>

(CONTINUED) NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

19. CAPITAL COMMITMENTS	GROUP		COMPANY	
	2007 TZS M	2006 TZS M	2007 TZS M	2006 TZS M
Authorised but not contracted for	5	53	5	53
Authorised and contracted for	<u>7,235</u>	<u>3,560</u>	<u>7,235</u>	<u>3,560</u>
	<u>7,240</u>	<u>3,613</u>	<u>7,240</u>	<u>3,613</u>

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

#### 20. CONTINGENT LIABILITIES

The company is currently involved in a number of legal 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.

#### 21. RETIREMENT BENEFITS

All eligible employees of the company are members of the National Social Security Fund of Tanzania (NSSF) or Parastatal Pension Funds (PPF), in which the company contributes 10% and 15% and the employee contributes 10% and 5% respectively every month. Year 2007 contributions to the funds amounted to TZS 790 M (2006: TZS 683 M).

#### 22. RISK MANAGEMENT POLICIES

The group's transactions involve various financial instruments that arise from its operations and from its sources of finance. Various financial assets and liabilities for example trade receivables, trade payables, other payables and provisions, arise directly from the group's operations. Changing market conditions expose the group to various financial risks and have highlighted the importance of financial risk management as an element of control for the group.

Principal financial risks faced in the normal course of the group's business are foreign currency rate risk, interest rates risk, credit risk, price risk and operational risk. The group's financial risk management objectives and policies include the following aspects:

##### Foreign currency risk

The group has various monetary assets and liabilities in currencies other than the company's functional currency and is exposed to the risk that the value of the financial instruments will fluctuate due to changes in foreign currency rates. The foreign exchanges exposures are reviewed and controlled by management on a regular and frequent basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007

**RISK MANAGEMENT POLICIES (CONTINUED)**

**Credit risk**

Exposure to credit risk is managed through regular analysis of the ability of the few credit customers to meet repayment obligations and by taking remedial action where appropriate. The group structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to the customers involved.

**Interest rate risk**

The group is exposed to the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The interest rate on short term borrowings was negotiated with the Standard Chartered Bank Limited and Citibank Tanzania Limited.

**Operational risk**

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

**Capital risk management**

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

The capital structure of the Group consists of debt, which includes the short term borrowings disclosed in note 16 cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 13 and the statement of changes in equity respectively.

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

The Group's overall strategy remains unchanged from 2006.

**23. FAIR VALUE**

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

**24. 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.

**25. INCORPORATION**

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

**26. ULTIMATE PARENT COMPANY**

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

**27. CURRENCY**

The financial statements of the subsidiary company are presented in Kenya Shillings being the functional currency of the primary economic environment in which the entity is incorporated and domiciled. For the purpose of the consolidated financial statements, the results and financial position of the group are presented in millions of Tanzania Shillings (TZS Million), which is the functional currency and the presentation currency for the company.

**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN THAT the 43rd Annual General Meeting of the Members of Tanzania Cigarette Company Limited in respect of the year ended 31st December 2007 will be held at the New Africa Hotel, Dar es Salaam Tanzania, on Friday 4th of April 2008 at 11.00 hours.

**AGENDA:**

1. Confirmation of the Minutes of the previous Annual General Meeting.
2. Matters Arising.
3. Adoption of Accounts:  
To receive, consider and adopt Directors' Report and the Accounts for the Financial Year ended 31st December 2007.
4. To Adopt the Declaration of Dividend.
5. To Appoint the Auditors for the next Financial Year.
6. Resignation and Appointment of Directors.
7. Remuneration of the Directors.
8. Any Other Business.

**NOTES:**

1. A member wishing to attend the meeting must come with a copy of his / her depository receipt or share certificate and his / her identification card.
2. A member entitled to attend and vote at the meeting is entitled to appoint a PROXY to attend and vote in his / her stead in accordance with the provisions of the Company's Articles. A proxy form must be deposited at the Registered Office of the Company so as to arrive not later than 10.00 hours Thursday the 3rd April 2008.

**BY ORDER OF THE BOARD**

Vintan Willgis Mbiro  
COMPANY SECRETARY  
10th March 2008  
Plot No. 20 Nyerere Road  
P.O. Box 40114,  
Dar es Salaam.

PROXY

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

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

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

As my/ our Proxy, to vote for me/ us and on my/ our behalf at the annual general meeting of the company to be held on Friday 4th April 2008, at the The New Africa Hotel, Dar es Salaam, or at any adjournment thereof.

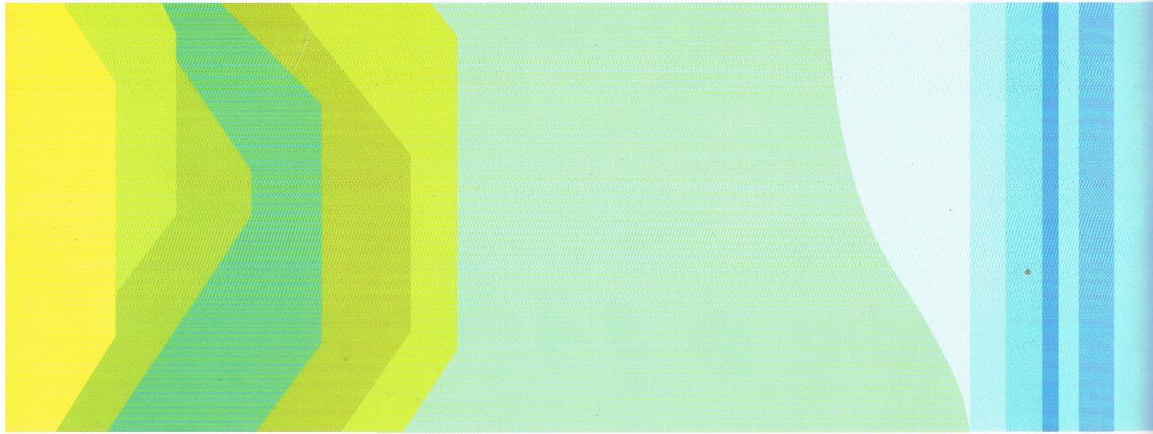
As witness my/ our hand/s this.....Day of.....2008.

.....  
(Signature)

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







**Tanzania Cigarette Company Limited**  
20 Nyerere Road, P.O Box 40114, Dar es Salaam, Tanzania  
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