

Tanzania Cigarette Company Limited (TCC)
Rasilimali ya Tanzania



Annual Report

for the year ended December 31, 2015

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Financial highlights

Financial highlights

Consolidated five year financial summary

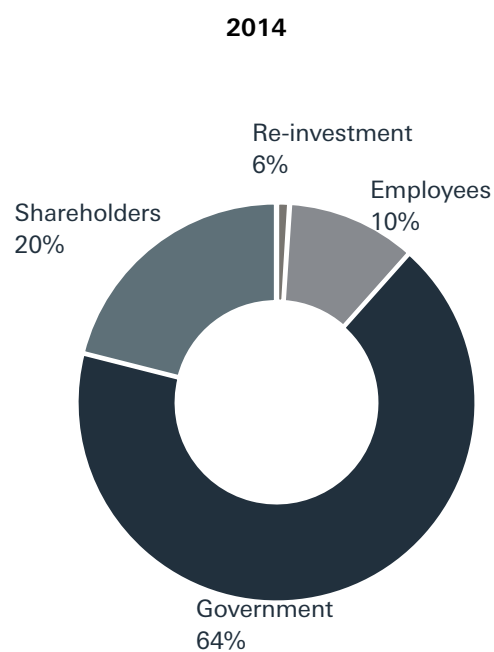
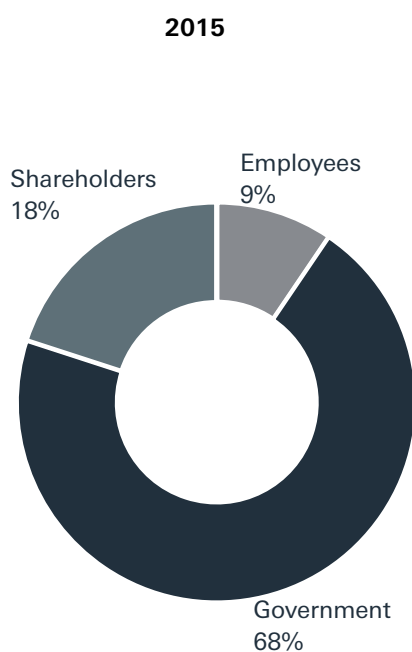
	2011	2012	2013	2014	2015
	TZS M	TZS M	TZS M	TZS M	TZS M
For the year:					
Gross turnover	376,778	422,594	445,633	461,720	496,675
VAT	52,985	58,805	60,450	62,493	64,940
Revenue	323,793	363,789	385,184	399,227	431,735
Excise duty	73,449	82,370	94,582	115,317	131,185
Net sales	250,344	281,419	290,601	283,910	300,550
<hr/>					
EBITDA	108,939	134,028	125,797	109,721	112,840
Depreciation and amortization	10,015	12,683	15,788	14,955	15,710
Gross profit	160,567	187,714	186,610	171,536	178,997
Operating income	98,923	121,345	110,009	94,765	97,130
Net finance (income) expense	(2,452)	(1,201)	(2,128)	(3,495)	(2,263)
Corporate tax	30,433	37,787	34,079	29,661	31,585
Net income	70,942	85,941	78,058	68,600	65,711
<hr/>					
At year end:					
Net property, plant and equipment	93,761	96,527	100,078	94,884	87,474
Total assets	204,616	222,982	248,749	247,258	229,972
Interest bearing debts	-	-	-	-	-
Total liabilities	56,182	50,065	67,980	68,842	55,632
Total shareholders' equity	148,434	172,917	180,769	178,416	174,340
For the year:					
Net cash generated by operating activities	85,638	72,125	105,869	92,754	66,419
Net cash used in investing activities	(33,048)	(15,552)	(19,432)	(9,371)	(7,535)
Net cash used in financing activities	(50,000)	(60,000)	(75,000)	(70,000)	(70,000)
Cash flow for the year	2,590	(3,427)	11,437	13,383	(11,116)
<hr/>					
Dividend per share (TZS)	600	750	750	700	600
Earning per share (TZS)	709	859	781	686	657
Profitability:					
Return on equity	51%	53%	44%	39%	37%
EBITDA margin	44%	48%	43%	39%	38%
Operating income margin	40%	43%	38%	33%	32%
Total assets turnover	1.31	1.32	1.23	1.15	1.26
Stability:					
Current ratio	264%	378%	274%	279%	346%
Debt ratio (total liabilities/total assets)	27%	22%	27%	28%	24%

Financial highlights

Value added

	2015		2014	
	TZS M	%	TZS M	%
Gross turnover	496,675		461,720	
Operating expenditures - suppliers	(162,933)		(139,921)	
Total value added	<u>333,742</u>	100.0	<u>321,799</u>	100.0
Value distributed as follows:				
To employees - remuneration	29,612	8.9	30,773	9.6
To Government - vat, excise duties	196,125	58.8	177,810	55.3
To Government - corporate tax	31,585	9.4	29,661	9.2
To shareholders - dividends	60,000	18.0	65,000	20.2
To Reinvestment:				
Depreciation and amortisation	15,709	4.7	14,955	4.6
Retained income	711	0.2	3,600	1.1
Total distributions	<u>333,742</u>	100.0	<u>321,799</u>	100.0

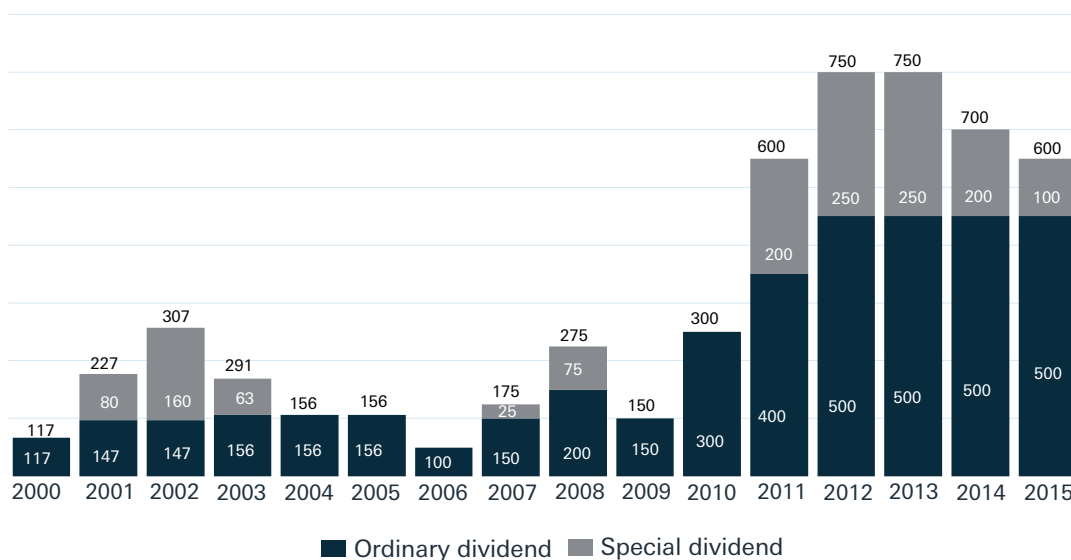
Value distributed (%)



Financial highlights

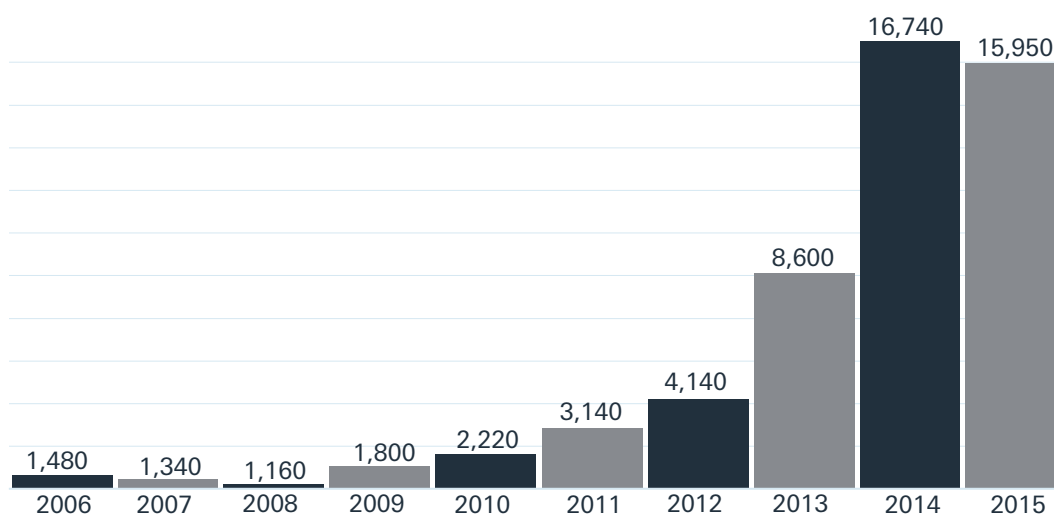
Dividend history

Dividend per share for respective financial year (TZS/share): 2000-2015



Share price evolution

Share price evolution (TZS/share): 2006-2015



Note: As at December 31



TCC at a glance



Our vision and mission

*Our vision is to be the best Company
in East and Central Africa.*

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

TCC at a glance

Our values



Enterprising

We have the courage to do things differently. We work together to achieve our long-term goal. This leads to new ideas resulting in fresh perspectives and innovation. This is 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 the right decisions, earning us the reputation as the trusted voice of authority within our industry.



Challenging

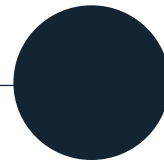
We strive for continuous improvement. This means embedding quality into everything we do and never accepting second best. We set the standards that become benchmarks for the entire industry. This enables us to challenge the status quo and be ahead of the market - a leader not a follower.

TCC at a glance

Our history

2011

Company marks its 50th anniversary



2000

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



1999

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



1995

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



1975

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



1967

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



1961

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





TCC kwa muhtasari



Dhamira na dira yetu

*Kuwa Kampuni bora Afrika
Mashariki na Kati.*

*Tutakuza wingi wa bidhaa huku
tukitetea mgao wetu wa soko,
kuzalisha bidhaa bora na
kuendelea kuwaridhisha
walaji na wateja kwa uwezo wetu
wote, kupitia ubunifu, wafanyakazi
walioshirikishwa, uadilifu na
umahiri katika utendaji.*

TCC kwa muhtasari

Maadili yetu



Ujasiri

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



Uwazi

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



Changamoto

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

TCC kwa muhtasari

Historia yetu

2011

Kampuni iliadhimisha miaka yake 50.

2000

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

1999

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

1995

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

1975

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

1967

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

1961

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





To our stakeholders





Message from
the Chairman

Despite a challenging operating environment, as evidenced by: a weak Shilling against the US Dollar; the growing trade in illicit tobacco products; consumers down trading to lower margin brands; and a more restrictive regulatory environment, we delivered good results for the year ended December 31, 2015.

Results for the year

We grew total volume by 3% (domestic market: +2% and export market: +5%); increased our domestic market share by 0.4% despite growing competition from local and imported products; and managed to reduce the pace of consumer down-trading while up-trading some consumers. In addition, we restructured our organization to become more efficient and effective.

These achievements are reflected in our results for the year. Gross turnover increased by 7.6% on prior year to TZS 496.7 billion. We achieved net sales of TZS 300.6 billion, 5.9% up on prior year. We delivered TZS 179.0 billion in gross profit, an increase of 4.4% year-on-year. And we achieved a profit before tax of TZS 97.3 billion, broadly similar to that in 2014.

Net profit for the year was however 4.2% down on prior year to TZS 65.7 billion due to: the negative impact of foreign exchange rate on our imported raw materials; the one-off costs related to restructuring and the amicable settlement of a legal case.

Excluding the above one-off costs, normal operating expenses declined by 7% on prior year as a result of effective cost management and operational efficiency

Dividends

In view of the above, the Board recommended a final ordinary gross dividend of TZS 200 per share (2014: TZS 250 per share) and a special gross dividend of TZS 100 per share (2014: TZS 150 per share). With the interim dividend of TZS 300 per share paid in November 2015, the total dividend for the year ended December 31, 2015 is TZS 600 per share (2014: TZS 700 per share).

The final gross ordinary and special dividends will be paid on or about April 12, 2016, subject to shareholders' approval at the Annual General Meeting to be held on March 23, 2016.

Prospects for the future

These results indicate that the Company is well positioned for future growth, subject to a more conducive operating environment. In particular: higher rates of economic growth that drive disposable incomes for the majority of the population; a low inflationary environment; a stable Shilling; and a reduction in illicit trade in tobacco products.

Equally important will be a stable and predictable excise tax regime that: promotes domestic value addition of local raw material (Tanzanian tobacco); and reasonable excise tax increases. On this note, I commend the Government for the bold decision not to increase excise tax in July 2015. As we have always stated, we firmly believe that there are other sources of tax revenue the Government can utilize without continuously relying heavily on a few specific products like tobacco.

Conclusion

We re-affirm our commitment to fulfilling and exceeding the expectations of our stakeholders in a balanced manner. We will continue to serve our customers and consumers the best way we can; deliver more value for our shareholders, subject to a favourable business climate; and provide a conducive working environment for our employees to excel. In addition, we will continue to engage policy and decision makers, as well as regulators to improve the business environment; and through our Community Investment Programs, fulfill our social obligation to the communities.

I thank you all for your support to the business in 2015.



Majd Abdou

Chairman and CEO

Ujumbe kutoka kwa Mwenyekiti

Ingawa mazingira ya biashara yalikuwa na changamoto nyingi, zikiwemo: kupungua kwa thamani ya shilingi ya Tanzania dhidi ya Dola ya Marekani; kuongezeka kwa biashara haramu ya bidhaa za tumbaku; walaji kuhamia kununua sigara zenye faida ndogo; na mazingira ya sheria kali zaidi za udhibiti wa tumbaku, tulipata matokeo mazuri kwa mwaka ulioishia Desemba 31, 2015.

Mafanikio kwa mwaka

Mafanikio ya mwaka 2015 ni pamoja na ongezeko la mauzo ya ndani na nje; kupunguza kasi ya wateja kuhama kutoka bidhaa zetu zenye faida kubwa kwenda kwenye bidhaa zenye faida ya wastani; kulinda soko letu licha ya ongezeko la ushindani kutoka bidhaa za ndani na za nje; na vile vile kuongeza ufanisi zaidi katika utendaji kazi.

Mafanikio haya yanathibitishwa na matokeo yetu. Mapato ya jumla yaliongezeka kwa asilimia kumi (10%) ikilinganishwa na mwaka uliopita na kufikia Shilingi bilioni 496.7. Mauzo halisi yalikuwa Shilingi bilioni 300.6, sawa na ongezeko la asilimia tano nukta tisa (5.9%) ikilinganishwa na mwaka uliopita. Faida ya jumla ilikuwa Shilingi 179.0 bilioni, sawa na ongezeko la asilimia nne nukta nne (4.4%) ikilinganishwa na mwaka jana, na faida kabla ya makato ya kodi ilikuwa Shilingi bilioni 97.3, sawa na faida tuliopata mwaka jana.

Hata hivyo, faida halisi kwa mwaka ilipungua kwa asilimia nne nukta mbili (4.2%) ikilinganishwa na mwaka uliopita hadi kufikia Shilingi bilioni 65.7, kutokana na gharama za maramoja kama: kurekebisha mfumo wa kitengo chetu cha mauzo ya nje; suluhu ya mgogoro wa kisheria wa muda mrefu kati ya Kampuni na Tume ya Ushindani wa Biashara; pamoja na kuporomoka kwa thamani ya Shilingi dhidi ya Dola ya Marekani.

Bila gharama hizi, gharama za kawaida za uendeshaji zilipungua kwa asilimia saba (7%) ikilinganishwa na mwaka uliopita. Hii inaashiria kuongezeka kwa ufanisi katika utendaji kazi na matumizi ya fedha.

Gawio

Kwa kuzingatia faida iliyopatikana mwaka wa 2015, Bodi ya Wakurugenzi imependekea gawio la mwisho la jumla

la kawaida la Shilingi 200 kwa hisa (2014: Shilingi 250 kwa hisa) na gawio maalumu la jumla la Shilingi 100 kwa hisa (2014: Shilingi 150 kwa hisa). Ikiongezwa na gawio la kati la Shilingi 300 kwa hisa lililolipwa mwezi Novemba mwaka 2015, jumla ya gawio kwa mwaka ulioishia Desemba 31, 2015 ni Shilingi 600 kwa hisa (2014: Shilingi 700 kwa hisa).

Gawio la mwisho la jumla la kawaida na gawio maalumu litalipwa mnamo Aprili 12 2016, baada ya idhini ya Wanahisa katika Mkutano Mkuu wa Mwaka utakaofanyika Machi 23, 2016.

Matarajio ya baadaye

Matokeo haya yanaashiria fursa ya kufanya vizuri miaka ya mbele. Lakini fursa hii inategema mazingira mazuri ya biashara, hususani: ukuaji wa uchumi na pato la mwananchi wa kawaida kwa kiwango cha juu; kutokuwa na mfumuko mkubwa wa bei; kuimarika kwa Shilingi ya Tanzania; kupungua kwa biashara haramu ya bidhaa za tumbaku; na muhimu zaidi, kutokupanda kwa kasi ushuru wa bidhaa za tumbaku.

Napenda kuipongeza Serikali kwa uamuzi wake thabiti wa kutoongeza ushuru wa bidhaa za tumbaku mwezi Julai, 2015. Kama ambavyo daima tumekuwa tukisema, tunaamini kwa dhati kwamba kuna vyanzo vingine vya kodi ya mapato ambavyo Serikali inaweza kuvitumia bila ya kutegemea sana bidhaa za tumbaku.

Hitimisho

Napenda kuwahakikishia wateja wetu kwamba tutazidi kuwahudumia kwa ubora na ufanisi zaidi. Tutaongeza juhudi kuhakikisha tunakuza biashara yetu kwa manufaa ya wadau wetu wote. Hii itategemea zaidi uwepo wa mazingira mazuri ya biashara na tutazidi kushauriana na Serikali jinsi ya kuboresha mazingira ya biashara. Vile vile tutaendelea kuboresha mazingira ya wafanyakazi wetu ili kuongeza ufanisi zaidi. Pia, tutazidi kutimiza wajibu wetu wa kusaidia jamii kupitia miradi yetu ya jamii.

Nawashukuru wote kwa mchango wenu kwa biashara mwaka 2015.



Majd Abdou
Mwenyekiti na Afisa Mtendaji Mkuu

Directors and management team

Members of the board



Majd Abdou

Mr. Majd Abdou joined TCC on January 20, 2012 as Chairman and CEO. Prior to joining TCC, he was the General Manager for JTI Middle East. He brings to TCC a wealth of experience in sales, 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.



Olivier Chimits - Cazaux

Mr. Olivier is the Chief Financial Officer of JTI Middle East, Near East, Africa and Turkey & World Wide Duty Free Region. He has more than 20 years' experience in the tobacco industry and a wealth of experience in logistics, integration, accounting and finance. Previously, he was the Chief Financial Officer in JTI Egypt and has held various senior finance positions within JTI. Prior to joining JTI, he worked with Serono and Burrus (Rothmans Group) in Switzerland, Sogal in France and Delmas in Senegal. He joined the Board of Directors of TCC in September 01, 2014.



Paul Makanza

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



Members of the board



Dr. Servacius Likwelile

Dr. Servacius Likwelile is the Permanent Secretary to the Treasury, Ministry of Finance and Planning. He represents the Government of Tanzania on the Board of TCC. Dr. Likwelile joined the Board of Directors of TCC in July 2013. He has over 25 years of academic, technical and senior level managerial experience in university, research institutions and Government.



Christo Kruger

Mr. Christo Kruger joined TCC in February, 2012 as Chief Financial Officer and Director of Finance. 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 eight years. Christo was appointed to the TCC Board of Directors on February 10, 2012.



Olivier Blanc

Mr. Olivier Blanc is Regional Counsel for the JTI Middle East, Near East, Africa and Turkey and World Wide Duty Free region. Previously, he was Assistant General Counsel Business Development and Corporate Strategy Director for the region. He has extensive legal experience in commodity trade finance, structured finance, corporate financing, mergers and acquisition and tax. Prior to joining JTI, he worked for BNP Paribas (Suisse) SA, Pestalozzi Lachenal Patry – Attorneys at Law - Geneva and PricewaterhouseCoopers SA, Zurich, Switzerland. He joined the Board of Directors of TCC in 2012.

Directors and Management team

Management team



Majd Abdou
Chairman and CEO



Frank Usiri
Director Company Services



Markus Streit
Head Marketing & Sales



Bony Scheerschmidt
Director Manufacturing



Paul Makanza
Director Corporate Affairs



Moses Gunda
Director Sales



Christo Kruger
CFO & Director Finance



Godson Killiza
Director Legal Affairs



Awaichi Mawalla
Director Marketing



Angela Mangecha
Director Human Resources



Business review

FY 2015 vs FY 2014

Total sales volume

+3.0%
on PY

Revenue

431.7
Billion Tanzanian Shillings

+8.1%
on PY

Net sales

300.6
Billion Tanzanian Shillings

+5.9%
on PY

Gross profit

179.0
Billion Tanzanian Shillings

+4.3%
on PY

Operating expenses

81.7
Billion Tanzanian Shillings

+11.5%
on PY

Profit before tax

97.3
Billion Tanzanian Shillings

-1.0%
on PY

Net profit

65.7
Billion Tanzanian Shillings

-4.2%
on PY



Business review

Our three key commercial objectives in 2015 were: to grow volume and sustain share of market; reduce consumer down trading; and improve operational efficiency and effectiveness. Despite a challenging operating environment, we delivered on these objectives.

Improving product quality

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

We invested in: two new leaf hygiene check chambers; four new fumigation chambers; and approved further investment to extend our storage capacity for finished goods in 2016.

Growing volume

We grew domestic volume by 2% and export volume by 5% over prior year.

In the domestic market, we expanded distribution in Mtwara, Tabora and Mpanda through additional third party distributors; re-launched our dealer motorcycle program with positive results; and introduced Camel Black & White in the premium segment and Portsman mini in the value segment.

However, illicit trade in tobacco products continued to undermine our domestic volume as well as Government tax revenue. To address this problem, we engaged law enforcement officials; and conducted a nation-wide communication campaign to raise consumer awareness. But results to date continue to be limited due to porous borders and weak enforcement of border controls.

Business review

Sustaining share of market

We grew market share by 0.4% in 2015, despite growing competition from domestic manufactured and imported tobacco products.

We implemented a number of communication campaigns at point of sale, whilst strictly adhering to the new, more restrictive tobacco regulations introduced early in the year; Rolled out new thematic campaigns and conducted consumer activations as well as retail uptake promotion to enhance the equity of our brands.

Reducing down-trading

To protect profit margins, we reduced the rate of consumer down-trading in the mid-price segment from 8.5% in 2014 to 7.5% in 2015. We also up traded consumers to the premium price segment by 1.9% points. This was achieved through focused and marketing support behind our brands.

Improving operational efficiency and effectiveness

We restructured our Sales and Marketing Department from three to two sub-functions; partially outsourced distribution to more efficient third party distributors; and rolled out our Trade Marketing Excellence tool in all our branches to improve market insights and operational decisions.

Sustaining profitability

As a result of: volume growth and market share gain; reduced down-trading; pricing; and effective cost management, we delivered TZS 431.7 billion in revenue, up 8.1% on prior year; TZS 300.6 billion in net sales, a 5.6% increase on prior year; and TZS 179.0 billion in gross profit, or a 4.3% increase on the previous year.

Net profit for the year was however down by 4.2% to TZS 65.7 billion compared to TZS 68.6 billion in 2014. This is due to one-off restructuring costs and settlement of a long outstanding legal case.

Business review

Driving employees engagement

These results could not have been achieved without our highly engaged workforce. In a global employee engagement survey (EES) conducted by our parent company in 2015, we scored 86% compared to 80% achieved in the last EES survey in 2012. 95% of our workforce participated in the survey compared to 86% in 2012.

The survey was conducted to gather employees' views on their working environment, the way we do business and the business unit function they belong to. The results of the survey were used to make necessary changes to further enhance employee engagement.

Optimizing our organizational design

In addition to restructuring our Marketing and Sales department, as well as outsourcing distribution to third parties, we closed our export office in Dar es Salaam in early 2015 and re-assigned management responsibilities to our sister Company, JTI South Africa. These initiatives enabled us to reduce head count and improve operational efficiency.

Competitive compensation and benefits

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

In addition to existing benefits, we introduced Group Life Assurance Cover for all employees and concluded with the Employees' Union, a new Voluntary Agreement with improved benefits.

Managing talent

Attracting, retaining and developing the best talent is the single most important strategic priority for the long-term success of the Company. Performance appraisal; training and development; and succession planning are key parts of managing our talent.

In 2015, we invested TZS 1.16bn (2014: TZS 0.67bn) in various functional and soft skills training and development programs in



Business review

and outside Tanzania. We also identified potential candidates internally for future vacancies as part of our succession planning process.

Promoting a safe environment

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

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

In 2015, we achieved a record 1,500 days without a single lost time injury at the work place. This signifies that safety is a well-entrenched culture at TCC. To ensure the safety of our people and assets in case of a fire, we invested in a new state of the art fire-fighting equipment.

Giving back to communities

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

Our programs are focused on three pillars: **People** - poverty alleviation, elderly people , adult education, people with disabilities; **Arts and Culture** - cultural heritage; visual and performing arts; Japanese culture; and **Natural Environment**.

In 2015, we continued to support the Vipaji Foundation, a non-profit organization that promotes local arts and culture in Tanzania; and successfully piloted a poverty alleviation program for over 300 women in the Mwanza Region in partnership with the non-governmental organization, Emerge Poverty Free. This program will be rolled out to other areas in 2016 with our support. We also completed assessment of potential community programs for implementation in 2016.

A dark, textured background, possibly a wet surface, with numerous small water droplets. A coin is visible on the left side, partially obscured by the droplets. The overall tone is monochromatic and moody.

Mapitio ya biashara

2015 kulinganisha na 2014

Jumla ya mauzo		+3.0% Ongezeko
Mapato	431.7 Shilingi bilioni za kitanzania	+8.1% Ongezeko
Mauzo halisi	300.6 Shilingi bilioni za kitanzania	+5.9% Ongezeko
Faida ya jumla	179.0 Shilingi bilioni za kitanzania	+4.3% Ongezeko
Gharama za uendeshaji	81.7 Shilingi bilioni za kitanzania	+11.5% Ongezeko
Faida kabla ya kodi	97.3 Shilingi bilioni za kitanzania	-1.0% Punguzo
Faida halisi	65.7 Shilingi bilioni za kitanzania	-4.2% Punguzo

Mapitio ya biashara

Malengo yetu matatu muhimu ya kibiashara kwa mwaka 2015 yalikuwa: kuongeza mauzo na kudumisha mgao wetu wa soko; kupunguza walaji kuhamia kununua sigara zetu zenye faida ndogo; na kuboresha ufanisi na umadhubuti wa uendeshaji. Licha ya changamoto za mazingira ya uendeshaji, tulifanikiwa kutekeleza malengo haya.

Kuongeza ubora wa bidhaa

Ili kuhakikisha kwamba bidhaa zetu zinazofikia wateja wetu ni zile tu zinazotimiza masharti na viwango thabiti vya ubora, tulitekeleza mipango mingi ya kuongeza ubora katika hatua zote za upataji malighafi, utengenezaji, uhifadhi, usambazaji na huduma kwa wateja.

Tumewekeza katika chemba mbili mpya za kukagua usafi wa majani ya tumbaku, chemba nne mpya za ufukizaji na kuidhinisha uwekezaji zaidi kupanua uwezo wetu wa kuhifadhi sigara katika mwaka 2016.

Kuongeza mauzo

Tumeongeza jumla ya mauzo ya soko la ndani kwa asilimia mbili (2%) na soko la nje kwa asilimia tatu (3%) mwaka uliopita.

Katika soko la ndani, tumepanua usambazaji wa sigara katika miji ya Mtwara, Tabora na Mpanda kwa kuongeza mawakala wa usambazaji; tumefufua programu ya pikipiki kwa mawakala wetu na kuleta mafanikio makubwa; na kuingiza sokoni Camel Black na White katika bidhaa zetu za kundi la juu kabisa na Portsman ndogo katika bidhaa zetu za kundi la thamani.

Hata hivyo, biashara haramu ya bidhaa za tumbaku imeendelea kuathiri mauzo ya soko la ndani pamoja na mapato ya kodi ya Serikali. Kukabiliana na tatizo hili, tuliwashirikisha maafisa wa utekelezaji sheria na tumeendesha kampeni ya mawasiliano nchini kote kuwaongezea walaji utambuzi na ufahamu zaidi. Hata hivyo matokeo hadi sasa yanaendelea kuwa madogo kutokana na mipaka ya nchi inayopitisha bidhaa za magendo na udhaifu katika udhibiti mipakani.



Mapitio ya biashara

Kudumisha mgao wa soko

Tuliongeza mgao wa soko kwa alama ya asilimia sifuri nukta nne (0.4%) mwaka 2015, licha ya ushindani kutoka kwa bidhaa za tumbaku zinazotengenezwa nchini na zinazoagizwa kutoka nchi za nje.

Tumetekeleza kampeni nyingi mahali pa mauzo, wakati huo huo tukifuata kanuni mpya, zenye kudhibiti zaidi sigara zilizoanzishwa mapema mwaka huu; tulianzisha kampeni mpya na tulifanya uhamasishaji wa walaji pamoja na uendelezaji wa mauzo ya rejareja, kuzidisha usawa wa bidhaa zetu.

Kupunguza walaji kuhamia kununua sigara zetu zenye faida ndogo

Ili kulinda kiwango cha faida, tulipunguza kiwango cha walaji kuhamia kununua sigara zetu zenye faida ndogo katika sigara za kundi la bei ya kati kutoka alama ya asilimia nane nukta tano (8.5%) mwaka 2014 hadi alama ya asilimia saba nukta tano (7.5%) mwaka 2015. Pia tuliongeza wateja waliohamia kununua bidhaa zetu za kundi la juu kwa alama ya 1.9%. Mafanikio haya yalipatikana kutokana na umakini na msaada makini wa bidhaa zetu kutoka masoko.

Kuboresha ufanisi na umadhubuti wa uendeshaji

Tumerekebisha muundo wa Idara yetu ya Mauzo na Masoko kutoka kuwa na mihimili mitatu hadi miwili; tulitumia mawakala wa usambazaji wenye ufanisi mzuri zaidi kwa wakati na muda walipoweza kupatikana. Aidha tulianzisha chombo chetu cha umahiri katika Biashara na Masoko kwenye ofisi zetu zote za mikoani ili kuboresha utambuzi wa soko na maamuzi ya uendeshaji.

Kuendeleza faida

Kutokana na: kuongezeka kwa mauzo na faida za kuongezeka kwa mgao wa soko; kupungua kwa walaji kuhamia kununua bidhaa zetu zenye faida ndogo; upangaji bei; na usimamizi bora wa gharama, tulipata mapato ya Shilingi bilioni 431.7, ongezeko la asilimia nane nukta moja (8.1%) ikilinganishwa na mwaka uliopita, Shilingi bilioni 300.6 za mapato halisi, ongezeko la asilimia tano nukta sita (5.6%) ikilinganishwa na mwaka uliopita, na Shilingi bilioni 179.0 za faida ya jumla, au ongezeko la asilimia nne nukta tatu (4.3%) ikilinganishwa na mwaka uliopita.

Hata hivyo, faida halisi kwa mwaka ilipungua kwa asilimia nne nukta mbili (4.2%) hadi Shilingi bilioni 65.7% ikilinganishwa na Shilingi bilioni 68.6 ya mwaka 2014. Hii

Mapitio ya biashara

za marekebisho na suluhu ya kesi ya muda mrefu dhidi ya Kampuni ilipungua kwa asilimia nne nukta mbili (4.2%) hadi Shilingi bilioni 65.7 ikilinganishwa na Shilingi bilioni 68.6 ya mwaka 2014. Hii inatokana na gharama za maramoja za marekebisho na suluhu ya kesi ya muda mrefu dhidi ya Kampuni.

Kuzidisha ushirikishaji wafanyakazi

Matokeo haya yasingepatikana bila ya wafanyakazi wetu walioshirikishwa kwa ukamilifu. Katika utafiti wa kimataifa wa ushirikishaji wafanyakazi (EES) uliofanywa na kampuni yetu mama mwaka 2015, tulipata asilimia themanini na sita (86%) ikilinganishwa na asilimia themanini (80%) tuliyopata kwenye utafiti wa EES wa mwaka 2012. Asilimia tisini na tano (95%) ya wafanyakazi wetu walishiriki kwenye utafiti, ikilinganishwa na asilimia themanini na sita (86%) ya utafiti wa mwaka uliopita.

Utafiti ulifanywa ili kupata maoni ya wafanyakazi kuhusu mazingira yao ya kazi, namna tunavyoendesha biashara na kitengo cha biashara wanachofanyia kazi. Matokeo ya utafiti yalitumika kufanya mabadiliko muhimu palipohitajika ili kuzidi kuongeza ushirikishaji wafanyakazi.

Kuongeza muundo wetu wa uendeshaji

Zaidi ya kurekebisha muundo wa Idara ya Masoko na Mauzo, pamoja na kutumia mawakala katika usambazaji, tulifunga ofisi yetu ya mauzo ya nje ya nchi ya Dar es Salaam mapema mwaka 2015 na kugawa majukumu yetu ya usimamizi kwa kampuni yetu nyingine ya JTI Afrika Kusini. Jitihada hizi zilituwezesha kupunguza idadi ya wafanyakazi na kuboresha ufanisi wa uendeshaji.

Faida na mafao yenye ushindani

Sehemu muhimu ya mafanikio yetu ipo kwenye uwezo wetu wa kuwavutia na kuwabakisha kwenye ajira wafanyakazi wenye hamasa ya kazi na wenye kuleta tija. Mfumo wa fidia wa Kampuni unatoa mchango muhimu katika kusaidia lengo hili. Mfumo huu umekusudiwa kutuza malengo ya Kampuni na kuhakikisha kuwa Kampuni inalipa kiushindani. Mbinu ya fidia ya kampuni ni kulipa kutokana na utendaji.

Mbali na mafao yaliyopo, tulianzisha bima maalum inayoitwa Group Life Assurance Cover kwa wafanyakazi wote na



Mapitio ya biashara

pia tulihitimisha kusaini Mkataba Mpya wa Hiari na Chama cha wafanyakazi wenye mafao yaliyo boreshwa zaidi.

Kusimamia vipaji

Kuvutia, kubakisha kwenye ajira na kuendeleza vipaji bora zaidi ni kipaumbele cha kimkakati kimoja kilicho muhimu kabisa kwa mafanikio ya muda mrefu ya Kampuni. Upimaji wa utendaji wa mfanyakazi, mafunzo na maendeleo, na mpango wa kurithishana kazi kujiandaa kuziba nafasi ni sehemu muhimu za kusimamia vipaji vyetu.

Mwaka 2015, tuliwekeza Shilingi bilioni 1.16 (2014 Shilingi bilioni 0.67) katika mipango mbalimbali ya mafunzo ya stadi za kazi na za ujuzi mwingine ndani na nje ya Tanzania. Pia tulitambua wafanyakazi wenye uwezo wa kupokea nafasi za kazi za juu ya walipo sasa kwa siku zijazo kama sehemu ya mchakato wetu wa mpango wa kurithishana kazi na kujiandaa kuziba nafasi.

Kuhimiza mazingira salama

Tunaamini kwamba, usimamizi madhubuti wa afya na usalama kazini ni zaidi ya kufuata na kuzingatia sheria za udhibiti. Viwango vya kampuni yetu vya Afya, Mazingira na Usalama (EHS),

mara nyingi vinazidi masharti ya kisheria na uwigo wetu hauishii kwa wafanyakazi wetu tu bali unawajumuisha makandarasi na wageni wanaotembelea shughuli zetu.

Wafanyakazi wote wanatarajiwa kukamilisha mafunzo ya Afya na Usalama yanayohitajika pamoja na kuzingatia taratibu za Kampuni za Mazingira, Afya na Usalama na desturi ya kufanya kazi kwa usalama. Vilevile, wafanyakazi wanatakiwa watoe taarifa ya hali zisizokuwa salama, ajali, matukio ya nusura ya ajali na tabia isiyokuwa salama.

Mwaka 2015, tumefikia rekodi ya siku 1,500 bila ya ajali hata moja ya kupoteza muda wa kazi. Hii inamaanisha kuwa usalama ni utamaduni uliojengeka vizuri ndani ya Kampuni. Kuhakikisha usalama wa watu wetu na mali endapo moto utatokea, tumewekeza katika vifaa vipya vya kuzima moto.

Kurudisha fadhila kwa jamii

Tunatambua kwamba biashara inaweza kustawi tu, ndani ya jamii yenye uwazi na haki. Ndiyo maana tunazidi kuwekeza katika jamii kwa hiari na nje kabisa ya shughuli zetu za biashara ya msingi. Lengo letu ni kuboresha maisha na ubora wa jamii tunakoendesha shughuli zetu



Mapitio ya biashara

kwa kufanya programu za muda mrefu zenye matokeo bora.

Programu zetu zipo katika mihimili mitatu. **Watu** - kupunguza umaskini, wazee, elimu ya watu wazima, watu wenye ulemavu. **Sanaa na Utamaduni** – urithi wa utamaduni; sanaa za maigizo na maonyesho; Utamaduni wa Kijapan; na **Mazingira Asilia**.

Mwaka 2015, tuliendelea kufadhili shirika lisilo la kibiashara linalokuza utamaduni na sanaa za wasanii wa Tanzania, Vipaji Foundation; na tulifanikiwa kufanya majaribio na programu ya kupunguza umaskini kwa wanawake 300 wa Mkoa wa Mwanza kwa kushirikiana na Asasi isiyo ya Kiserikali, Emerge Poverty Free. Programu hii pia itaanzishwa kwenye maeneo mengine mwaka 2016 kwa ufadhili wetu. Pia tulitathmini miradi mingine ya jamii kwa ajili ya utekelezaji mwaka 2016.



*Tanzania Cigarette
Company Limited
Reports and
Financial
Statements
31 December 2015*



Financial information

Corporate information

Directors and advisers

Directors

Mr. Majd Abdou (Chairman and CEO)
Dr. Servacius Likwelile*
Mr. Olivier Blanc*
Mr. Olivier Chimits Cazaux*
Mr. Paul Makanza
Mr. Christo Kruger
(Resigned on 30 January 2016)
Mr. Joshua Folkerth
(Appointed on 23 February 2016)
Mr. David Thorn
(Resigned on 22 January 2015)

* **Non-executive Directors**

Shareholding structure

Shareholder

JT International Holding B. V.
General Public
Parastatal Pension Fund
United Republic of Tanzania
Public Service Pension Fund
The Local Authorities Provident Fund
Neon Liberty Emerging Markets Fund LP
Government Employees Provident Fund
Trustees of the TCC Employees
Share Option Scheme
Alliance Insurance Corporation Limited

Total

*Holding***

75.0%
16.5%
3.0%
2.2%
1.0%
0.6%
0.6%
0.5%
0.3%
0.3%

100%

Principal bankers

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

Shareholder classification

Local
Foreign

Total

*Holding***

24.40%
75.60%

100.00%

**Based on share register as at 31 December 2015

Secretary, registered office

and principal place of business Auditors

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

Deloitte and Touche
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 2015

The Directors present their annual report and the audited financial statements, of Tanzania Cigarette Company Limited (the "Company") for the year ended December 31, 2015, which disclose the Company's state of affairs.

Incorporation

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

Vision, Mission and Values

TCC's vision is to be the best Company in East Africa. Its Mission is to grow volume and profit while defending market share by delivering quality brands and maximizing consumer and customer satisfaction through innovation, employees' engagement, integrity and excellence in execution.

Our core values are:

- Enterprising: - We have the courage to do things differently. We work together to achieve our long-term goal. This leads to new ideas resulting in fresh perspectives and innovation. This is 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 the right decisions, earning us the reputation as the trusted voice of authority within our industry.
- Challenging: - We strive for continuous improvement. This means embedding quality into everything we do and never accepting second best. We set the standards that become benchmarks for the entire industry. This enables us to challenge the status quo and be ahead of the market - a leader not a follower.

Principal activities

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

Report of the Directors

for the year ended 31 December 2015 (continued)

Capital structure and shareholders

The company's capital structure is as follows:

		2015 TZS M	2014 TZS M
Authorised (Ordinary shares)	125,000,000 Ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid up (Ordinary shares)	100,000,000 Ordinary shares of TZS 20 each	<u>2,000</u>	<u>2,000</u>

The Company's shareholding structure as at 31 December 2015 is shown in page 1.

Japan Tobacco International HBV (JTI) is the majority shareholder in TCC, owning 75% of the issued and paid up ordinary shares (75m shares). Local institutions, the general public and other foreign investors own the remaining 25% (25m shares). The Directors of the Company do not hold any material interest in the issued share capital of the Company.

Stakeholders' relations

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

Report of the Directors

for the year ended 31 December 2015 (continued)

Corporate governance

Board of Directors

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

Key responsibilities of the Board include: identifying and mitigating risks; ensuring effective policies, procedures and internal controls are in place; ensuring compliance with sound corporate governance principles; approving and monitoring investment as well as other significant business decision; and reviewing the performance of management business plans and budgets. Details of the members of the Board of Directors who served during the year under review are set out below.

Name	Position	Qualification	Nationality	Age	Appointed / Resigned	Date Appointed/ Resigned
Majd Abdou	Chairman & CEO	Master in Finance, B.Sc Mathematics	Canadian	50	Appointed	20 January 2012
Dr. Servacius Likwelile	Director (Non-executive)	Ph.D. (Econ.), M.A. (Econ.), B.A. (Econ.)	Tanzanian	57	Appointed	24 September 2013
Olivier Blanc	Director (Non-executive)	Law Degree, LL.M, Bar	Swiss	40	Appointed	27 June 2012
Olivier Chimits Cazaux	Director (Non-executive)	B.A. Bordeaux Management School	French	52	Appointed	1 September 2014

Report of the Directors

for the year ended 31 December 2015 (continued)

Corporate governance (continued)

Name	Position	Qualification	Nationality	Age	Appointed / Resigned	Date Appointed/ Resigned
Paul Makanza	Director (Executive)	B.Com, MBA	Tanzanian	48	Appointed	4 January 2005
Christo Kruger	Director (Executive)	CA (South Africa)	South African	46	Resigned	30 January 2016
Joshua Folkert	Director (Executive)	Master in Accounting	American	37	Appointed	23 February 2016
David Thorn	Director (Executive)	B.A (Hons) Economics A.C.A	British	55	Resigned	22 January 2015

Management team

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

HODs report to the CEO, with the exception of HOD Manufacturing. In addition, all HODs have dotted reporting lines to their Regional Functional Heads at Weybridge, UK or Geneva, Switzerland. Details of the Senior Management team are provided below.

Department	Head of department	Qualification	Nationality
Chief Executive Officer	Majd Abdou	Master in Finance, B.Sc Mathematics	Canadian
Manufacturing	Bony Scheerschmidt	Dipl.-Ing.(FH)	German

Report of the Directors

for the year ended 31 December 2015 (continued)

Corporate governance (continued)

Department	Head of department	Qualification	Nationality
Marketing & Sales	Markus Streit	BA Biology; MBA	Swiss
Finance and IT	Christo Kruger	CA (SA)	South African
Human Resource	Angela Mangecha	BA (Human Resources); MBA	Tanzanian
Legal Affairs	Godson Killiza	LLB	Tanzanian
Corporate Affairs	Paul Makanza	B.Com; MBA (Finance)	Tanzanian
Company Services	Frank Usiri	BA Civil Eng. MA Civil Eng.	Tanzanian

Key policies and procedures

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

The JTI CoC sets out ethical business conduct and behaviors expected of all employees in the course of conducting business. Employees can also raise concerns on suspected violation of the CoC through their supervisors or anonymously via a Reporting Concern Mechanism (RCM).

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

Report of the Directors

for the year ended 31 December 2015 (continued)

Corporate governance (continued)

Key policies and procedures (continued)

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

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

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

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

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

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

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



Report of the Directors

for the year ended 31 December 2015 (continued)

Corporate governance (continued)

Key policies and procedures (continued)

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

Risk management and internal controls

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

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

Internal audit: There is an Internal Audit Department which reports to the Chairman of the Board. The Chairman approves its charter; annual audit plan; monitors execution of audits; evaluates audit findings, recommendations and implementation of recommendations by Management.

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

Ultimate responsibility for managing risks and ensuring appropriate and effective internal control systems are in place lies with the Board. The Board assessed the internal control systems throughout the financial year ended December 31, 2015 and is of the opinion that they met accepted criteria.

Report of the Directors

for the year ended 31 December 2015 (continued)

Employee welfare

Industrial relations

As at December 31, 2015, the Company had 475 employees. Female employees constituted 20% of the total workforce.

Gender	2015	2014
Male	379	434
Female	96	101
	<u>475</u>	<u>535</u>

Management, employees and the Employees Union (TUICO) enjoyed positive relations in 2015. There were no industrial actions or major labour cases during the year.

Management and the Employees Union concluded a new Voluntary Agreement (VA) in December 2015. The new VA is for a period of four years, effective January 2016.

Talent management

Attracting, retaining and developing the best talent is the single most important strategic priority for the long-term success of the Company.

Performance appraisal is a key part of all Human Resource processes to enhance employees' performance and is conducted twice a year between an employee and his immediate supervisor.

There are a number of training and development programs offered to address specific training and development needs identified in the performance appraisal. These include functional and soft skills offered by various JTI Academies overseas as well as other local and international institutions. During the year, the Company invested TZS 1.16bn (2014: TZS 0.67bn) in training and development of its employees.



Report of the Directors

for the year ended 31 December 2015 (continued)

Employee welfare (continued)

Talent management (continued)

The Company also has a structured and proactive process of succession planning, whereby potential candidates internally are identified for future vacancies. Succession planning applies equally to all employees and aims to ensure that the right person to fill the right position at the right time is available.

Compensation and benefits

A key part of the Company's success lies in its ability to attract and retain highly motivated and productive employees. The Company's compensation system plays an important role in supporting this objective and is designed to: reward contributions to the company's objectives; ensure that the Company pays competitively with the pay practices of selected companies in Tanzania requiring employees with similar skills, competencies and attitudes as those sought by TCC. The Company uses Pay for Performance approach.

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

Persons with disabilities

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

Political and charitable donations

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

Report of the Directors

for the year ended 31 December 2015 (continued)

Principal risks and uncertainties

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

Fraud risk

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

Operational risk

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

Financial risk

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

Stock exchange information

In 2000, the Company was listed on the Dar es Salaam Stock Exchange at an initial public offering (IPO) price of TZS 410 per share. The performance of the company's shares in the secondary market as measured by market capitalization as at 31 December 2015 was TZS 1,595 billion (2014: TZS 1,674 billion).



Report of the Directors

for the year ended 31 December 2015 (continued)

Related party transactions and balances

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

Performance for the year

Despite a challenging operating environment, as evidenced by: a weak Shilling against the US Dollar; the growing trade in illicit tobacco products; consumers down trading to lower margin brands; and a more restrictive regulatory environment, the Company delivered good results for the year ended December 31, 2015.

The Company grew volume in the domestic and export market after a period of stagnation; sustained domestic market share despite growing competition from local and imported products; and reduced consumer down-trading and up traded some consumers. In addition, the Company was restructured to become more efficient and effective.

These achievements are reflected in the results for the year. Gross turnover increased 7.6% on prior year to TZS 496.7 billion. The Company achieved net sales of TZS 300.6 billion, 5.9% up on prior year. Gross profit delivered was TZS 179.0 billion, an increase of 4.4% year-on-year. Profit before tax achieved was TZS 97.3 billion, broadly similar to that in 2014.

Net profit for the year was however, 4.2% down on prior year to TZS 65.7 billion, due to one-off costs related to: restructuring of our export division; an amicable settlement of a long running legal dispute between the Company and the Fair Competition Commission; as well as foreign exchange losses on imported raw materials.

Excluding the above one-off costs, normal operating expenses declined by 7 on prior year as a result of effective cost management and operational efficiency.

Tax compliance and rewards

The Company was fully tax compliant in 2015. The Company understands its obligation to comply with the country's tax laws and thus always promotes high degree of tax compliance and pays all relevant taxes as specified by such tax laws to the Tanzania Revenue Authority.

Report of the Directors

for the year ended 31 December 2015 (continued)

Dividend

During the year, the Directors declared for 2014, a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2014: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 15 billion or TZS 150 per share (2014: TZS 25 billion or TZS 250 per share). Later in the year, the Directors declared for 2014, an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in November 2015 (2014: TZS 25 billion or TZS 250 per share).

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2014: TZS 25 billion or TZS 250 per share) and a special gross dividend of TZS 10 billion or TZS 100 per share (2014: TZS 15 billion or TZS 150 per share). The final ordinary and special dividends are subject to adoption by shareholders at the Annual General Meeting.

The total gross dividend paid in the current year was TZS 70 billion or TZS 700 per share (2014: TZS 70 billion or TZS 700 per share).

Business environment

The business environment is constantly evolving due to changes in the economic and regulatory environments, as well as the competitive landscape. Management therefore continuously monitors and anticipates developments that affect the business in order to proactively address them. Management expects the business environment to remain challenging in 2016, but are well-prepared to face the challenges ahead.

Future development plans

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

Report of the Directors

for the year ended 31 December 2015 (continued)

Cash flow projection

The company's cash projections indicate that future cash flows will mostly be generated by operations. TZS 133 billion is planned to be generated for the 2016 financial year. This will be used to fund operations and capital investments as well as providing returns to shareholders. Capital investments over the medium term of TZS 24.0 billion are planned, focused on investments in production capacity and product quality (TZS 8.5 billion), improvements in safety and security (TZS 1.3 billion), employees housing facilities, canteen facilities and infrastructure (TZS 9.7 billion), IT related project (TZS 1.3 billion) and distribution fleet and infrastructure rejuvenation (TZS 3.2 billion).

Resources

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

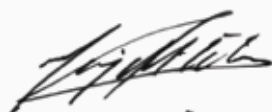
Solvency

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Auditors

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

Approved and authorized for issue by the Board of Directors on 12 March 2016 and signed on its behalf by:



Mr. Majd Abdou
Chairman

Statement of Directors' responsibilities

The Tanzanian Companies Act 2002 (the "Act") requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs and its operating results for that year. The Act also requires the Directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time, the financial position of the company. They are also responsible for safeguarding the assets of the Company.

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

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of 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

23 February 2016



Independent Auditors' Report

*to the members of Tanzania Cigarette Company
Limited*

Report on the financial statements

We have audited the accompanying financial statements of Tanzania Cigarette Company Limited, set out on pages 38 to 105 which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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 about 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.

Independent Auditors’ Report

*to the members of Tanzania Cigarette Company
Limited (continued)*

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 2015 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 accounts have been kept by the company, so far as appears from our examination of those books; and
- iii) the company’s statement of financial position (balance sheet) and the statement of profit or loss and other comprehensive income are in agreement with the books of accounts.

Deloitte & Touche
Certified Public Accountants (Tanzania)



Signed by: D. C. Nchimbi

23 February 2016

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2015

	Notes	2015 TZS M	2014 TZS M
Gross turnover		496,675	461,720
- VAT		<u>(64,940)</u>	<u>(62,493)</u>
Revenue	5	431,735	399,227
- Excise duty		<u>(131,185)</u>	<u>(115,317)</u>
Net sales		300,550	283,910
Cost of sales	6	<u>(121,553)</u>	<u>(112,374)</u>
Gross profit	5	178,997	171,536
Marketing, selling and distribution expenses		(37,204)	(37,962)
Administration expenses		(38,167)	(38,825)
Other expenses		(11,197)	(3,820)
Other gains		1,005	4,618
Interest income		3,942	2,756
Interest expense		<u>(80)</u>	<u>(42)</u>
Profit before tax	7	97,296	98,261
Income tax expense	8(a)	<u>(31,585)</u>	<u>(29,661)</u>
Profit for the year		65,711	68,600
Other comprehensive income/(loss)			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
- Defined benefit actuarial gain/(loss)	25	304	(1,361)
- Tax relating to components of other comprehensive income	8	<u>(91)</u>	<u>408</u>
		<u>213</u>	<u>(953)</u>
Total comprehensive income		<u>65,924</u>	<u>67,647</u>
Earnings per share:			
Basic and diluted (TZS per share)	9	<u>657</u>	<u>686</u>

Statement of financial position

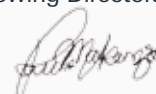
as at 31 December 2015

	Notes	2015 TZS M	2014 TZS M
Assets			
Non-current assets			
Property, plant and equipment	11	87,474	94,884
Intangible assets	12	-	264
Investment in subsidiary	13	-	-
Total non-current assets		87,474	95,148
Current assets			
Inventories	14	90,034	90,283
Trade and other receivables	15	8,357	6,604
Cash and bank balances	16	44,107	55,223
Total current assets		142,498	152,110
Total assets		229,972	247,258
Equity and liabilities			
Capital and reserves			
Share capital	17	2,000	2,000
Defined benefit reserve		1,281	1,068
Retained earnings		171,059	175,348
Shareholders' funds		174,340	178,416
Non-current liabilities			
Deferred tax liability	18	5,300	6,750
Defined benefit obligation	25	9,147	7,653
Total non-current liabilities		14,447	14,403
Current liabilities			
Trade and other payables	19	37,207	50,967
Income tax payable	8(d)	3,978	3,472
Total current liabilities		41,185	54,439
Total liabilities		55,632	68,842
Total equity and liabilities		229,972	247,258

The financial statements on pages 56 to 104 were approved and authorized for issue by the Board of Directors on 23 February 2016 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 2015

	Notes	Share capital TZS M	Defined benefit reserve TZS M	Retained earnings TZS M	Total TZS M
At 1 January 2014		<u>2,000</u>	<u>2,021</u>	<u>176,748</u>	<u>180,769</u>
Profit for the year		-	-	68,600	68,600
Other comprehensive income		-	(953)	-	(953)
Total Comprehensive income		<u>-</u>	<u>(953)</u>	<u>68,600</u>	<u>67,647</u>
Dividend paid (2013 final and 2014 interim)	10	-	-	(70,000)	(70,000)
Balance at 31 December 2014		<u>2,000</u>	<u>1,068</u>	<u>175,348</u>	<u>178,416</u>
At 1 January 2015		<u>2,000</u>	<u>1,068</u>	<u>175,348</u>	<u>178,416</u>
Profit for the year		-	-	65,711	65,711
Other comprehensive income		-	213	-	213
Total Comprehensive income		<u>-</u>	<u>213</u>	<u>65,711</u>	<u>65,924</u>
Dividend paid (2014 final and 2015 interim)	10	-	-	(70,000)	(70,000)
Balance at 31 December 2015		<u>2,000</u>	<u>1,281</u>	<u>171,059</u>	<u>174,340</u>

Statement of cash flows

for the year ended 31 December 2015

	Notes	2015 TZS M	2014 TZS M
Profit before tax		97,296	98,261
<i>Adjustments for:</i>			
Depreciation and amortization		15,709	14,955
Defined benefit expense		1,933	631
Interest expense		80	42
Interest income		(3,942)	(2,756)
Gain on disposal of property, plant and equipment		(500)	(126)
		110,576	111,007
<i>Working capital changes:</i>			
Decrease in inventories		249	2,098
Movement in related party balances		484	(1,890)
(Increase)/decrease in trade and other receivables		(1,061)	6,716
(Decrease)/increase in trade and other payables		(14,936)	581
Cash flows from operating activities		95,312	118,512
Defined benefit paid	25	(135)	(507)
Interest received		3,942	2,756
Interest paid		(80)	(42)
Income tax paid	8 (d)	(32,620)	(27,965)
Net cash generated from operating activities		66,419	92,754
Cash flows from investing activities:			
Purchase of property, plant and equipment	11	(8,361)	(9,536)
Proceeds from disposal of property, plant and equipment		826	165
Net cash used in investing activities		(7,535)	(9,371)
Cash flows from financing activities:			
Dividends paid to owners of the Company	10	(70,000)	(70,000)
Net cash used in financing activities		(70,000)	(70,000)
Net (decrease)/increase in cash and cash equivalents		(11,116)	13,383
Cash and cash equivalents at the beginning of the year		55,223	41,840
Cash and cash equivalents at the end of the year		44,107	55,223
Represented by:			
Cash and bank balances	16	44,107	55,223

Notes to the financial statements

for the year ended 31 December 2015

1. General information

Tanzania Cigarette Company Limited (The Company) is a limited liability 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 1 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 2015

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

Investment Entities
(Amendments to IFRS 10,
IFRS 12 and IAS 27)

Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 2 Separate Financial Statements to:

- provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement.
- require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries.
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

The application of these amendments did not have any impact on the Company's financial statements as the Company is not an investment entity.

Amendments to IAS 32
Offsetting Financial Assets
and Financial Liabilities the

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The application of these amendments to IAS 32 did not have impact on the Company's financial statements as the Company did not have such financial assets or liabilities to offset

Notes to the financial statements

for the year ended 31 December 2015 (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 2015 (continued)

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) Amendments to IAS 19 Employee Benefits clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contribution, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

The application of these amendments to IAS 19 did not have any impact on the Company's financial statements as the Company does not have defined benefit plans to which employees contribute.

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle made amendments to the following standards:

- IFRS 2 - Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition';
- IFRS 3 - Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date;
- IFRS 8 - Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifies reconciliations of segment assets only required if segment assets are reported regularly;
- IFRS 13 - Clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only);
- IAS 16 and IAS 38 - Clarifies that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount;
- IAS 24 - Clarifies how payments to entities providing management services are to be disclosed.

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

Notes to the financial statements

for the year ended 31 December 2015 (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 2015 (continued)

- Annual Improvements 2011-2013 Cycle**
- IFRS 1 - Clarifies which versions of IFRSs can be used on initial adoption (amends basis for conclusions only);
 - IFRS 3 - Clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself;
 - IFRS 5 – Clarifies changes in methods of disposal of non-current assets held for sale and discontinued operations;
 - IFRS 7 and 34 – Applicability of the amendments to IFRS 7 to condensed interim financial statements as well as disclosure of information “elsewhere in the interim financial report;
 - IFRS 13 - Clarify the scope of the portfolio exception in paragraph 52;
 - IAS 1 – Additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirement of IAS 1.
 - IAS 40 - Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

The application of these amendments did not have an impact on the Company’s financial statements as they were not applicable the company.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

b) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015

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

	Effective for accounting periods beginning on or after
IFRS 9, Financial Instruments	1 January 2018
IFRS 14, Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
FRS 16 Leases	1 January 2019
Disclosure Initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015

IFRS 9 Financial Instruments (2014)

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

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

IFRS 9 is effective for accounting periods beginning on or after 1 January 2016.

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 is applicable to entities whose first annual IFRS financial statements are for a period beginning on or after 1 January 2016.

The standard does not have impact on the financial statements of the Company as the Company is not a first time IFRS adopter.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015 (continued)

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

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

IFRS 15 is effective for accounting periods beginning on or after 1 January 2017 and is not expected to have significant impact on the financial statements.

IFRS 16 Leases

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

IFRS 16 is effective for accounting periods beginning on or after 1 January 2019 and is not expected to have significant impact on the financial statements.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

These amend IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The amendments are effective for accounting periods beginning on or after 1 January 2014.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015 (continued)

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (continued)

The Directors of the Company do not anticipate that the application of these amendments to IAS 39 will have a significant impact on the Company's financial statements as the Company does not have any hedges.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

Amendments to IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

The amendments are effective for accounting periods beginning on or after 1 January 2016.

The Directors of the Company do not anticipate that the application of these amendments to IFRS 11 will have a significant impact on the Company's financial statements as the Company does not have interests in joint ventures.

Disclosure Initiative (Amendments to IAS 7)

Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments are effective for accounting periods beginning on or after 1 January 2017 and the Directors do not anticipate that its adoption will result into material impact on the financial statements.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Amends IAS 12 Income Taxes to clarify the following aspects:

Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits.

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

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

The amendments are effective for accounting periods beginning on or after 1 January 2017 and the Directors do not anticipate that its adoption will result into material impact on the financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

These amend IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment.
- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The amendments are effective for accounting periods beginning on or after 1 January 2016.

The Directors of the Company do not anticipate that the application of these amendments to IASs 16 and 38 will have a significant impact on the Company's financial statements as the Company's selection of depreciation method is not based on its revenues.



Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015 (continued)

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)

These amend IAS 16 Property, Plant and Equipment and IAS 41 Agriculture to:

- include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16.
- introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
- clarify that produce growing on bearer plants remains within the scope of IAS 41.

The amendments are effective for accounting periods beginning on or after 1 January 2016.

The Directors of the Company do not anticipate that the application of these amendments to IASs 16 and 41 will have a significant impact on the Company's financial statements as the Company does not deal in agriculture.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

The amendments are effective for accounting periods beginning on or after 1 January 2016.

The Directors of the Company do not anticipate that the application of these amendments to IAS 27 will not have a significant impact on the Company's financial statements as the Company does not have investment in subsidiaries, joint ventures and associates.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015 (continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

The amendments are effective for accounting periods beginning on or after 1 January 2016.

The Directors of the Company do not anticipate that the application of these amendments to IAS 27 will have a significant impact on the Company's financial statements as the Company does not have investment in joint ventures and associates.

d) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year ended 31 December 2015.

Notes to the financial statements

for the year ended 31 December 2015 (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 profit or loss and other comprehensive income.

Basis of preparation

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

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 2015 (continued)

3. Significant accounting policies (continued)

Foreign currency translation

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

The retirement benefits obligation recognized in the statement of financial position represents the present value of the defined benefits obligation as adjusted for actuarial gains and losses. The present value of the defined benefits 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 2015 (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 is arrived at after taking into consideration relevant provisions of IAS 12 and the Income Tax Act of 2004 together with its subsequent amendments through the Finance Acts as enacted by the Parliament of United Republic of Tanzania (URT).

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

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 2015 (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, in the event that VAT incurred on a purchase of assets or services is not claimable as input VAT as provided in the VAT Act, 2014 together with its subsequent amendments and regulations, the VAT is recognized as part of cost of acquisition of the assets or part of the expense item as appropriate.

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

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

Excise duty

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

- Cigarettes without filter tip and containing domestic tobacco exceeding 75% is TZS 11,289 per 1,000 cigarettes (2014: TZS 11,289).
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 26,689 per 1,000 cigarettes (2014: TZS 26,689).
- Other cigarettes not mentioned in first and second bullet above is TZS 48,285 per 1,000 cigarettes (2014: TZS 48,285).

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

Investment in Subsidiary Company

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

Notes to the financial statements

for the year ended 31 December 2015 (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 2015 (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 recognized as an expense in the period incurred. Minor plant and equipment items are also recognized 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 amortization and accumulated impairment losses, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized 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 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 2015 (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 end of reporting period, are not recognized as liabilities.

Financial instruments

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

Initial recognition

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

Effective interest rate method

The effective interest method is a method of calculating the amortized 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.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit and loss (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 recognized and derecognized 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 recognized and derecognized on trade-date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

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

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

Trade and other receivables

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

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

Cash and cash equivalents

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

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

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

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

De-recognition of financial assets

The Company derecognizes 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 recognizes 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 recognize the financial asset and also recognizes a collateralized 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 recognize under continuing involvement, and the part it no longer recognizes 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 recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

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

The Company's principal financial liabilities are trade and other payables (Value Added 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 recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of profit or loss and other comprehensive income.

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

Other financial liabilities

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

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

De-recognition of financial liabilities

The Company de-recognizes 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-recognized and the consideration paid and payable is recognized in profit or loss.

Offset

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

4. Critical accounting judgements and key sources of estimation uncertainties

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

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

Provisions

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

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

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

Impairment provision

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

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

Property, plant and equipment

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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

Provisions for pending litigations

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

Defined benefit plan

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

Taxation

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

5. Operating segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The Company has two operating segments namely domestic and export markets. The domestic market has reported revenue from both external customers and intersegment sales or transfers of 84 per cent (2014: 87 per cent) of the combined revenue of all operating segments, thus qualifying as reportable segment. The absolute measure of its reported profit or loss is more than 92 per cent in absolute amount, of the combined reported profit or loss of all operating segments.

Management monitors the operating results of business segments separately for the purpose of performance assessment and decision making on resource allocation. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. No operating segments have been aggregated to form the above reportable operating segments.

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

5. Operating segments (continued)

Export markets include Democratic Republic of Congo, Mozambique and Zambia. Export markets reported revenue of 16 per cent of the combined revenue (2014: 13 per cent).

Information about transactions with major customers

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

	2015 TZS M	2014 TZS M
Revenue from top ten customers	<u>96,436</u>	<u>74,558</u>

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

Segment revenues and results

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

	Segment revenue		Segment gross profit	
	2015 TZS M	2014 TZS M	2015 TZS M	2014 TZS M
Domestic Market	360,779	347,507	167,736	163,094
Export Market	70,956	51,720	11,261	8,442
	<u>431,735</u>	<u>399,227</u>	<u>178,997</u>	<u>171,536</u>
Marketing , Selling & Distribution expenses:				
- Export market			(3,310)	(4,782)
- Domestic market			(33,894)	(33,180)
General & Administration costs			(38,167)	(38,825)
Other expenses			(11,197)	(3,820)
Other gains			1,005	4,618
Interest income			3,942	2,756
Interest expense			(80)	(42)
Profit before tax			<u>97,296</u>	<u>98,261</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

5. Operating segments (continued)

	2015 TZS M	2014 TZS M
Segment assets		
Property, plant and equipment	87,474	94,884
Intangible assets	<u>-</u>	<u>264</u>
Total segment non-current assets	<u>87,474</u>	<u>95,148</u>
Inventories	90,034	90,283
Trade and other receivables	8,357	6,604
Cash and cash equivalents	<u>44,107</u>	<u>55,223</u>
Total segment current assets	<u>142,498</u>	<u>152,110</u>
Consolidated assets	<u>229,972</u>	<u>247,258</u>
Segment liabilities		
Deferred tax liability	5,300	6,750
Defined benefit obligation	<u>9,147</u>	<u>7,653</u>
Total segment non-current liabilities	<u>14,447</u>	<u>14,403</u>
Trade and other payables	37,207	50,967
Taxation Payable	<u>3,978</u>	<u>3,472</u>
Total segment current liabilities	<u>41,185</u>	<u>54,439</u>
Consolidated liabilities	<u>55,632</u>	<u>68,842</u>

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

5. Operating segments (continued)

Other segment information

	Depreciation and amortization		Additions to non-current assets	
	2015 TZS M	2014 TZS M	2015 TZS M	2014 TZS M
Leasehold property	1,084	941	1,389	1,744
Plant and machinery	10,372	9,831	1,762	1,458
Other equipment	1,406	1,154	1,037	1,721
Motor vehicles	2,583	2,765	1,339	3,586
Capital work in progress	-	-	2,834	1,027
Intangible assets	264	264	-	-
Total	15,709	14,955	8,361	9,536

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

	2015 TZS M	2014 TZS M
Embassy	47,800	36,247
Club	79,902	59,691
Portsman	99,268	114,392
Sweet Menthol	63,078	77,842
Safari	56,225	45,995
Others	14,506	13,340
	360,779	347,507
6. Cost of sales		
Direct costs	86,544	78,958
Indirect costs	35,009	33,416
	121,553	112,374

Notes to the financial statements

for the year ended 31 December 2015 (continued)

7. Profit before taxation

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

	2015	2014
	TZS M	TZS M
Directors' emoluments	4,628	5,557
Depreciation and amortization	15,709	14,955
Technical and management service fees	14,201	11,930
Auditor's remuneration:		
- Audit fees	195	195
Donations	278	286
Gain on disposal of property, plant and equipment	(500)	(126)
Foreign exchange loss/(gain)	1,599	(781)
Other gains and losses:		
Restructuring costs	4,748	2,119
Insurance proceeds	<u>(141)</u>	<u>(3,569)</u>
Employee benefits:		
Short term benefits:		
- Salaries	18,195	19,611
- Bonus	2,281	2,103
- Fringe	4,083	4,513
- Vacation	1,636	1,485
- Other	1,158	671
Long term benefits:		
- Defined benefit obligation	1,933	631
- NSSF and PPF contributions	<u>1,668</u>	<u>1,759</u>
Total employee benefits	<u>30,954</u>	<u>30,773</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

8. Income tax

(a) Income tax expense

	2015 TZS M	2014 TZS M
Current taxation - Current year at 30%	32,432	30,159
- Prior year under provision	694	6
	<u>33,126</u>	<u>30,165</u>
Deferred taxation - Current year credit	(1,679)	(504)
- prior year under provision	138	-
	<u>(1,541)</u>	<u>(504)</u>
Total income tax charge to profit and loss	<u>31,585</u>	<u>29,661</u>

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

(b) Reconciliation of accounting profit to tax charge

	2015 TZS M	2014 TZS M
Accounting profit before taxation	<u>97,296</u>	<u>98,261</u>
Tax charge at 30%	29,189	29,478
Income subject to lower rate of tax or not subject to tax	(113)	(4)
Disallowable expenditure	1,677	181
Current tax of prior years	694	6
Deferred tax adjustment - prior years	138	-
Taxation charge	<u>31,585</u>	<u>29,661</u>

(c) Income tax in other comprehensive income

Deferred tax charge/(credit) - Defined benefit plan actuarial gain/(loss)	<u>91</u>	<u>(408)</u>
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(d) Taxation payable

At beginning of the year	3,472	1,272
Charge for the year (Note 8(a))	33,126	30,165
Corporation tax paid	<u>(32,620)</u>	<u>(27,965)</u>
Balance at end of year	<u>3,978</u>	<u>3,472</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

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.

	2015	2014
Profit attributable to ordinary shareholders (TZS M)	<u>65,711</u>	<u>68,600</u>
Weighted average number of ordinary shares in issue (million)	<u>100</u>	<u>100</u>
Earnings per share (TZS)	<u>657</u>	<u>686</u>

There were no potential dilutive shares outstanding at 31 December 2015 and at 31 December 2014.

10. Dividends

	2015	2014
Prior year final dividend (TZS M)	40,000	45,000
Current year interim dividend (TZS M)	<u>30,000</u>	<u>25,000</u>
Total (TZS M)	<u>70,000</u>	<u>70,000</u>
Number of ordinary shares in issue (million)	<u>100</u>	<u>100</u>
Dividend per share (TZS)	<u>700</u>	<u>700</u>

During the year, the Directors declared for 2014, a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2014: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 15 billion or TZS 150 per share (2014: TZS 25 billion or TZS 250 per share). Later in the year, the Directors declared for 2015, an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in November 2015 (2014: TZS 25 billion or TZS 250 per share).

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2014: TZS 25 billion or TZS 250 per share) and a special gross dividend of TZS 10 billion or TZS 100 per share (2014: TZS 15 billion or TZS 150 per share). The final ordinary and special dividends are subject to adoption by shareholders at the Annual General Meeting.

The total gross dividend paid in the current year was TZS 70 billion or TZS 700 per share (2014: TZS 70 billion or TZS 700 per share).

11. Property, plant and equipment

	2015 TZS M	2014 TZS M
Cost	173,139	167,953
Accumulated depreciation	<u>(85,665)</u>	<u>(73,069)</u>
	<u>87,474</u>	<u>94,884</u>
Leasehold property	27,423	26,878
Plant and machinery	48,508	57,313
Other equipment	4,568	4,936
Motor vehicles	4,467	5,590
Capital work in progress	<u>2,508</u>	<u>167</u>
	<u>87,474</u>	<u>94,884</u>

No assets were pledged as security at year end or during the year under review (2014: None).

Notes to the financial statements

for the year ended 31 December 2015 (continued)

11. Property, plant and equipment (continued)

	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
Cost						
At 1 January 2014	32,613	110,409	7,903	14,138	857	165,920
Additions	1,744	1,458	1,721	3,586	1,027	9,536
Transfers	348	1,109	212	48	(1,717)	-
Disposals	-	(6,655)	(103)	(745)	-	(7,503)
At 31 December 2014	34,705	106,321	9,733	17,027	167	167,953
Additions	1,389	1,762	1,037	1,339	2,834	8,361
Transfers	240	54	12	187	(493)	-
Disposals	-	(455)	(273)	(2,447)	-	(3,175)
At 31 December 2015	36,334	107,682	10,509	16,106	2,508	173,139
Accumulated depreciation						
At 1 January 2014	6,886	45,823	3,746	9,387	-	65,842
Charge for the year	941	9,831	1,154	2,765	-	14,691
Disposals	-	(6,646)	(103)	(715)	-	(7,464)
At 31 December 2014	7,827	49,008	4,797	11,437	-	73,069
Charge for the year	1,084	10,372	1,406	2,583	-	15,445
Disposals	-	(206)	(262)	(2,381)	-	(2,849)
At 31 December 2015	8,911	59,174	5,941	11,639	-	85,665
Net book value						
At 31 December 2015	<u>27,423</u>	<u>48,508</u>	<u>4,568</u>	<u>4,467</u>	<u>2,508</u>	<u>87,474</u>
At 31 December 2014	<u>26,878</u>	<u>57,313</u>	<u>4,936</u>	<u>5,590</u>	<u>167</u>	<u>94,884</u>

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

Included in property, plant and equipment are assets with an original cost of TZS 9,680 million (2014: TZS 8,365 million) which are fully depreciated and whose normal depreciation charge for the year would have been TZS 2,953 million (2014: TZS 2,331 million). There were no idle assets included in property, plant and equipment.

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

12. Intangible assets

	2015 TZS M	2014 TZS M
Cost	<u>2,646</u>	<u>2,646</u>
Amortization		
At beginning of the year	2,382	2,118
Charge for the year	<u>264</u>	<u>264</u>
At end of the year	<u>2,646</u>	<u>2,382</u>
Net book value	<u><u>-</u></u>	<u><u>264</u></u>

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

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

13. Investment in subsidiary

TCC (Kenya) Limited	534	534
Allowance for impairment	<u>(534)</u>	<u>(534)</u>
	<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 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 on 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 4 of IFRS 10, Consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

14. Inventories

	2015 TZS M	2014 TZS M
Raw materials	72,294	61,799
Work in progress	273	232
Consumable stores	3,426	4,521
Goods in transit	1,113	6,443
Finished goods	<u>13,548</u>	<u>17,724</u>
	90,654	90,719
Allowance for obsolete materials	<u>(620)</u>	<u>(436)</u>
	<u>90,034</u>	<u>90,283</u>
Inventories carried at net realizable value below cost	<u>-</u>	<u>-</u>

No inventory has been pledged as collateral for liabilities and all inventory is carried at cost which represents the carrying amount.

15. Trade and other receivables

	2015 TZS M	2014 TZS M
Trade receivables	5,468	4,740
Amounts due from related companies (Note 21)	<u>1,788</u>	<u>1,096</u>
Prepayments and other receivables	2,303	1,879
	9,559	7,715
Allowance for doubtful receivables	<u>(1,202)</u>	<u>(1,111)</u>
	<u>8,357</u>	<u>6,604</u>
Movement in the allowance for doubtful debts:		
At the beginning of the year	1,111	978
Amounts recovered during the year	(99)	(103)
Increase in allowance during the year	<u>190</u>	<u>236</u>
At the end of the year	<u>1,202</u>	<u>1,111</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

16. Cash and bank balances

	2015 TZS M	2014 TZS M
Cash in hand	9	2
Bank balances	44,098	55,221
	<u>44,107</u>	<u>55,223</u>

No amount of cash and bank balances held are unavailable for use by the Company.

17. Share capital

Authorized:

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

100,000,000 Ordinary shares of TZS. 20 each	<u>2,000</u>	<u>2,000</u>
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There were no movements in the share capital of the Company during the year. The Company has one class of ordinary shares, which carries no fixed right to income. The ownership structure of the Company is as set out below:

	2015 Ordinary Shares Million	2014 Ordinary Shares Million
Resident shareholders:		
General public	16.5	15.6
Parastatal Pension Fund	3.0	3.0
United Republic of Tanzania	2.2	2.5
Public Service Pension Fund	1.0	2.3
The Local Authorities Provident Fund	0.6	0.6
Government Employees Provident Fund	0.5	0.2
Trustees of the TCC Employees Share Option Scheme	0.3	0.3
Alliance Insurance Corporation Limited	0.3	0.3
National Social Security Fund	-	0.2
	<u>24.4</u>	<u>25.0</u>
Non-resident shareholders:		
JT International Holding B.V.	75.0	75.0
Neon Liberty Emerging Markets Fund	0.6	-
	<u>75.6</u>	<u>75.0</u>
Total ordinary shares in issue	<u>100.0</u>	<u>100.0</u>

Notes to the financial statements

for the year ended 31 December 2015 (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%.

	2015 TZS M	2014 TZS M
The net deferred tax liability is attributable to the following:		
Accelerated capital allowances	9,976	11,026
Provisions	(1,932)	(1,980)
Defined benefit obligation provision	<u>(2,744)</u>	<u>(2,296)</u>
	<u>5,300</u>	<u>6,750</u>

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	11,026	(1,050)	-	9,976
- Provisions	(1,980)	48	-	(1,932)
- Defined benefit obligation	<u>(2,296)</u>	<u>(539)</u>	<u>91</u>	<u>(2,744)</u>
	<u>6,750</u>	<u>(1,541)</u>	<u>91</u>	<u>5,300</u>

19. Trade and other payables

	2015 TZS M	2014 TZS M
Trade payables	4,057	18,839
Amounts due to related companies (Note 21)	2,688	1,512
Excise tax and VAT payable	9,764	12,642
Other liabilities and accruals	14,862	12,393
Provisions (Note 20)	<u>5,836</u>	<u>5,581</u>
	<u>37,207</u>	<u>50,967</u>

20. Provisions

	2015 TZS M	2014 TZS M
Bonus provision	4,336	4,288
Provision for leave pay	<u>1,500</u>	<u>1,293</u>
	<u>5,836</u>	<u>5,581</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

20. Provisions (continued)

	Opening balance TZS M	Utilized/ reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	4,288	4,288	(4,336)	4,336
Provision for leave pay	<u>1,293</u>	<u>1,026</u>	<u>(1,233)</u>	<u>1,500</u>
	<u>5,581</u>	<u>5,314</u>	<u>(5,569)</u>	<u>5,836</u>

21. Related party transactions and balances

Related companies

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

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

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

Contracts with related parties

The Company has agreements with JT International SA and JT International Holding B.V for provision of managerial, technical and administrative services since 1 January 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 14,201 million (2014: TZS 11,930 million).

Other transactions with related parties

i. Purchase and sales of goods and services

	2015 TZS M	2014 TZS M
Purchases from JT International Companies	<u>53,955</u>	<u>42,465</u>
Sales to JT International Companies	<u>849</u>	<u>4,379</u>

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.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

21. Related party transactions and balances (continued)

iii. Compensation of key management personnel

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

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

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

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

	2015 TZS M	2014 TZS M
Key management remuneration	4,615	5,533
Non-executive Directors emoluments	<u>13</u>	<u>24</u>

22. Commitments

i. Capital commitments

Authorized but not contracted for	15,549	5,683
Authorized and contracted for	<u>3,512</u>	<u>3,302</u>
	<u>19,061</u>	<u>8,985</u>

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

ii. Other commitments

As at 31 December 2015 the Company had a commitment for purchase of leaf totaling TZS 12,297 million (2014: TZS 19,605 million).

23. Contingent liabilities

During the reporting period, the petition by Fair Competition Commission (FCC) against the Company was amicably settled out of court.

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

24. Bank overdraft and other facilities

The Company had an overdraft facility with Standard Chartered Bank (Tanzania) Limited up to a limit of TZS 3,000,000,000 in order to meet its working capital requirements. The facility is secured by a guarantee from the ultimate parent company Japan Tobacco Inc. The effective interest rate for the facility is the 91 Days Treasury Bills plus 2.7% p.a. and is charged on daily overdrawn amount and repayable monthly (minimum price floor of 6%). As at 31 December 2015 and the date of this report, there were no drawdowns made by the Company on this facility (2014: NIL).

The Company also operates a Manufacture under Bond (MUB) facility under which export goods are produced. The facility enables the Company to import raw materials for export manufacture duty free. The facility is guaranteed by Japan Tobacco International S.A. through Citibank Tanzania. The bond is limited to TZS 7,000,000,000 with the interest charged at 0.8% p.a.

Subsequent to the year end the MUB facility will be transferred to Standard Chartered Bank effective 1st April 2016. The bond will be limited to TZS 7,000,000,000 with interest charged at 0.7% p.a.

25. Retirement benefits

Statutory retirement benefits

The Company has an obligation to make statutory contributions for retirement benefits of its employees. All eligible employees of the Company are members of the National Social Security Fund of Tanzania (NSSF) or Parastatal Pension Funds (PPF), to which the Company contributes 10% and 15% and the employee contributes 10% and 5% of the gross salaries respectively every month. During the year ended 31 December 2015, the Company's contributions to the funds amounted to TZS 1,668 million (2014: TZS 1,759 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 2015 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:

	2015	2014
	Percentage	Percentage
Discount rate	17.60	16.50
Salary inflation	11.00	10.50
Cost of living increase	<u>8.00</u>	<u>7.50</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

25. Retirement benefits (continued)

Amount recognized in statement of profit or loss and other comprehensive income in respect of this defined benefit obligation:	2015 TZS M	2014 TZS M
- Current service cost	591	366
- Past service cost	-	(762)
- Interest cost	1,342	1,027
- Actuarial (gain)/loss recognized in Other comprehensive income	(304)	1,361
Net cost for the year	<u>1,629</u>	<u>1,992</u>

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

	2015 TZS M	2014 TZS M
Opening defined benefit obligation	7,653	6,168
Current service cost	591	366
Past service cost	-	(762)
Interest cost	1,342	1,027
Actuarial (gain)/loss recognized	(304)	1,361
Benefits paid	(135)	(507)
Closing defined benefit obligation	<u>9,147</u>	<u>7,653</u>

Sensitivities

Salary rate sensitivity	Central Scenario 11.00% TZS M	0.5% Increase 11.50% TZS M	0.5% Decrease 10.50% TZS M
Defined Benefit Obligation	9,147	9,503	8,630
Gross service costs excluding interest	659	697	623
Expense / net interest cost	1,669	1,754	1,587
% change in Defined Benefit Obligation		3.89%	(5.65%)
% change in Gross service costs		5.77%	(5.46%)
% change in Expense / net interest cost		<u>5.09%</u>	<u>(4.91%)</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

25. Retirement benefits (continued)

Sensitivities (continued)

Discount rate sensitivity	Central Scenario	0.5% Increase	0.5% Decrease
	17.60%	18.10%	17.10%
	TZS M	TZS M	TZS M
Defined Benefit Obligation	9,147	8,728	9,438
Gross service costs excluding interest	659	631	692
Expense / net interest cost	1,669	1,652	1,692
% change in Defined Benefit Obligation		(4.58%)	3.18%
% change in Gross service costs		(4.25%)	5.01%
% change in Expense / net interest cost		<u>(1.02%)</u>	<u>1.38%</u>

26. Operating lease arrangements

Operating leases relate to leases for motor vehicles and buildings with lease a 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:-

	2015	2014
	TZS M	TZS M
Buildings	678	1,038
Motor vehicles	<u>73</u>	<u>82</u>
	<u>751</u>	<u>1,120</u>

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 maintain a disciplined and constructive control environment, in which all employees and stakeholders understand their roles and obligations.

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

Notes to the financial statements

for the year ended 31 December 2015 (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 2015 without taking account of the value of any collateral obtained was:

	Fully performing TZS M	Past due TZS M	Impaired TZS M	Total TZS M
Trade receivables	4,266	-	1,202	5,468
Amounts due from related companies	1,788	-	-	1,788
Bank balances	44,098	-	-	44,098
Total credit exposure	<u>50,152</u>	<u>-</u>	<u>1,202</u>	<u>51,354</u>

The amount that best represents the Company's maximum exposure to credit risk as at 31 December 2014 without taking account of the value of any collateral obtained was:

Trade receivables	3,629	-	1,111	4,740
Amounts due from related companies	1,096	-	-	1,096
Bank balances	55,221	-	-	55,221
Total credit exposure	<u>59,946</u>	<u>-</u>	<u>1,111</u>	<u>61,057</u>

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:

	2015 TZS M	2014 TZS M
At the beginning of the year	(1,111)	(978)
Amounts recovered during the year	99	103
Increase in allowance during the year	(190)	(236)
At the end of the year	<u>(1,202)</u>	<u>(1,111)</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

27. Financial risk management objectives and policies (continued)

Credit risk management (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 2015 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	<u>6,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,745</u>

Maturity analysis for financial liabilities as at 31 December 2014 showing the remaining contractual maturities:

Trade payables	<u>11,902</u>	<u>8,449</u>	<u>-</u>	<u>-</u>	<u>20,351</u>
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Maturity analysis for financial assets as at 31 December 2015 showing the remaining contractual maturities:

Trade receivables	2,792	2,676	-	-	5,468
Cash and bank balances	<u>44,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,107</u>
Total	<u>46,899</u>	<u>2,676</u>	<u>-</u>	<u>-</u>	<u>49,575</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

27. Financial risk management objectives and policies (continued)

Liquidity risk management (Continued)

Maturity analysis for financial assets as at 31 December 2014 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	3,830	910	-	-	4,740
Cash and bank balances	<u>55,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,223</u>
Total	<u>59,053</u>	<u>910</u>	<u>-</u>	<u>-</u>	<u>59,963</u>

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 3,942 million (2014: TZS 2,756 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 2015, 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 189 million (2014: TZS 618 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 are as follows:

	2015 TZS M	2014 TZS M
Trade and other receivables	5,889	2,153
Trade and other payables	<u>(1,768)</u>	<u>(16,084)</u>
Open position	<u>4,121</u>	<u>(13,931)</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization

As at 31 December 2015	Loans and receivables TZS M	Financial Liabilities carried at amortized Costs TZS M	Non financial liabilities or assets TZS	Equity TZS M	Total TZS M
Assets					
Non-current assets					
Property, plant and equipment	-	-	87,474	-	87,474
Current assets					
Inventories	-	-	90,034	-	90,034
Trade and other receivables	6,054	-	2,303	-	8,357
Cash and bank balances	<u>44,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,107</u>
Total assets	<u>50,161</u>	<u>-</u>	<u>179,811</u>	<u>-</u>	<u>229,972</u>
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	171,059	171,059
Defined benefit actuarial losses	-	-	-	1,281	1,281
Non-current liabilities					
Deferred tax liability	-	-	5,300	-	5,300
Defined benefit plan	-	-	9,147	-	9,147
Current liabilities					
Trade and other payables	-	21,607	15,600	-	37,207
Taxation Payable	-	-	3,978	-	3,978
	<u>-</u>	<u>21,607</u>	<u>34,025</u>	<u>174,340</u>	<u>229,972</u>

Notes to the financial statements

for the year ended 31 December 2015 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization (continued)

As at 31 December 2014	Loans and receivables TZS M	Financial Liabilities carried at amortized Costs TZS M	Non financial liabilities or assets TZS	Equity TZS M	Total TZS M
Assets					
Non-current assets					
Property, plant and equipment	-	-	94,884	-	94,884
Intangible assets	-	-	264	-	264
Current assets					
Inventories	-	-	90,283	-	90,283
Trade and other receivables	4,725	-	1,879	-	6,604
Cash and bank balances	55,223	-	-	-	55,223
Total assets	59,948	-	187,310	-	247,258
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	175,348	175,348
Defined benefit actuarial losses	-	-	-	1,068	1,068
Non-current liabilities					
Deferred tax liability	-	-	6,750	-	6,750
Defined benefit plan	-	-	7,653	-	7,653
Current liabilities					
Trade and other payables	-	32,744	18,223	-	50,967
Taxation Payable	-	-	3,472	-	3,472
	-	32,744	36,098	178,416	247,258

Notes to the financial statements

for the year ended 31 December 2015 (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 2014.

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

	2015	2014
	TZS M	TZS M
Share capital	2,000	2,000
Defined benefit actuarial gains	1,281	1,068
Retained earnings	<u>171,059</u>	<u>175,348</u>
Equity	<u>174,340</u>	<u>178,416</u>

As at 31 December 2015 the Company was not financed by any debt (2014: NIL).

29. Fair value measurement

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

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

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

Notes to the financial statements

for the year ended 31 December 2015 (continued)

29. Fair value measurement (continued)

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

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

The Company had no financial assets or financial liabilities that are measured at fair value on recurring basis at 31 December 2015 (2014: none).

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

The following table analyses within the fair value hierarchy the Company's financial assets and financial liabilities (by class) not measured at fair value at 31 December 2015 but for which fair value is disclosed:

Fair value hierarchy at 31 December 2015

	Level 1 TZS M	Level 2 TZS M	Level 3 TZS M	Total TZS M
Financial assets:				
Trade and other receivables	-	7,256	-	7,256
Cash and bank balances	44,107	-	-	44,107
Total	44,107	7,256	-	51,363
Financial liabilities:				
Trade and other payables	-	6,745	-	6,745
Total	-	6,745	-	6,745

The assets and liabilities included in the above table are carried at amortized cost. 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.

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term investments in an active market.

Trade and other receivables include the contractual amounts for settlement of trades and other obligations due to the Company. Trade and other payables represent the contractual amounts and obligations due by the Company for settlement of trades and expenses.

Notes to the financial statements

for the year ended 31 December 2015 (continued)

29. Fair value measurement (continued)

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

The following table analyses within the fair value hierarchy the Company's financial assets and financial liabilities (by class) not measured at fair value at 31 December 2014 but for which fair value is disclosed:

Fair value hierarchy at 31 December 2014

	Level 1 TZS M	Level 2 TZS M	Level 3 TZS M	Total TZS M
Financial assets:				
Trade and other receivables	-	5,836	-	5,836
Cash and bank balances	55,223	-	-	55,223
Total	55,223	5,836	-	61,059
Financial liabilities:				
Trade and other payables	-	20,351	-	20,351
Total	-	20,351	-	20,351

There were no transfers between levels for the year ended 31 December 2015 (2014: none).

30. Events subsequent to the year end

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

31. Incorporation

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

32. Ultimate parent company

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

33. Functional and presentation currency

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





