

Annual report

for the year ended December 31, 2014

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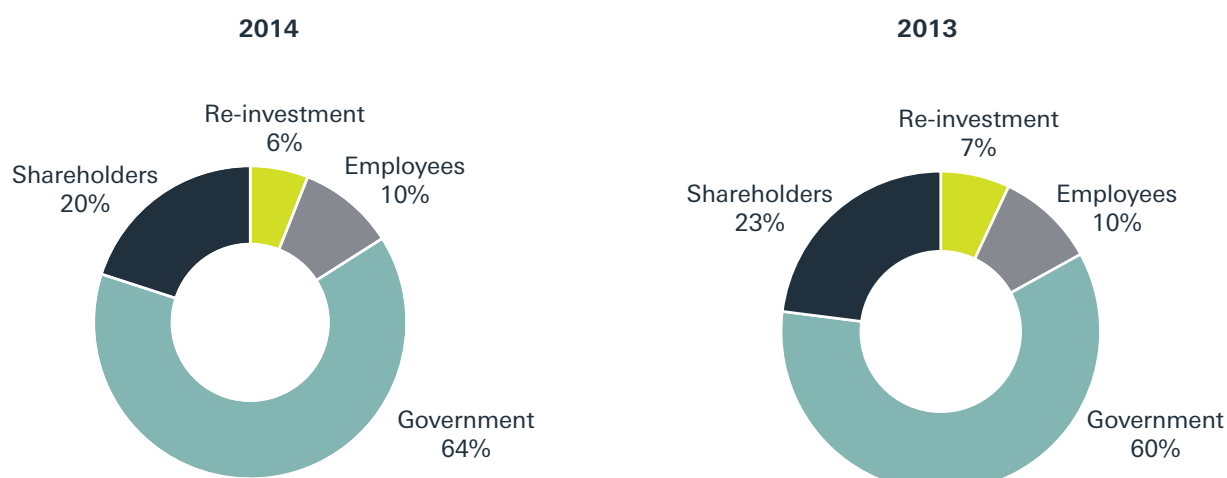
01. Financial highlights

Financial highlights

Value added

	2014		2013	
	TZS M	%	TZS M	%
Gross turnover	461,720		445,633	
Operating expenditures - suppliers	(139,921)		(129,770)	
Total Value added	321,799	100.0	315,863	100.0
Value distributed as follows:				
To Employees - remuneration	30,773	9.6	32,906	10.4
To Government - vat excise duties	177,810	55.3	155,032	49.1
To Government - corporate tax	29,661	9.2	34,079	10.8
To shareholders - dividends	65,000	20.2	75,000	23.7
To Reinvestment:				
Depreciation and amortisation	14,955	4.6	15,788	5.0
Retained income	3,600	1.1	3,058	1.0
Total distributions	321,799	100.0	315,863	100.0

Value distributed (%)



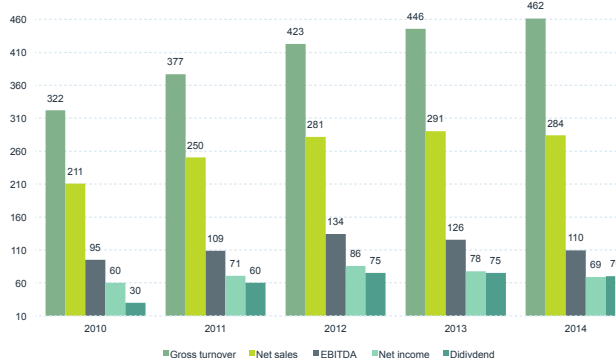
Financial highlights

Consolidated five-year financial summary

	2010	2011	2012	2013	2014
	TZS M	TZS M	TZS M	TZS M	TZS M
For the year:					
Gross turnover	321,777	376,778	422,594	445,633	461,720
VAT	45,886	52,985	58,805	60,450	62,493
Revenue	275,891	323,793	363,789	385,184	399,227
Excise duty	64,883	73,449	82,370	94,582	115,317
Net sales	211,008	250,344	281,419	290,601	283,910
EBITDA	95,005	108,939	134,028	125,797	109,721
Depreciation and amortization	9,140	10,015	12,683	15,788	14,955
Gross profit	137,221	160,567	187,714	186,610	171,536
Operating income	85,865	98,923	121,345	110,009	94,765
Net finance (income) expense	1,806	(2,452)	(1,201)	(2,128)	(3,495)
Corporate tax	23,859	30,433	37,787	34,079	29,661
Net income	60,200	70,942	85,941	78,058	68,600
At year end:					
Net property, plant and equipment	70,236	93,761	96,527	100,078	94,884
Total assets	176,779	204,616	222,982	248,749	247,258
Interest bearing debts	-	-	-	-	-
Total liabilities	47,972	56,182	50,065	67,980	68,842
Total shareholders' equity	128,807	148,434	172,917	180,769	178,416
For the year:					
Net cash generated from operating activities	66,509	85,638	72,125	105,867	92,754
Net cash used in investing activities	(30,924)	(33,048)	(15,552)	(19,431)	(9,371)
Net cash used in financing activities	(25,000)	(50,000)	(60,000)	(75,000)	(70,000)
Cash flow for the year	10,585	2,590	(3,427)	11,436	13,383
Dividend per share (TZS)	300	600	750	750	700
Earning per share (TZS)	602	709	859	781	686
Profitability:					
Return on equity	57%	51%	53%	44%	38%
EBITDA margin	45%	44%	48%	43%	39%
Operating income margin	41%	40%	43%	38%	33%
Total assets turnover	1.29	1.31	1.32	1.23	1.14
Stability:					
Current ratio	267%	264%	378%	274%	279%
Debt Ratio (Total liabilities / Total Assets)	27%	27%	22%	27%	28%

Financial highlights

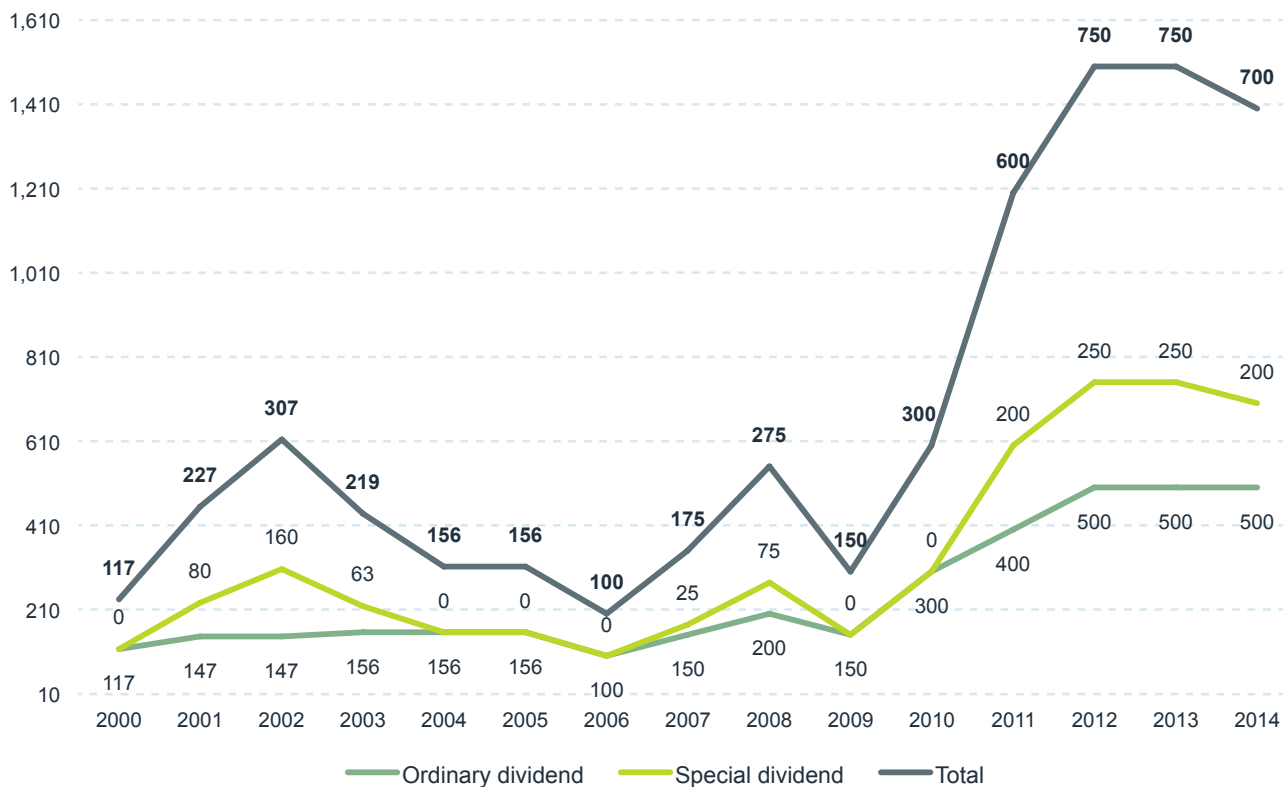
Gross turnover, net sales, EBITDA, net income, dividend (TZS BN)



Dividend and earnings per share (TZS)



Ordinary and special dividend per share (TZS)





02. TCC at a glance

TCC at a glance

Our vision and mission:

***To be the best Company
in East and Central Africa.***

We will grow volume while defending our share of market, deliver quality brands and; maximize consumers and customers 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.



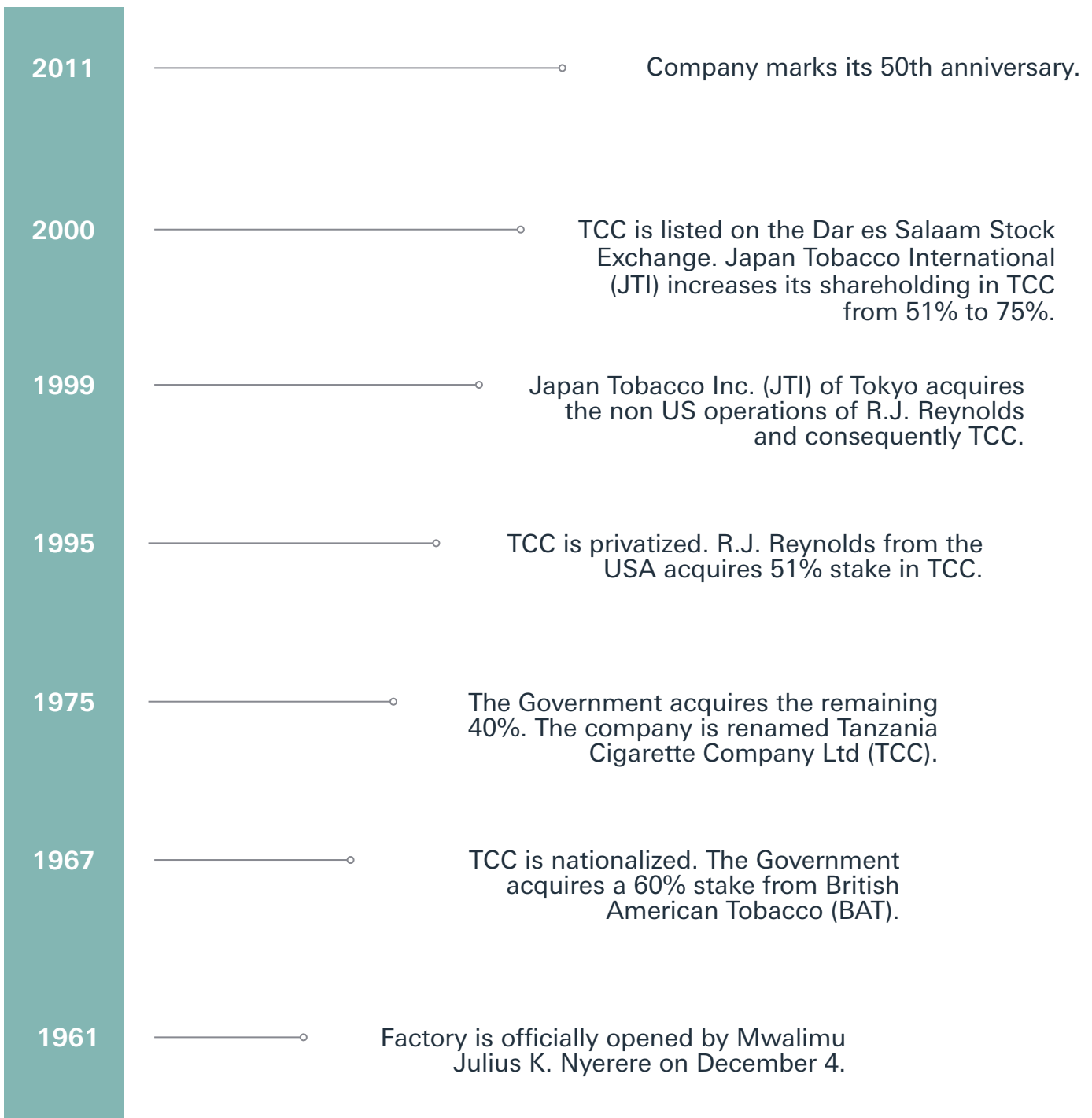
Challenging

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



TCC kwa muhtasari

Lengo na dhamira yetu ni dhahiri:

***Kuwa Kampuni bora
Afrika Mashariki na Kati.***

Tutakuza wingi wa bidhaa huku tukitetea mgao wetu wa soko, kuzalisha bidhaa bora na; kuzidi kuwaridhisha walaji na wateja 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 inachochewa 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.



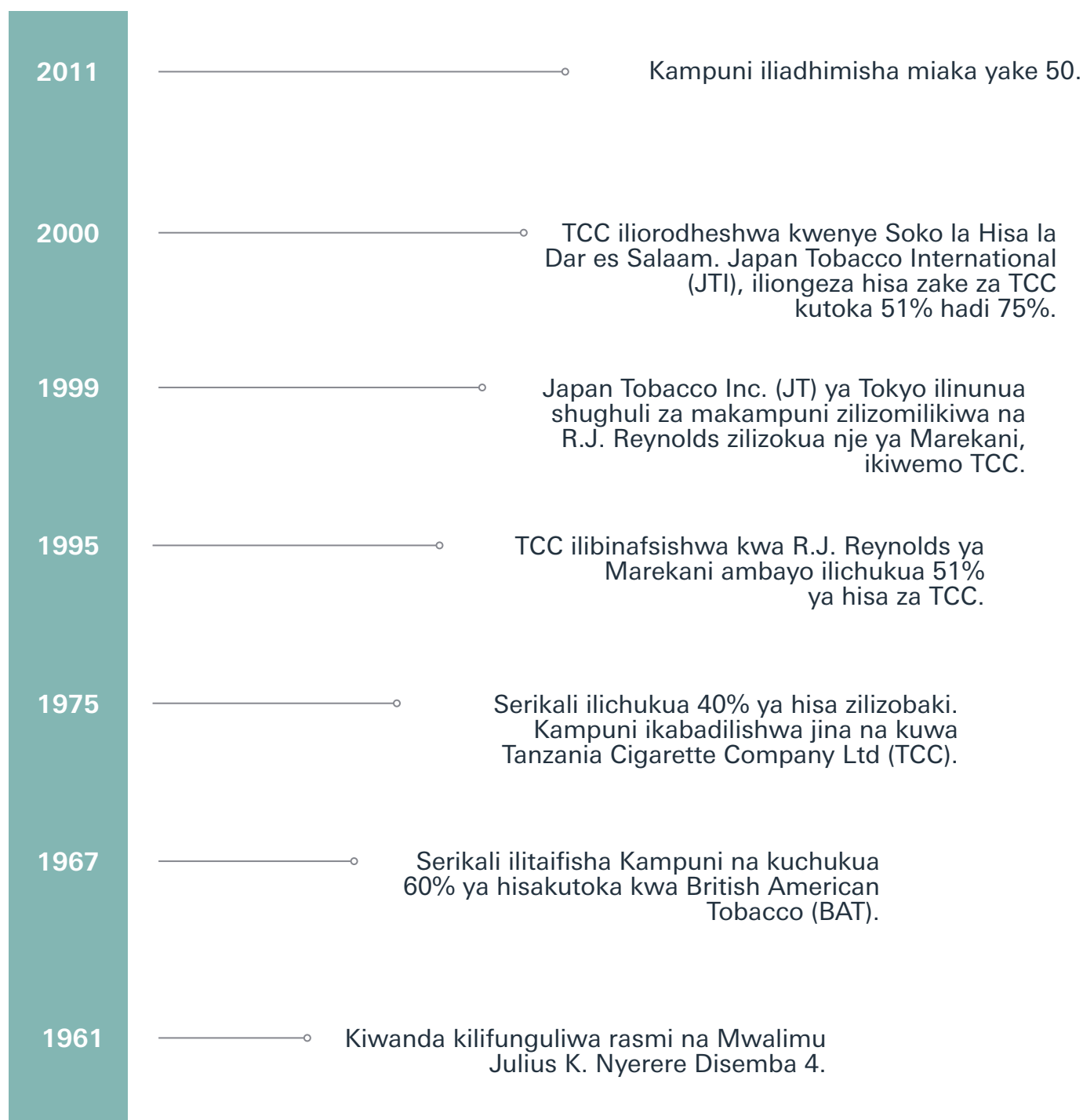
Changamoto

Tunahakikisha uboreshaji endelevu. 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 na si mfuasi.



TCC kwa muhtasari

Historia yetu





03. To our stakeholders

To our stakeholders

Message from the Chairman

Dear Shareholders,

Despite tough trading conditions, TCC delivered a good performance in 2014. We grew our volume and revenue while reducing our underlying cost base.

I am very pleased, as you probably are, with the performance of our share price, which grew by 95% (December 31, 2013: TZS 8,600 per share; December 31, 2014: TZS 16,740 per share) and increased market capitalization to TZS 1.67 trillion (2013: TZS 860 billion). This reflects the strong shareholders confidence in our leadership, robust strategy and the long-term underlying economics of the business.

However, the huge excise tax increase in July drove up prices of our products to unaffordable levels, fuelled further consumer down-trading, increased illicit trade and negatively impacted profitability.

Overall sales volume increased marginally by just under 1%. Export sales volume declined by 3.6% versus prior year due to equally tough trading conditions in the highly competitive export markets. Domestic sales volume however, grew by 3.6% driven by a number of initiatives.

We reinforced our portfolio by introducing Global Flagship Brands (LD and Winston) to meet consumer needs in the growing value segment. We increased price awareness to address down-trading. We successfully implemented an initiative aimed at driving effective and efficient cost management and we drove employee engagement as a touch point for productivity improvements.

Although gross turnover increased by 3.6% to TZS 461.6 billion (2013: TZS 445.6 billion) driven by domestic market volume growth and pricing, net sales declined by 2.3% to TZS 283.9 billion (2013: TZS 290.6 billion) due to a huge 25% excise tax increase in July. As a result, gross profit fell by 8.1% to TZS 171.5 billion (2013: TZS 186.6 billion) and net profit was down 12.1% to TZS 68.6 billion (2013: TZS 78.1 billion). The volume growth, pricing and cost efficiency gains could not

off-set the impact of the excise tax and consumer-down-trading.

Based on 2014 results, the Board of Directors have recommended a final ordinary gross dividend of TZS 250 per share (2013: TZS 200 per share) and a special gross dividend of TZS 150 per share (2013: TZS 250 per share). When added to the interim dividend of TZS 250 per share paid in November 2014, the total dividend for the year is TZS 650 per share (2013: TZS 750 per share). The final gross ordinary and special dividends will be paid on or about May 07, 2015 subject to shareholders' approval at the Annual General Meeting to be held on April 22, 2015.

Besides the financial aspects of the business, we received international and domestic recognition for our human resources practices, integrity of our financial reporting and our tax contribution to the Treasury. This re-affirms our promise to do the right thing for our employees, the business and the country.

We expect the operating environment to remain challenging in 2015. Another excise tax increase in July 2015 will certainly impact results again. Nonetheless, I am confident that with our proven strategy, strong brands, talented people and continuous focus on our consumers while further driving efficiency and effectiveness in everything we do, we will continue growing our business and increasing shareholder's value.

My sincere appreciation goes to our employees for their dedication and hard work to the Board of Directors for their farsighted support and most importantly, to our customers and consumers for their trust and loyalty as well as to our shareholders for their continued support to the business.

Yours sincerely,



Majd Abdou
Chairman and CEO

Kwa wadau wetu

Waraka kutoka kwa Mwenyekiti

Ndugu Wanahisa,

Pamoja na hali ya biashara kuwa ngumu, TCC ilipata mafanikio mazuri kwa mwaka 2014. Tuliongeza mauzo na mapato wakati huo huo kupunguza gharama za msingi za uzalishaji.

Nina furaha kama ninyi mliyo nayo, kwa ukuaji wa thamani ya hisa zetu, iliyoongezeka kwa 95% (Desemba 31, 2013: Shilingi 8,600 kwa kila hisa; Desemba 31, 2014: Shilingi 16,740 kwa kila hisa) na kuongeza mtaji wa soko hadi kufikia Shilingi bilioni 167.4. Hii inadhihirisha imani kubwa walionayo wanahisa kwa uongozi wetu, mkakati imara na mipango ya msingi na ya muda mrefu ya uchumi wa biashara yetu.

Hata hivyo, ongezeko kubwa la ushuru wa bidhaa za ndani mwezi Julai, lilichochea bei za bidhaa zetu kuwa ghali sana hadi wateja kushindwa kumudu, na hivyo kuhamia kwenye bidhaa zetu zenye faida ndogo, kuongeza biashara ya bidhaa bandia na hivyo kuathiri vibaya faida.

Mauzo ya jumla yaliongezeka kidogo kwa kiasi cha chini ya 1% tu. Mauzo ya soko la nje yalipungua kwa 3.6% ikilinganishwa na mwaka uliopita kutokana na mazingira ya biashara kuendelea kwa magumu katika masoko ya nje yenye ushindani mkubwa. Mauzo ya soko la ndani, yaliongezeka kwa 3.6% kutokana na juhudi mbalimbali.

Tumeimarisha aina za bidhaa zetu kwa kuingiza bidhaa zenye chapa maarufu duniani (LD na Winston) kukidhi mahitaji ya walaji wanaoongezeka katika bidhaa zetu zilizo kwenye kundi la bidhaa za thamani. Tuliongeza uhamasishaji wa ufahamu wa bei

kukabiliana na wateja kuhamia kwenye bidhaa zenye faida ndogo. Tulifanikiwa kutekeleza mpango wa kuchochea matumizi bora na fanisi zaidi ya fedha na tumezidisha ushirikishwaji wa wafanyakazi kama njia ya kuboresha tija kazini.

Ingawa pato la jumla liliongezeka kwa 3.6%, kufikia Shilingi bilioni 461.6 (2013: Shilingi bilioni 445.6) lililosababishwa na ukuaji wa soko la ndani na ongezeko la bei, mauzo halisi yaliyopungua kwa 2.3% kufikia Shilingi bilioni 283.9 (2013: Shilingi bilioni 290.6) kutokana na ongezeko kubwa la ushuru wa bidhaa za ndani la 25% mwezi Julai. Kutokana na hali hiyo, faida ya jumla imepungua kwa 8.1% hadi Shilingi bilioni 171.5 (2013: Shilingi bilioni 186.6) na faida halisi ilipungua kwa 12.1% hadi Shilingi bilioni 68.6 (2013: Shilingi bilioni 78.1). Kukuwa kwa mauzo, bei na faida iliyotokana na kupunguzwa kwa gharama za uendeshaji havikuweza kupunguza athari ya ushuru na walaji kuhamia kwenye bidhaa zenye faida ndogo.

Kutokana na matokeo ya mwaka 2014, Bodi ya Wakurugenzi imependekeza gawio la mwisho la kawaida la jumla la Shilingi 250 kwa hisa (2013: Shilingi 200 kwa hisa) na gawio maalumu la jumla la Shilingi 150 kwa hisa (2013: Shilingi 250 kwa hisa). Ikiongezwa na gawio la kati la Shilingi 250 kwa hisa lililolipwa Novemba 2014, jumla ya gawio kwa mwaka ni Shilingi 650 kwa hisa (2013: Shilingi 750 kwa hisa). Gawio la mwisho la jumla la kawaida na gawio maalumu yatalipwa mnamo Mei 07, 2015, baada ya kuidhinishwa na Mkutano Mkuu wa Mwaka utakaofanyika Aprili 22, 2015. Mbali na vipengele vya kifedha vya

biashara, tulipata tuzo za kutambuliwa kimataifa na ndani ya nchi kwa kuzingatia huduma nzuri za rasilimali watu kwa wafanyakazi wetu, uadilifu katika utoaji wa taarifa za fedha na mchango wetu wa kodi kwa Hazina. Huu ni uthibitisho zaidi wa ahadi yetu ya kufanya lililo sahihi kwa wafanyakazi wetu, kwenye biashara na kwa nchi. Tunatarajia kwamba kwa mwaka 2015, mazingira ya uendeshaji biashara yatabaki kuwa na changamoto.

Ongezeko jingine la ushuru wa bidhaa za ndani Julai 2015, litaathiri tena matokeo yetu ya biashara. Hata hivyo nina imani kwamba kutokana na mikakati yetu ya uhakika, bidhaa thabiti, watu wenye vipaji na kuendelea kuzingatia mahitaji ya walaji huku tukizidi kuzingatia kuwa madhubuti na fanisi katika kila kitu tunachofanya; tutaendelea kukuza biashara yetu na kuongeza thamani ya wanahisa wetu. Natoa shukurani zangu za dhati kwa wafanyakazi wetu kwa kufanya kazi kwa kujitoa na bidii; kwa Bodi ya Wakurugenzi kwa ushauri wao unaoona mbali, na muhimu zaidi, kwa walaji na wateja wetu kwa imani na kuendelea kutumia bidhaa zetu, pamoja na wanahisa kwa msaada wao kwa biashara yetu.

Wasalaam,



Majd Abdou
Mwenyekiti wa Bodi na Afisa Mtendaji
Mkuu

04. Directors and Management team



Members of the board



Majd Abdou, Canadian
Chairman & CEO (Executive)
Masters in Finance, B.Sc Mathematics (Economics)

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, French
Chief Financial Officer Middle East, Near East, Africa and Turkey and World Wide Duty Free
Bachelor of Arts Degree (Bordeaux Management School).

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, Tanzanian
Director (Executive)
B.Com, MBA

Mr. Paul Makanza joined TCC in 2001 as Director of Corporate Affairs and Communications. Prior to joining TCC, he worked for PricewaterhouseCoopers 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.



Dr. Servacius Likwelile, Tanzanian
Director (Non-executive)
Ph.D. (Econ.), M.A. (Econ.), B.A. (Econ.)

Dr. Servacius Likwelile is the Permanent Secretary to the Treasury, Ministry of Finance. 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, South African
Director (Executive)
CA (South Africa)

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.



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

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



Olivier Blanc, Swiss
Director (Non-executive)
Law Degree, LLM, Bar (Geneva)

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 acquisitions 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.



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

Mr. David Thorn worked at TCC as Chief Financial Officer and Director of Finance (2002-2005). He is currently General Manager of JTI East and Central Africa sub-region. Mr. Thorn has held various senior positions in finance in different JTI markets including Russia and Ukraine. He has over 15 years experience in the tobacco industry. He joined the Board of Directors of TCC in 2002.



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

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

Management team



Majd Abdou
Chairman and CEO



Bony Scheerschmidt
Director, Manufacturing



Paul Makanza
Director, Corporate Affairs



Marcus Streit
Marketing & Sales Head



Stella Urio
Director, C&TM Portfolio
and Brand Strategy



Moses Gunda
Director, C&TM Operations



Tunu Kinabo
Director, C&TM
Development and Planning



Christo Kruger
Director, Finance & IT



Caroline Kavishe
Director, Human Resources



Frank Usiri
Director, Company Services



Vintan Mbiro
Director, Legal



05. Business Review

Business review

FY 2014 vs. FY 2013

Domestic sales volume
Up 3.5% on PY

Revenue*
TZS 399.2 billion, +3.6% on PY

Net sales
TZS 283.9 billion, -2.3% on PY

Profit before tax
TZS 98.3 billion, -12.4% on PY

Net profit
TZS 68.6 billion, -12.2% on PY

Share price
TZS 16,740, +95% on PY

Market capitalization
TZS 1.67 trillion, +95% PY

*Revenue = Gross turnover - VAT

Operating environment

2014 was another challenging year for the Company. Cigarettes continued to be heavily taxed. In July, the Government implemented a 25% excise tax increase, the highest increase ever. As a result, competition in the value segment intensified consumers continued to switch to more affordable, less profitable brands and some opted for contraband cigarettes (non-tax paid). The latter negatively impacted profit.

Results for the year

Total Company volume increased slightly on prior year by just under 1%. While export volume declined 3.6% due to tough trading conditions in the highly competitive East and Central Africa markets, our domestic volume increased by 3.6%. This growth was mainly driven by value brands.

As indicated in the Chairman's statement, revenue increased by 3.6% in the prior year. Net sales declined by 2.3% compared to the same period in 2013. Profit before tax fell by 12.4% and net profit was down 12.1% on the corresponding period due to excise tax increase and consumer down-trading.

However, the long-term economic fundamentals of the business remained strong as reflected in our share price which grew +95% on prior year.



Improving competitiveness

Minimizing down-trading and improving our competitiveness were two key objectives in 2014. To achieve this, we implemented a number of programs.

We modernised our packs launched two new international brands - LD and Winston - offering our consumers a wider choice of affordable brands improved visibility of our brands at key retail outlets launched new advertising campaigns for Embassy, Portsman and Sweet Menthol; implemented a loyalty program; conducted a number of activations to engage our adult consumers; and extensively communicated recommended prices to minimize down-trading.

We improved our customer and consumer reach by outsourcing distribution in Morogoro and Sumbawanga. This follows on the success of a pilot program in Chalinze in 2013.

We introduced a new technology based tool, Trade Marketing Excellence (TME), to further improve customer and consumer insights in order to serve them better and more efficiently. We successfully piloted TME in Dar es Salaam and will roll it out to all our branches in 2015.

And, we implemented a pre-order system for some of our customers to improve sales efficiency and reduce risks associated with carrying bulk cash.



Fighting contraband

Excessive annual excise tax increases in the last three years fuelled the growing trade in contraband cigarettes (non-tax paid) and continued to undermine the legal market for cigarettes, as well as Government tax revenue in 2014. It is estimated that for every 1,000 cigarettes sold in the domestic market in 2014, 40 cigarettes were non-tax paid compared to only 20 cigarettes in 2011.

In an effort to curb contraband, we collaborated with law enforcement agencies to identify and bring culprits to justice. However, excessive excise tax increases, such as the 25% increase in July 2014, will continue to undermine such efforts. We will therefore continue to engage the Government in 2015 to ensure that excise tax increases are reasonable and do not encourage further contraband activities.

Continuous operational improvements

Our manufacturing operations are guided by four principles; safety, quality, service and cost. Our number one priority is the safety of our employees. Also, continuous improvements are an entrenched philosophy to ensure that we provide our customers and consumers with the highest quality products and services at the right price and manufactured within a safe working environment.

We produced over 8 billion cigarettes for the domestic and export markets in 2014 without a single major accident involving employees.

Our production cost per 1,000 cigarettes remained unchanged versus the previous year. In addition, we conducted a feasibility study for installing a 750 Kw solar power plant as a cheaper, environmentally friendly, alternative source of energy to power our factory. A decision on the project will be made in the future.

Effective cost management

While growing our top line is critical, effective cost management is equally important. To this end, the company successfully implemented an initiative to reduce its cost base and entrench a strong culture of disciplined cost management. As a result, operating costs declined by 1.6% to TZS 73.2 billion (2013: TZS 74.5 billion).

Giving back to communities

A business can only prosper within open and fair societies. This is why we continuously invest into communities voluntarily and beyond our core business activities. Our aim is to improve the quality of life in communities where we operate. Quality of life consists of freedom, security, social intergration as well as physical and psychological well being. We do this by supporting programs that include: poverty alleviation, older persons, adult education, people with disabilities, cultural heritage visual and performing arts and natural environment.

In 2013, we provided substantial support to the Vipaji Foundation for the 8th consecutive year. Vipaji is a non-profit organization that promotes local arts and culture in Tanzania. We also provided food and clothing to the elderly in Sakila, Arusha and evaluated other potential projects for implementation in 2015.

Driving productivity through people

In 2014, our people initiatives again focused on driving employees' engagement to improve productivity. The UK based Investors in People rated our people programs best in class and awarded us a silver certification for our human resources (HR) programs and practices. The same was re-affirmed by the Association of Tanzania Employers through the numerous recognition awards we received in 2014.

In line with our current and future business needs, we reduced our headcount by 117 employees from various departments in 2014. A painful but necessary decision. In accordance with a generous Voluntary Agreement between Management and the Trade Union, all retrenchees were adequately compensated. We thank them for their contribution to the Company in 2014.

Awarded the UK Investors in
people Silver Certification



Mapitio ya biashara

2014 kulinganisha na 2013

Mauzo ya ndani
Ongezeko la 3.5%

Mapato*
Shilingi bilioni 399.2
Ongezeko la 3.6%

Mauzo halisi
Shilingi bilioni 283.9
Pungufu ya 2.3%

Faida kabla ya kodi
Shilingi bilioni 98.3
Pungufu ya 12.4%

Faida halisi
Shilingi bilioni 68.6
Pungufu ya 12.2%

Bei ya hisa
Shiligi 16,740
Ongezeko la 95%

Mtaji wa soko
Shilingi trilioni 1.67
Ongezeko la 95%

* Mapato = Mapato ya jumla - VAT

Mazingira ya uendeshaji

Mwaka 2014 ulikuwa mwaka mwingine wenye changamoto kwa Kampuni. Sigara ziliendelea kutozwa kodi kubwa. Mwezi Julai, Serikali ilitokeleza ongezeko la ushuru wa bidhaa za ndani la 25%, ongezeko kubwa ambalo halijawahi kutokea. Kutokana na hali hiyo, ushindani katika kundi la bidhaa za thamani yaliongezeka, walaji waliendelea kuhamia kwenye bidhaa za bei nafuu, zenye faida ndogo na baadhi waliamua kutumia bidhaa za magendo (zisizolipiwa kodi). Bidhaa hizo bandia zimeathiri sana faida.

Matokeo ya mwaka

Mauzo ya jumla ya Kampuni yaliongezeka kwa kiasi cha chini ya asilima 1 kwa mwaka uliopita. Wakati mauzo ya soko la nje yamepungua kwa 3.6% kutokana na mazingira magumu ya biashara kwenye nchi zenye ushindani mkubwa wa masoko ya Afrika Mashariki na Kati, mauzo ya soko la ndani yameongezeka kwa 3.6%. Ongezeko hili limetokana na bidhaa za kundi la thamani zenye bei nafuu zaidi kwa walaji ingawa zina faida ndogo kwa kampuni.

Kama ilivyoielezwa kwenye waraka wa Mwenyekiti, mapato yameongezeka kwa 3.6% ikilinganishwa na mwaka uliopita. Mauzo halisi yalipungua kwa 2.3% ikilinganishwa na kipindi kama hiki mwaka 2013. Faida kabla ya kodi imepungua kwa 12.4% na faida halisi ilipungua kwa 12.1% katika kipindi hicho kutokana na ongezeko la kodi na walaji kuhamia kwenye bidhaa zenye faida ndogo.

Hata hivyo, misingi ya uchumi ya muda mrefu katika biashara imebaki kuwa imara kama ilivyoonyeshwa kwenye bei ya hisa zetu iliyoongezeka zaidi ya 95% kulinganisha na mwaka uliopita.

Kuboresha ushindani

Malengo mawili muhimu kwa mwaka 2014 yalikuwa kuboresha ushindani wetu na kupunguza changamoto ya walaji kuhamia kwenye bidhaa zenye faida ndogo. Ili kufikia malengo hayo, tulitekeleza programu nyingi.

Tulibadili pakiti zetu kuwa za kisasa; tulizindua aina mbili za bidhaa za kimataifa – LD na Winston na kuwapa walaji wetu wigo mpana wa kuchagua bidhaa za bei nafuu, tumebadili kuonekana kwa bidhaa zetu kwenye maduka muhimu ya rejareja, tulizindua kampeni mpya za utangazaji wa Embassy, Portsman na Sweet Menthol, tumetekeleza programu ya kuhamasisha wateja kuendelea kutumia bidhaa zetu, tumefanya uhamasishaji mbalimbali wa kuwashirikisha walaji na tumetangaza sana bei zilizopitishwa ili kupunguza wateja kuhamia kwenye bidhaa zenye faida ndogo.

Tumeboresha ufikiaji wa wateja na walaji wetu kwa kubinafsisha usambazaji kwa Morogoro na Sumbawanga; kufuatia mafanikio ya programu yetu ya majaribio eneo la Chalinze mwaka 2013.

Tumeingiza zana inayozingatia teknolojia mpya, Umahiri katika Masoko ya Biashara kufahamu kwa undani mahitaji ya walaji na wateja ili kuwahudumia vizuri na kwa ufanisi zaidi. Tumefanikisha majaribio ya teknolojia hii jijini Dar es salaam na tutaaanzisha kwenye matawi yetu yote mwaka 2015.

Aidha tumetekeleza mfumo wa kuagiza bidhaa mapema kwa baadhi ya wateja wetu ili kuboresha ufanisi wa mauzo na kupunguza hatari ya kubeba fedha nyingi.



Kupambana na magendo

Ongezeko la ushuru wa bidhaa za ndani kwa miaka mitatu mfululizo imechochea kukua kwa bishara ya sigara za magendo (zisizolipiwa kodi) na; imeendelea kudhoofisha soko la sigara halali; pamoja na mapato ya kodi ya serikali katika mwaka 2014. Inakadiriwa kwamba, kwa kila sigara 1000 zililouzwa kwenye soko la ndani mwaka 2014, sigara 40 hazikulipiwa kodi ikilinganishwa na sigara 20 tu mwaka 2011.

Katika jitihada za kupambana na biashara ya magendo, tulishirikiana na taasisi zinazosimamia utekelezaji wa sheria ili kubain na kuwafikisha wahalifu mbele ya sheria. Hata hivyo ongezeko kubwa la ushuru wa bidhaa za ndani, kama ongezeko la 25%, mwezi Julai, 2014 itaendelea kudhoofisha jitihada hizo. Kwa hiyo tutaendelea kushirikisha serikali mwaka 2015 kuhakikisha kuwa ongezeko la ushuru wa bidhaa za ndani linaendana na hali halisi ya kiuchumi na halichochei kuongezeka kwa shughuli za biashara ya magendo.

Maboresho endelevu ya uendeshaji

Shughuli zetu za uzalishaji zinaongozwa na kanuni nne za msingi; usalama, ubora, huduma na gharama. Kipaumbele chetu cha kwanza ni usalama wa wafanyakazi wetu. Aidha maboresho endelevu ni falsafa iliyojizatiti kuhakikisha kuwa tunawapa wateja na walaji wetu bidhaa na huduma za ubora wa hali ya juu, kwa bei inayostahili, kwenye mazingira ya kufanyia kazi yaliyo salama.

Tulizalisha zaidi ya sigara bilioni 8 kwa soko la ndani na nje mwaka 2014 bila ya ajali kubwa hata moja inayowahusisha wafanyakazi.

Gharama zetu za uzalishaji kwa sigara 1000 haikubadilika ikilinganishwa na mwaka uliopita. Aidha, tulifanya upembuzi yakinifu kwa ajili ya kufunga mtambo wa nishati ya jua wa Kilowati 750 kama chanzo cha nishati mbadala, rahisi na kinachojali mazingira; kwa ajili ya kuendeshea kiwanda chetu. Uamuzi kuhusu mradi huo utatolewa miaka ijayo.

Usimamizi wa gharama

Ingawa kukuza biashara yetu ni muhimu, usimamizi wa gharama ni muhimu vilevile. Kufanikisha hilo, kampuni imefanikiwa kutekeleza mpango wa kupunguza gharama za msingi za uendeshaji na kuingiza utamaduni thabit wa nidhamu kwenye matumizi. Kutokana na jitihada hizo, gharama za uendeshaji zimepungua kwa 1.6% hadi Shilingi bilioni 73.2 (2013: Shilingi bilioni 74.5)

Kusaidia jamii

Biashara inaweza kustawi kwenye jamii yenye uwazi na isiyokua na upendeleo. Ndio maana tunaendelea kuwekeza kwa hiari kwenye jamii nje ya biashara yetu. Lengo letu ni kuboresha maisha na ustawi wa jamii tunakoendeshea shughuli zetu. Uboreshaji wa maisha ni pamoja na uhuru, ulinzi, muingiliano katika jamii pamoja na ustawi wa kimwili na kisaikolojia. Tunatekeleza hayo kwa kusaidia programu mbalimbali zinazojumuisha: upunguzaji umaskini, wazee, elimu ya watu wazima, watu wenye ulemavu, urithi wa utamaduni, sanaa za maonyesho; na mazingira asili.

Mwaka 2013 tulitoa msaada mkubwa kwa Vipaji Foundation kwa mwaka wa nane mfululizo. Vipaji ni shirika lisilo la kiserikali linalokuza utamaduni na sanaa za wasanii wa Tanzania. Aidha tulitoa msaada wa chakula na mavazi kwa wazee wa Sakila Arusha na kutathmini uwezekano wa kuongeza miradi mingine ya kutekeleza mwaka 2015.

Kuongeza tija kupitia wafanyakazi

Katika mwaka 2014, mipango ya Kampuni ililenga tena kuongeza ushirikishwaji wa wafanyakazi kwenye kuboresha tija. Kampuni ya Uingereza ya Investors in People imetathmini programu zetu za wafanyakazi na kuzipa daraja la juu na kututunukia Cheti cha Fedha kwa programu zetu na taratibu za kazi za rasilimali watu. Programu hizo zilithibitishwa pia na Chama cha Waajiri Tanzania (ATE) kwa kutoa tuzo mbalimbali za utambuzi tulizopata mwaka 2014.

Kulingana na mahitaji yetu ya biashara ya sasa na ya baadaye tulipunguza idadi ya wafanyakazi 117 kutoka idara mbalimbali kwa mwaka 2014. Ulikua uamuzi mgumu lakini wa lazima. Kwa mujibu wa Mkataba wa Hiari baina ya Menejimenti na Chama cha Wafanyakazi, wafanyakazi waliopunguzwa wote walifidiwa ipasavyo. Tunawashukuru kwa mchango wao kwa Kampuni, mwaka 2014.

The background of the page is a close-up, vertical view of a tree trunk, showing concentric growth rings in shades of light brown and tan. The rings are dense and slightly irregular, creating a natural, organic texture. The lighting is soft, highlighting the grain of the wood.

06. Financial Information

Corporate information

for the year ended 31 December 2014

Directors and advisers:

Directors

Mr. Majd Abdou (Chairman and CEO)
Dr. Servacius Likwelile*
Mr. Olivier Blanc*
Mr. Hubertus Maria Antonius Ooms*
(Resigned on 1 September 2014)
Mr. Olivier Chimits Cazaux*
(Appointed on 1 September 2014)
Mr. Paul Makanza
Mr. Christo Kruger
Mr. David Thorn
(Resigned on 22 January 2015)

* Non-executive Directors

Shareholding structure:

Shareholder

JT International Holding B. V. 75.0%
General public 15.6%
Parastatal Pension Fund 3.0%
United Republic of Tanzania 2.5%
Public Service Pension Fund 2.3%
The Local Authorities Provident Fund 0.6%
Alliance Insurance Corporation Limited 0.3%
Trustees of the TCC Employees Share Option Scheme 0.3%
National Social Security Fund 0.2%
Government Employees Provident Fund 0.2%

Total

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 25.00%
Foreign 75.00%
Total 100.00%

**Based on share register as at 31 December 2014

Secretary, Registered Office and Principal place of business

Mr. Vintan Willgis Mbiro
(Resigned on 31 December 2014)
Mr. Godson Killiza
(Appointed on 12 March 2015)
20 Nyerere Road
P.O. Box 40114
Dar es Salaam
Tel: +255 22 216 6000/1

Auditors

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

Report of the Directors

for the year ended 31 December 2014

The Directors present this report and the audited financial statements of Tanzania Cigarette Company Limited (“TCC”) for the financial year ended 31 December 2014, which disclose the state of affairs of the company.

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 and mission

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.

Its 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 production and sale of cigarettes. The company’s brand portfolio includes Camel - the original American blend cigarette dating back to 1913; Embassy - the leading domestic premium brand; Portsman (formerly Sportsman) and Sweet Menthol in the mid-price segment; Iceberg, Safari and Winston in the value segment; and Club, Crescent & Star - a non-filter brand and LD in the base segment. LD and Winston are two international brands introduced during the year.

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 highly motivated employees and the strength of its wide distribution network.

Report of the Directors

for the year ended 31 December 2014 (continued)

Relationship with stakeholders

TCC's stakeholders are varied. They include suppliers, customers, current and potential employees, the trade union, the Government, regulators and shareholders. The Company constantly seeks to maintain positive relations with its stakeholders, guided by; mutual respect for individuals, local norms and culture; compliance with local laws and regulations; and ethical business conduct. Our relationships with suppliers and customers are mutually beneficial; we only do business with partners who comply with the law; we continually strive to provide a conducive working environment for our employees; and we fully co-operate with regulators.

Responsible Marketing

The company adheres to the Global Marketing Standards which set a baseline for acceptable tobacco marketing worldwide. TCC recognizes that it is right to restrict its marketing activities given the nature of its products. The unique nature of the product requires the company to market its products responsibly and that its brand marketing has no particular appeal to youth. The company believes that smoking is an adult choice, minors should not smoke and adult smokers should be appropriately informed about the health risks of smoking.

Know Your Customer (KYC)

The Know-Your-Customer policy is designed to ensure that TCC sells products to customers who have integrity, fully comply with all local laws as well as TCC's own stringent standards. A comprehensive verification exercise is periodically done for that purpose. The KYC program also helps the company in the fight against illicit trade in tobacco products.

Environment Health and Safety (EHS)

We are committed to eliminating all occupational injuries and illnesses and minimizing the impact on the environment. The safety of our people is always a top priority and we have a set of clearly defined programs to prevent work related accidents. The main focus of these is to ensure that the responsibility for working and behaving safely lies with each and every employee. Environmental issues are also increasingly important topics for our business, and we continue to develop and assess comprehensive programs to minimize the company's environmental impact and ensure sustainable business operations.

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

Political and charitable donations

The company did not make any political donations during the year. The company's assistance to communities or Community Investment (CI) programs focus on two broad pillars: People (poverty alleviation, the elderly people, adult education and people with disabilities); and Arts (cultural heritage, contemporary art and Japanese culture). These areas reflect the United Nations Millennium Development Goals (MDGs) which represent a globally accepted agenda for societal needs. Donation made to charitable organizations and non-governmental organizations during the year amounted to TZS 286 million (2013: TZS 374 million).

Report of the Directors

for the year ended 31 December 2014 (continued)

Composition of board of Directors

The Board enables effective oversight of the executive management team. The number of Directors allows the Board to have interactive discussions and to make appropriate, swift and astute decisions.

The Board consists of directors with a diverse set of functional expertise, industry experiences, educational qualifications and different cultures which equips it to deal with different challenges and to provide advice and consultation from multiple perspectives.

Name	Position	Qualification	Nationality	Appointed / Resigned	Date Appointed / Resigned
Majd Abdou	Chairman & CEO	Masters in Finance, B.Sc Mathematics	Canadian	Appointed	20 January 2012
Dr. Servacius Likwelile	Director (Non-executive)	Ph.D. (Econ.), M.A. (Econ.), B.A. (Econ.)	Tanzanian	Appointed	24 September 2013
Olivier Blanc	Director (Non-executive)	Law Degree, LL.M, Bar	Swiss	Appointed	27 June 2012
Hubertus Maria Antonius Ooms	Director (Non-executive)	M.A. Business Economics, M.A Finance & Control	Dutch	Resigned	01 September 2014
Olivier Chimits Cazaux	Director (Non-executive)	B.A. Bordeaux Management School	French	Appointed	01 September 2014
Paul Makanza	Director (Executive)	B.Com, MBA	Tanzanian	Appointed	04 January 2005
Christo Kruger	Director (Executive)	CA (South Africa)	South African	Appointed	20 January 2012
David Thorn	Director (Executive)	B.A. (Hons) Economics, A.C.A.	British	Resigned	22 January 2015

Report of the Directors

for the year ended 31 December 2014 (continued)

Corporate governance

The Board of Directors consists of six Directors, three of whom hold executive positions in the company. The Board takes overall responsibility for the company, including responsibility for identifying and mitigating key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles. The Directors recognize the importance of integrity, transparency and accountability.

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Chief Executive Officer, who is assisted by the executive management team.

TCC is a subsidiary of Japan Tobacco International (JTI). It is publicly listed on the Dar es Salaam Stock Exchange. TCC is committed to the principles and practices of good corporate governance and continually seeks improvement. TCC strictly follows global standards, policies and procedures and operating guidelines. These include amongst others, responsible marketing, being an equal opportunity employer, and an adherence to a strict code of conduct, environmental health and safety standards and corporate philanthropy.

Internal Audit

The company has an Internal Audit Department which reports functionally to the Chairman of the Board to ensure its independence. The Chairman of the Board approves the Internal Audit Charter and annual internal audit plan, monitors execution, evaluates findings and implementation of recommendations by the management team.

Risk management and internal control

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

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

The efficiency of any internal control system is dependent on the strict observation of prescribed measures. There is always a risk of non-compliance with such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the company system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2014 and is of the opinion that they met accepted criteria.

Report of the Directors

for the year ended 31 December 2014 (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.

Code of Conduct

TCC adheres to the Code of Conduct. The Code of Conduct represents the values and responsibilities against which the company is measured. The company is fully committed to achieving business results which are driven and supported by the highest level of integrity and are compliant with laws and regulations.

Reporting Concerns Mechanism

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

Report of the Directors

for the year ended 31 December 2014 (continued)

Employee welfare

Management and employee's relationship

Relations between management and employees remained sound overall, with a few minor labor cases brought against the company by some dismissed employees.

Equal opportunity employer

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

Health and safety

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

Remuneration policy

TCC participates in a minimum of two annual salary and benefits surveys to ensure it maintains its remuneration policy of paying at the 75th percentile of the market. Further, the company has an aggressive talent retention policy to retain key talent.

Training and development

For the year ended 31 December 2014, the company invested over TZS 600 million in staff training in order to improve employee's knowledge, skills and attitude and hence increase organizational effectiveness. It should be noted that this amount covers only functional and soft skills development and excludes specific departmental skills training requirements such as manufacturing technical training. The company is committed to improving training and development in order to meet the demands of our dynamic growing business. Training programs are continually reviewed and developed to ensure that employees at levels receive appropriate and relevant training.

Performance evaluation

TCC has a robust and mature performance evaluation system which allows it to review salaries annually against individual performance. This is to say, those who perform best are paid more annually. The process of performance evaluation is based on open honest dialogue between manager and employee, and validation by the head of department. Performance is further facilitated by a defined coaching phase during the year which is followed by the performance review of the objectives agreed at the beginning of the year.

Report of the Directors

for the year ended 31 December 2014 (continued)

Employees benefit plan

The Company pays contributions to publicly administered pension plans in line with legislation on defined contribution plans. In addition, the company signed a voluntary agreement with the Trade Union for a defined benefit plan upon retirement. All permanent employees qualify for the legislated defined contribution pension plans and the defined benefit plan.

The average number of employees during the year was 535 (2013:582).

Medical assistance

The company has a medical insurance scheme covering staff members, including a maximum of five dependents. In addition, there is an employee wellness program to raise awareness and educate employees on prevention of common ailments such as diabetes, hypertension, obesity, malaria and HIV/ AIDS. Currently these services are outsourced and provided by Metropolitan Tanzania Insurance Company Limited.

Financial assistance to staff

Management encourages staff to join Mkombozi Savings and Credit Co-operative Society (SACCOS) to assist in promoting the welfare of its employees. The company also provides education assistance for its eligible employees.

Wills project

The company, through external lawyers, assists employees in drafting and revising their wills. All employees are encouraged to maintain a will to safeguard their dependents in the event of untimely death.

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

Gender parity

The company is an equal opportunity employer. It does not discriminate on the basis of gender or religion. At 31 December 2014, the company had 535 employees (31 December 2013: 605 employees), out of which 101 were female and 434 were male (2013: Female 104, Male 501).

Report of the Directors

for the year ended 31 December 2014 (continued)

Capital structure

The Company's shareholding structure as at 31 December 2014 is shown in page 30. The details of the company's share capital are shown below:

	2014 TZS M	2013 TZS M
Authorized:		
125,000,000 Ordinary shares of TZS 20 each	2,500	2,500
Issued and fully paid:		
100,000,000 Ordinary shares of TZS 20 each	2,000	2,000

Shareholders of the company

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

The Ordinary shares of the company are held as follows:

Shareholder	2014 Number of Shares	2013 Number of Shares
JTIH B.V.	75,000,000	75,000,000
Minority shareholders	25,000,000	25,000,000
	100,000,000	100,000,000

Directors' interest in issued and paid up share capital

Directors do not hold any material interest in the issued share capital of the company (2013: None).

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 2014 was TZS 1,674 billion (2013: TZS 860 billion).

Related party transactions and balances

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

Report of the Directors

for the year ended 31 December 2014 (continued)

Management

The company is organized into seven departments, each headed by a director as follows

- Marketing and Sales
- Manufacturing
- Finance & IT
- Human Resources
- Company Services and Security
- Legal Affairs
- Corporate Affairs and Communications

As a result of organizational changes and cost optimisation, the East and Central Africa Division was closed and the export business placed under the responsibility of the JTI Regional team based in South Africa.

Performance for the year

Despite a tough domestic economic environment and highly competitive export markets, gross turnover increased from TZS 445.6 billion in 2013 to TZS 461.7 billion in 2014 or 3.6% up on prior year. However, the 25% excise tax increase in July 2014 drove up prices of our products to unaffordable levels, fuelled further consumer down-trading, increased illicit trade and negatively impacted profitability. The company recorded a profit before tax of TZS 98.3 billion in 2014 compared to TZS 112.1 billion in 2013, equivalent to a 12% decrease over the previous year. Net profit decreased by 12% to TZS 68.6 billion in 2014 from TZS 78.1 billion in 2013.

The company's business fundamentals remained sound in 2014 with strong liquidity evidenced by cash and cash equivalent of TZS 55.2 billion (2013: TZS 41.8 billion). The Company has no external interest bearing debt. All operations are funded through operating cash flows. During 2014 an additional TZS 9.5 billion (2013: TZS 20.3 billion) was invested in product quality, production capacity and sales distribution infrastructure. Investment in net working capital excluding cash resources of TZS 42.4 billion was TZS 9.8 billion down on prior year (2013: TZS 52.2 billion) as a result of resource optimization initiatives in 2014.

Tax compliance and rewards

The company was fully tax compliant in 2014. The company was recognized and awarded several certificates of compliance by the Tanzanian Revenue Authority (TRA) as 3rd overall winner of the Most Compliant Corporate Taxpayer at the national level at the 8th Taxpayer's Day held on 21st November 2014.

Dividend

During the year, the directors declared for 2013, a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2013: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 25 billion or TZS 250 per share (2013: TZS 25 billion or TZS 250 per share). Later in the year, the Directors declared for 2014, an interim ordinary gross dividend of TZS 25 billion or TZS 250 per share, which was paid in November 2014 (2013: TZS 30 billion or TZS 300 per share).

Report of the Directors

for the year ended 31 December 2014 (continued)

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2013: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 15 billion or TZS 150 per share (2013: TZS 25 billion or TZS 250 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 75 billion or TZS 750 per share).

Business environment

Our business environment is constantly changing due to tightening regulations, excise tax impacts and growing competition for share of market. We therefore continuously monitor and anticipate developments that affect our business in order to proactively address them. We expect the business environment to remain challenging in 2015, but we are well-prepared to face the challenges ahead.

Future Development Plans

Our goal is to grow our top and bottom line in a sustainable manner, while carefully managing both costs and risks. We will continue to focus on meeting the needs of our adult consumers; building the equity of our brands; expanding our product offering; improving the efficiency and effectiveness of our route to market; and enhancing the productivity of our people.

Cash flow projection

The company's cash projections indicate that future cash flows will mostly be generated by operations. TZS 66 billion is planned to be generated for the 2015 financial year. This will be used to fund operations and capital investments as well as provide returns to shareholders. Capital investments over the medium term of TZS 22 billion are planned, focused on investments in production capacity and product quality (TZS 9.1 billion), improvements in safety and security (TZS 2.7 billion), employee housing, canteen facilities and infrastructure (TZS 4.8 billion) and distribution fleet and infrastructure rejuvenation (TZS 5.5 billion).

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 expectations 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 2015 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

12 March 2015

Independent auditors' report to the members of Tanzania Cigarette Company Limited

for the year ended 31 December 2014

Report on the financial statements

We have audited the accompanying financial statements of Tanzania Cigarette Company Limited, set out on pages 43 to 91 which comprise the statement of financial position as at 31 December 2014, 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.

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 2014 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002.

Report on Other Legal Requirements

As required by the Tanzanian Companies Act 2002, we report to you based on our audit that:

- i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's statement of financial position (balance sheet) and the statement of profit or loss and other comprehensive income are in agreement with the books of account.

Deloitte & Touche
Certified Public Accountants (Tanzania)



Signed by: **D. C. Nchimbi**

12 March 2015

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2014

	Notes	2014 TZS M	2013 TZS M
Gross turnover		461,720	445,633
- VAT		(62,493)	(60,450)
Revenue	5	399,227	385,183
- Excise duty		(115,317)	(94,582)
Net sales		283,910	290,601
Cost of sales	6	(112,374)	(103,991)
Gross profit	5	171,536	186,610
Marketing, selling and distribution expenses		(37,962)	(32,568)
Administration expenses		(38,825)	(43,440)
Other expenses		(3,820)	(1,173)
Other gains		4,618	283
Interest income		2,756	2,439
Interest expense		(42)	(14)
Profit before taxation	7	98,261	112,137
Income tax expense	8	(29,661)	(34,079)
Profit for the year		68,600	78,058
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss:			
- Defined benefit actuarial (loss)/gain	25	(1,361)	6,849
- Tax relating to components of other comprehensive income	8	408	(2,055)
		(953)	4,794
Total comprehensive income		67,647	82,852
Earnings per share:			
Basic and diluted (TZS per share)	9	686	781

Statement of financial position

as at 31 December 2014

	Notes	2014 TZS M	2013 TZS M
Assets			
Non-current assets			
Property, plant and equipment	11	94,884	100,078
Intangible assets	12	264	528
Investment in subsidiary	13	-	-
Total non-current assets		95,148	100,606
Current assets			
Inventories	14	90,283	92,381
Trade and other receivables	15	6,604	13,922
Cash and bank balances	16	55,223	41,840
Total current assets		152,110	148,143
Total assets		247,258	248,749
Equity and liabilities			
Capital and reserves			
Share capital	17	2,000	2,000
Defined benefit reserve		1,068	2,021
Retained earnings		175,348	176,748
Shareholders' equity		178,416	180,769
Non-current liabilities			
Deferred tax liability	18	6,750	7,662
Defined benefit obligation	25	7,653	6,168
Total non-current liabilities		14,403	13,830
Current liabilities			
Trade and other payables	19	50,967	52,878
Income tax payable	8(d)	3,472	1,272
Total current liabilities		54,439	54,150
Total liabilities		68,842	67,980
Total equity and liabilities		247,258	248,749

The financial statements on pages 43 to 91 were approved and authorized for issue by the Board of Directors on 12 March 2015 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 2014

	Notes	Share capital TZS M	Defined benefit reserves TZS M	Retained earnings TZS M	Total TZS M
At 1 January 2013		2,000	(2,773)	176,748	172,917
Profit for the year		-	-	78,058	78,058
Other comprehensive income		-	4,794	-	4,794
Total Comprehensive Income		-	4,794	78,058	82,852
Dividend paid (2012 final and 2013 interim)	10	-	-	(75,000)	(75,000)
Balance at 31 December 2013		2,000	2,021	176,748	180,769
At 1 January 2014		2,000	2,021	176,748	180,769
Profit for the year		-	-	68,600	68,600
Other comprehensive income		-	(953)	-	(953)
Total Comprehensive Income		-	(953)	68,600	67,647
Dividend paid (2013 final and 2014 interim)	10	-	-	(70,000)	(70,000)
Balance at 31 December 2014		2,000	1,068	175,348	178,416

Statement of cash flows

for the year ended 31 December 2014

	Notes	2014 TZS M	2013 TZS M
Profit before taxation		98,261	112,137
Adjustments for:			
Depreciation and amortization		14,955	15,788
Defined benefit expense		631	1,072
Interest expense		42	14
Interest income		(2,756)	(2,439)
(Gain)/loss on disposal of property, plant and equipment		(126)	357
		111,007	126,929
Working capital changes:			
Decrease/(Increase) in inventories		2,098	(18,834)
Movement in related party balances		(1,890)	(509)
Decrease in trade and other receivables		6,716	8,733
Increase in trade and other payables		581	24,080
		118,512	140,399
Cash flows from operating activities		118,512	140,399
Defined benefit paid	25	(507)	(264)
Net interest received		2,714	2,425
Income tax paid	8 (d)	(27,965)	(36,693)
		92,754	105,867
Net cash generated from operating activities		92,754	105,867
Cash flows from investing activities:			
Purchase of property, plant and equipment	11	(9,536)	(20,297)
Proceeds from disposal of property, plant and equipment		165	866
		(9,371)	(19,431)
Net cash used in investing activities		(9,371)	(19,431)
Cash flows from financing activities:			
Dividends paid to owners of the company	10	(70,000)	(75,000)
		(70,000)	(75,000)
Net cash used in financing activities		(70,000)	(75,000)
Net increase in cash and cash equivalents		13,383	11,436
Cash and cash equivalents at the beginning of the year		41,840	30,404
		55,223	41,840
Cash and cash equivalents at the end of the year		55,223	41,840
Represented by:			
Cash and bank balances	16	55,223	41,840

Notes to the financial statements

for the year ended 31 December 2014

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 30 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 2014

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 27 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 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.

Notes to the financial statements

for the year ended 31 December 2014 (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 2014 (continued)

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The application of these amendments to IAS 36 did not have impact on the Company's financial statements as the Company did not have any potentially impaired non-financial assets.

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 application of these amendments to IAS 39 did not have impact on the Company's financial statements as the Company does not have hedging derivatives.

IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The application of the interpretation 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 2014 (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 2014 (continued)

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

Amendments 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 contributions 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, clarify reconciliations of segment assets only required if segment assets are reported regularly;
- IFRS 13 - Clarify 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 - Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount;
- IAS 24 - Clarify 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 2014 (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 2014 (continued)

Annual Improvements 2011-2013 Cycle

- IFRS 1 - Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only);
- IFRS 3 - Clarify 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 13 - Clarify the scope of the portfolio exception in paragraph 52;
- 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.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014

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
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
IFRS 14, Regulatory Deferral Accounts	1 January 2016
IFRS 15, Revenue from Contracts with Customers	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 2014 (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 2014

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 2018.

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 have a pervasive impact on the Company's financial statements when effective.

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.

Notes to the financial statements

for the year ended 31 December 2014 (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 2014 (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2014 (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 2014 (continued)

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.

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 as 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.

Notes to the financial statements

for the year ended 31 December 2014 (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 2014(continued)

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 have a significant impact on the Company's financial statements as the Company does not have investment in subsidiaries, joint ventures and associates.

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 an 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 2014.

Notes to the financial statements

for the year ended 31 December 2014 (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 TZS (Tanzanian Shillings), 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 2014 (continued)

3. Significant accounting policies (continued)

Foreign currency translation

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

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

Retirement benefits obligations

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

The Company and its employees also make statutory contributions to the National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). The Company's obligations with respect to contributions are 10% and 15% of the employees' gross emoluments for NSSF and PPF members respectively. The Company's contributions with respect to these retirement benefits obligations are charged to the profit or loss in the period to which they relate.

Notes to the financial statements

for the year ended 31 December 2014 (continued)

3. Significant accounting policies (continued)

Taxation

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

Current Corporate tax

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

Taxable profit differs from account profit as reported in the statement of 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 2014 (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 as 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, 1997 together with its subsequent amendments and regulations, the VAT is recognized as part of cost of acquisition of the assets or part of the expense item as 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 Tax

The excise tax 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 tax 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 (2013: TZS 9,031).
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 26,689 per 1,000 cigarettes (2013: TZS 21,351).
- Other cigarettes not mentioned in first and second bullet above is TZS 48,285 per 1,000 cigarettes (2013: TZS 38,629).

The amount of excise tax 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 2014 (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 the 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 2014 (continued)

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

Maintenance and repairs, which neither materially add to the value of the assets nor appreciably prolong their useful lives, are recognised as an expense in the period incurred. Minor plant and equipment items are also recognised as an expense during the period incurred.

Profits or losses on the retirement or disposal of property, plant and equipment, determined as the difference between the actual proceeds and the carrying amount of the assets, are recognised in profit or loss in the period in which they occur. The date of disposal is determined as the date on which the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the proceeds on the sale can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the asset, from the date that it is available for use.

Trademarks

Trademarks are initially measured at purchase cost and are amortized on a straight line basis over their estimated useful lives. The estimated 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 2014 (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 recognised when the Company becomes a party to the contractual provisions of the instrument.

Initial recognition

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

Effective interest rate method

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

Notes to the financial statements

for the year ended 31 December 2014 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Income is recognised 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 recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company's principal financial assets are trade and other receivables (excluding Value Added Tax, prepayments and operating lease receivables) and cash and cash equivalents.

Financial assets are recognised and derecognised on trade-date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

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

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

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 2014 (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 recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

De-recognition of financial assets

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

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

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

Notes to the financial statements

for the year ended 31 December 2014 (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 recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of 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 amortised cost using the effective interest method.

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

De-recognition of financial liabilities

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

Offset

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

Notes to the financial statements

for the year ended 31 December 2014 (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 2014 (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 cases are lost. In determining whether to process the provisions in the financial statements, management critically evaluates the probability of losing these cases and only makes provision for the cases in which it is probable that future outflow of resources will be required to settle the obligations.

Defined benefit plan

The Company operates an unfunded defined benefit retirement plan for all employees. Employees do not contribute to the plan, the Company bears all cost. A provision is made in the financial statements for the estimated cost of the future benefits. The accuracy and completeness of such provisions is confirmed periodically by an independent actuarial valuation. 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 recognises 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 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 95 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, Portman, Sweet Menthol, Iceberg, Safari and Crescent & Star.

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Operating segments (continued)

Export markets include The Democratic Republic of Congo, Mozambique, Malawi, Zambia, Burundi and The Comoros. Export markets reported revenue of 13 per cent of the combined revenue (2013: 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.

	2014 TZS M	2013 TZS M
Revenue from top ten customers	74,558	57,998

The reportable segment has more than 1000 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	
	2014 TZS M	2013 TZS M	2014 TZS M	2013 TZS M
Domestic Market	347,507	335,822	163,094	175,621
Export Market	51,720	49,361	8,442	10,989
	399,227	385,183	171,536	186,610

Marketing , Selling & Distribution expenses:

- Export market	(4,782)	(6,714)
- Domestic market	(33,180)	(25,854)
General & Administration costs	(38,825)	(43,440)
Other expenses	(3,820)	(1,173)
Other gains	4,618	283
Interest income	2,756	2,439
Interest expense	(42)	(14)
Profit before tax	98,261	112,137

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Operating segments (continued)

	2014 TZS M	2013 TZS M
Segment assets		
Property, plant and equipment	94,884	100,078
Intangible assets	264	528
Total segment non-current assets	95,148	100,606
Inventories	90,283	92,381
Trade and other receivables	6,604	13,922
Cash and cash equivalents	55,223	41,840
Total segment current assets	152,110	148,143
Consolidated assets	247,258	248,749
Segment liabilities		
Deferred tax liability	6,750	7,662
Defined benefit obligation	7,653	6,168
Total segment non-current liabilities	14,403	13,830
Trade and other payables	50,967	52,878
Taxation Payable	3,472	1,272
Total segment current liabilities	54,439	54,150
Consolidated liabilities	68,842	67,980

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 2014 (continued)

5. Operating segments (continued)

Other segment information

	Depreciation and amortization		Additions to non-current assets	
	2014 TZS M	2013 TZS M	2014 TZS M	2013 TZS M
Leasehold property	941	909	1,744	541
Plant and machinery	9,831	10,875	1,458	2,379
Other equipment	1,154	1,041	1,721	784
Motor vehicles	2,765	2,698	3,586	1,116
Capital work in progress	-	-	1,027	15,477
Intangible assets	265	265	-	-
Total	14,956	15,788	9,536	20,297

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

	2014 TZS M	2013 TZS M
Embassy	36,247	33,536
Club	59,691	37,670
Portsman	114,392	122,069
Sweet Menthol	77,842	95,043
Safari	45,995	35,044
Others	13,340	12,460
	347,507	335,822

6. Cost of sales

Direct costs	78,958	69,477
Indirect costs	33,416	34,514
	112,374	103,991

Notes to the financial statements

for the year ended 31 December 2014 (continued)

7. Profit before taxation

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

	2014 TZS M	2013 TZS M
Directors' emoluments	5,333	4,806
Depreciation and amortization	14,955	15,788
Technical and management service fees	11,930	13,157
Auditor's remuneration:		
- Audit fees	195	178
Donations	286	374
(Gain)/loss on disposal of property, plant and equipment	(126)	357
Foreign exchange (gain)/loss	(781)	296
Other gains and losses:		
Restructuring costs	2,119	-
Insurance proceeds	3,569	6
Employee benefits:		
Short term benefits:		
- Salaries	19,611	20,018
- Bonus	2,103	3,510
- Fringe	4,513	4,507
- Vacation	1,485	1,532
- Other	671	445
Long term benefits:		
Defined benefit obligation	631	1,072
NSSF and PPF contributions	1,759	1,822
Total employee benefits	30,773	32,906

8. Taxation

(a) Income tax recognized in profit or loss

Current taxation - current year at 30%	30,159	33,012
- prior year under provision	6	56
	30,165	33,068
Deferred taxation - current year (credit)/charge	(504)	949
- prior year under provision	-	62
	(504)	1,011
Total income tax charge to profit and loss	29,661	34,079

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

Notes to the financial statements

for the year ended 31 December 2014 (continued)

8. Taxation (continued)

(b) Reconciliation of accounting profit to tax charge

	2014 TZS M	2013 TZS M
Accounting profit before taxation	98,261	112,137
Tax charge at 30%	29,478	33,641
Income subject to lower rate of tax or not subject to tax	(4)	(28)
Disallowable expenditure	181	348
Current tax of prior years	6	56
Deferred tax adjustment - prior years	-	62
Taxation charge	29,661	34,079

(c) Income tax in other comprehensive income

Deferred tax (credit)/charge - Defined benefit plan actuarial (loss)/gain	(408)	2,055
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(d) Taxation payable

At beginning of the year	(1,272)	(4,897)
Charge for the year (Note 8(a))	(30,165)	(33,068)
Corporation tax paid	27,965	36,693
Balance at end of year	(3,472)	(1,272)

9. Earnings per share

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

Profit attributable to ordinary shareholders (TZS M)	68,600	78,058
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (TZS)	686	781

There were no potential dilutive shares outstanding at 31 December 2014 and at 31 December 2013.

Notes to the financial statements

for the year ended 31 December 2014 (continued)

10. Dividends

	2014 TZS M	2013 TZS M
Prior year final dividend	45,000	45,000
Current year interim dividend	25,000	30,000
Total	70,000	75,000
Number of ordinary shares in issue (million)	100	100
Dividend per share (TZS)	700	750

During the year, the directors declared for 2013, a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2013: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 25 billion or TZS 250 per share (2013: TZS 25 billion or TZS 250 per share). Later in the year, the Directors declared for 2014, an interim ordinary gross dividend of TZS 25 billion or TZS 250 per share, which was paid in November 2014 (2013: TZS 30 billion or TZS 300 per share).

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2013: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 15 billion or TZS 150 per share (2013: TZS 25 billion or TZS 250 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 (2013: TZS 75 billion or TZS 750 per share).

11. Property, plant and equipment

	2014 TZS M	2013 TZS M
Cost	167,953	165,920
Accumulated depreciation	(73,069)	(65,842)
	94,884	100,078
Leasehold property	26,878	25,727
Plant and machinery	57,313	64,586
Other equipment	4,936	4,157
Motor vehicles	5,589	4,751
Capital work in progress	168	857
	-	-
	94,884	100,078

No assets were pledged as security at year end or during the year under review (2013: None).

Notes to the financial statements

for the year ended 31 December 2014 (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 2013	30,920	98,448	7,019	14,274	3,254	153,915
Additions	541	2,379	784	1,116	15,477	20,297
Transfers	1,152	16,468	234	20	(17,874)	-
Disposals	-	(6,886)	(134)	(1,272)	-	(8,292)
At 31 December 2013	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
Accumulated depreciation						
At 1 January 2013	5,977	40,622	2,828	7,961	-	57,388
Charge for the year	909	10,875	1,041	2,698	-	15,523
Disposals/transfers	-	(5,674)	(123)	(1,272)	-	(7,069)
At 31 December 2013	6,886	45,823	3,746	9,387	-	65,842
Charge for the year	941	9,831	1,154	2,765	-	14,691
Disposals/transfers	-	(6,646)	(103)	(715)	-	(7,464)
At 31 December 2014	7,827	49,008	4,797	11,437	-	73,069
Net book value						
At 31 December 2014	26,878	57,313	4,936	5,590	167	94,884
At 31 December 2013	25,727	64,586	4,157	4,751	857	100,078

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 3,470 million (2013: TZS 2,344 million) which are fully depreciated and whose normal depreciation charge for the year would have been TZS 567 million (2013: TZS 477 million).

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 2014 (continued)

12. Intangible assets

	2014 TZS M	2013 TZS M
Cost	2,646	2,646
Amortization		
At beginning of year	2,118	1,853
Charge for the year	264	265
At end of year	2,382	2,118
Net book value	264	528

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

	2014 TZS M	2013 TZS M
TCC (Kenya) Limited	534	534
Allowance for impairment	(534)	(534)
	-	-

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

The subsidiary has not been consolidated because the parent Company has determined that the investment is not material and has no impact to the reported profit or loss and its statement of financial position. The Company also took advantage of exemptions available under paragraph 4 of IFRS 10, Consolidated and Separate Financial Statements.

Notes to the financial statements

for the year ended 31 December 2014 (continued)

14. Inventories

	2014 TZS M	2013 TZS M
Raw materials	61,799	66,114
Work in progress	232	190
Consumable stores	4,521	4,393
Goods in transit	6,443	8,881
Finished goods	17,724	13,520
	90,719	93,098
Allowance for obsolete materials	(436)	(717)
	90,283	92,381
Inventories carried at net realizable value below cost:	-	-

No inventory has been pledged as collateral for liabilities.

15. Trade and other receivables

	2014 TZS M	2013 TZS M
Trade receivables	4,740	6,242
Amounts due from related companies (Note 21)	1,096	1,698
Prepayments and other receivables	1,879	6,960
	7,715	14,900
Allowance for doubtful receivables	(1,111)	(978)
	6,604	13,922
Movement in the allowance for doubtful debts:-		
At the beginning of the year	978	566
Amounts recovered during the year	(103)	(449)
Increase in allowance during the year	236	861
At the end of the year	1,111	978

Notes to the financial statements

for the year ended 31 December 2014 (continued)

16. Cash and bank balances

	2014 TZS M	2013 TZS M
Cash in hand	2	9
Bank balances	55,221	41,831
	55,223	41,840

17. Share capital

	2014 TZS M	2013 TZS M
Authorized: 125,000,000 Ordinary shares of TZS. 20 each	2,500	2,500
Issued and fully paid: 100,000,000 Ordinary shares of TZS. 20 each	2,000	2,000

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

	2014 Ordinary Shares Million	2013 Ordinary Shares Million
Resident shareholders:		
General public	15.6	11.5
Parastatal Pension Fund	3.0	3.0
United Republic of Tanzania	2.5	2.5
Public Service Pension Fund	2.3	4.3
The Local Authorities Provident Fund	0.6	0.6
Alliance Insurance Corporation Limited	0.3	0.4
Trustees of the TCC Employees Share Option Scheme	0.3	0.3
Government Employees Provident Fund	0.2	0.2
National Social Security Fund	0.2	2.2
	25.0	25.0
Non-resident shareholder:		
JT International Holding B.V.	75.0	75.0
Total ordinary shares in issue	100.0	100.0

Notes to the financial statements

for the year ended 31 December 2014 (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%.

	2014 TZS M	2013 TZS M
The net deferred tax liability is attributable to the following:		
Accelerated capital allowances	11,026	11,189
Provisions	(1,980)	(1,677)
Defined benefit obligation provision	(2,296)	(1,850)
	6,750	7,662

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	11,189	(163)	-	11,026
- Provisions	(1,677)	(303)	-	(1,980)
- Defined benefit obligation	(1,850)	(38)	(408)	(2,296)
	7,662	(504)	(408)	6,750

19. Trade and other payables

	2014 TZS M	2013 TZS M
Trade payables	18,839	20,343
Amounts due to related companies (Note 21)	1,512	4,004
Excise tax and VAT payable	12,642	9,870
Other liabilities and accruals	12,393	13,807
Provisions (Note 20)	5,581	4,854
	50,967	52,878

20. Provisions

	2014 TZS M	2013 TZS M
Bonus provision	4,288	3,779
Provision for leave pay	1,293	1,075
	5,581	4,854

Notes to the financial statements

for the year ended 31 December 2014 (continued)

20. Provisions (continued)

	Opening balance TZS M	Utilized/ reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	3,779	(3,779)	4,288	4,288
Provision for leave pay	1,075	(459)	677	1,293
	<u>4,854</u>	<u>(4,854)</u>	<u>5,581</u>	<u>5,581</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 provisional 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 11,930 million (2013: TZS 13,157 million).

Other transactions with related parties

i. Purchase of goods and services

	2014 TZS M	2013 TZS M
Payable to JT International Companies	<u>(1,512)</u>	<u>(4,004)</u>
Receivable from JT International Companies	<u>1,096</u>	<u>1,698</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 2014 (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:

	2014 TZS M	2013 TZS M
Key management remuneration	5,533	4,806
Non-executive Directors emoluments	24	32

22. Commitments

i. Capital commitments

	2014 TZS M	2013 TZS M
Authorized but not contracted for	5,683	8,441
Authorized and contracted for	3,302	4,742
	8,985	13,183

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

ii. Other commitments

As at 31 December 2014 the company had a commitment for purchase of leaf totaling TZS 19,605 million (2013: TZS 17,069 million).

Notes to the financial statements

for the year ended 31 December 2014 (continued)

23. Contingent liabilities

As at the end of reporting period, there was a pending and unresolved petition by Fair Competition Commission (FCC) against the Company. FCC alleged various charges against the Company with regard to breach of Sections 10 & 11 of the Fair Competition Act No. 8 of 2003 (FCA).

In September 2012, the High Court of Tanzania dismissed the Company's petition against the FCC on the ground that the Company did not exhaust all available remedies at the FCC and at the Fair Competition Tribunal level. The Company has appealed to the Court of Appeal of Tanzania, which appeal still has to be heard.

In April 2014, the FCC issued further and different provisional findings to TCC and joined JTI, TCC's holding company, as second respondent. In these findings the FCC alleges that both TCC and JTI contravened the FCA, firstly by concluding a prohibited merger in order to strengthen its dominant position in the market in contravention of section 11(1) and 11(6) of the FCA and, secondly, by abusing its dominant position in the relevant in contravention of section 10 (1) of the FCA read together with section 4(1) and (2) as well as section 5(6) of the FCA.

The Company and JTI have filed their written replies to the FCC to the effect that there is no factual or legal basis for the complaint or provisional findings against TCC or JTI, and they should accordingly be dismissed or withdrawn, as the case may be.

The Directors, in consultation with the company lawyers, are of the view that its position is strong, and it is not possible to estimate any potential liability, if any, at this stage.

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

24. Bank overdraft

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 a 91 Days Treasury Bills plus 2.7% p.a. and is charged on daily overdrawn amount and repayable monthly (minimum price floor of 6%). As at 31 December 2014 and the date of this report, there were no drawdowns made by the company on this facility (2013: NIL).

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 2014, the Company's contributions to the funds amounted to TZS 1,759 million (2013: TZS 1,822 million).

Notes to the financial statements

for the year ended 31 December 2014 (continued)

25. Retirement benefits (continued)

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 2014 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:

	2014 Percentage	2013 Percentage
Discount rate	16.50	16.00
Salary inflation	10.50	8.75
Cost of living increase	7.50	5.75

Amount recognized in statement of profit or loss and other comprehensive income in respect of this defined benefit obligation:

	2014 Percentage	2013 Percentage
- Current service cost	366	475
- Past service cost	(762)	(700)
- Interest cost	1,027	1,297
- Actuarial loss/(gain) recognized in other comprehensive income	1,361	(6,849)
Net cost /(gain) for the year	1,992	(5,777)

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

	2014 TZS M	2013 TZS M
Opening defined benefit obligation	6,168	12,209
Current service cost	366	475
Past service cost	(762)	(700)
Interest cost	1,027	1,297
Actuarial (gain)/losses recognized	1,361	(6,849)
Benefits paid	(507)	(264)
Closing defined benefit obligation	7,653	6,168

Notes to the financial statements

for the year ended 31 December 2014 (continued)

25. Retirement benefits (continued)

Sensitivities

Salary rate sensitivity	Central Scenario	0.5% Increase	0.5% Decrease
	10.50% TZS M	11.00% TZS M	10.00% TZS M
Defined Benefit Obligation	7,653	8,029	7,356
Gross service costs excluding interest	591	625	564
Expense net interest cost	1,342	1,409	1,288
% change in Defined Benefit Obligation		4.91%	(3.89%)
% change in Gross service costs		5.73%	(4.57%)
% change in Expense net interest cost		5.04%	(3.99%)

Discount rate sensitivity	Central Scenario	0.5% Increase	0.5% Decrease
	16.50% TZS M	17.00% TZS M	16.00% TZS M
Defined Benefit Obligation	7,653	7,377	7,974
Gross service costs excluding interest	591	566	620
Expense net interest cost	1,342	1,331	1,357
% change in Defined Benefit Obligation		(3.6%)	4.2%
% change in Gross service costs		(4.3%)	5.0%
% change in Expense net interest cost		(0.8%)	1.1%

26. Operating lease arrangements

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

Payments recognized as an expense are:

	2014 TZS M	2013 TZS M
Buildings	1,038	1,188
Motor vehicles	82	160
	1,120	1,348

Notes to the financial statements

for the year ended 31 December 2014 (continued)

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.

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 2014 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	3,629	-	1,111	4,740
Amounts due from related companies	1,096	-	-	1,096
Bank balances	55,221	-	-	55,221
Total credit exposure	59,946	-	1,111	61,057

Notes to the financial statements

for the year ended 31 December 2014 (continued)

27. Financial risk management objectives and policies (continued)

Credit risk management (continued)

The amount that best represents the Company's maximum exposure to credit risk as at 31 December 2013 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	5,264	-	978	6,242
Amounts due from related companies	1,698	-	-	1,698
Bank balances	41,831	-	-	41,831
Total credit exposure	48,793	-	978	49,771

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:

	2014 TZS M	2013 TZS M
At the beginning of the year	(978)	(566)
Amounts recovered during the year	103	449
Increase in allowance during the year	(236)	(861)
At the end of the year	(1,111)	(978)

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.

Notes to the financial statements

for the year ended 31 December 2014 (continued)

27. Financial risk management objectives and policies (continued)

Liquidity risk management (Continued)

Maturity analysis for financial liabilities 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 payables	11,902	8,449	-	-	20,351

Maturity analysis for financial liabilities as at 31 December 2013 showing the remaining contractual maturities:

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade payables	1,126	23,221	-	-	24,347

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	55,223	-	-	-	55,223
Total	59,053	910	-	-	59,963

Notes to the financial statements

for the year ended 31 December 2014 (continued)

27. Financial risk management objectives and policies (continued)

Liquidity risk management (Continued)

Maturity analysis for financial assets as at 31 December 2013 showing the remaining contractual maturities

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade receivables	5,339	903	-	-	6,242
Cash and bank balances	41,840	-	-	-	41,840
Total	47,179	903	-	-	48,802

(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 2,756 million (2013: TZS 2,439 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 2014, 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 618 million (2013: TZS 699 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:

	2014 TZS M	2013 TZS M
Trade and other receivables	2,153	2,628
Trade and other payables	(16,084)	(16,612)
Open position	(13,931)	(13,984)

Notes to the financial statements

for the year ended 31 December 2014 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization

As at 31 December 2014	Loans and receivables TZS M	Financial Liabilities carried at amortized Costs TZS M	Non financial liabilities or assets TZS M	Equity TZS M	Total TZS M
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	-	32,873	18,094	-	50,967
Taxation Payable	-	-	3,472	-	3,472
	-	32,873	35,969	178,416	247,258

Notes to the financial statements

for the year ended 31 December 2014 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization (continued)

As at 31 December 2013	Loans and receivables TZS M	Financial Liabilities carried at amortized Costs TZS M	Non financial liabilities or assets TZS M	Equity TZS M	Total TZS M
Assets					
Non-current assets					
Property, plant and equipment	-	-	100,078	-	100,078
Intangible assets	-	-	528	-	528
Current assets					
Inventories	-	-	92,381	-	92,381
Trade and other receivables	6,962	-	6,960	-	13,922
Cash and bank balances	41,840	-	-	-	41,840
Total assets	48,802	-	199,947	-	248,749
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	176,748	176,748
Defined benefit actuarial losses	-	-	-	2,021	2,021
Non-current liabilities					
Deferred tax liability	-	-	7,662	-	7,662
Defined benefit plan	-	-	6,168	-	6,168
Current liabilities					
Trade and other payables	-	24,346	28,532	-	52,878
Taxation Payable	-	-	1,272	-	1,272
	-	24,346	43,633	186,769	248,749

Notes to the financial statements

for the year ended 31 December 2014 (continued)

28. Capital risk management

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

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

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

The Company's overall strategy remains unchanged from 2010.

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

	2014 TZS M	2013 TZS M
Share capital	2,000	2,000
Defined benefit actuarial gains	1,068	2,021
Retained earnings	175,348	176,748
Equity	178,416	180,769

As at 31 December 2014 the Company was not financed by any debt (2013: 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 2014 (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 2014 (2013: 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 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

The assets and liabilities included in the above table are carried at amortised 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 2014 (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 2013 but for which fair value is disclosed:

Fair value hierarchy at 31 December 2013				
	Level 1	Level 2	Level 3	Total
	TZS M	TZS M	TZS M	TZS M
Financial assets:				
Trade and other receivables	-	7,940	-	7,940
Cash and bank balances	41,840	-	-	41,840
Total	41,840	7,940	-	49,780
Financial liabilities:				
Trade and other payables	-	24,347	-	24,347
Total	-	24,347	-	24,347

There were no transfers between levels for the year ended 31 December 2014 (2013: 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).

