

Tanzania Cigarette Company Ltd
Rasilimali ya Tanzania



Annual report

for the year ended 31 December 2012

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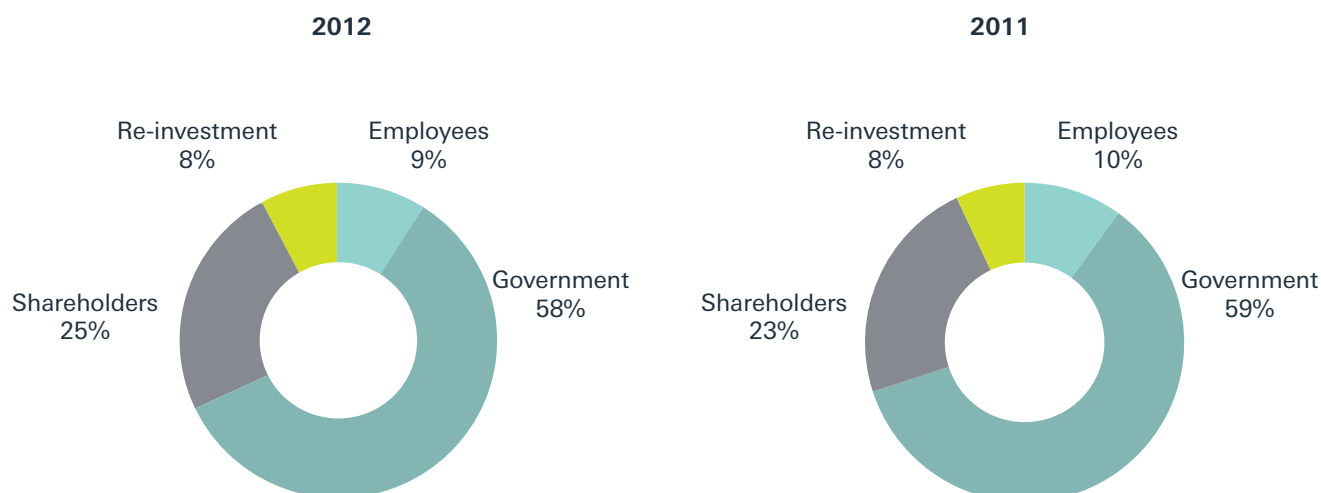
01. Financial highlights

Financial highlights

Value added (TZS M)

	2012 TZS M	%	2011 TZS M	%
Gross turnover	422,594		376,778	
Operating expenditure - Suppliers	(116,301)		(113,404)	
Total Value added	306,293	100.0	263,374	100.0
Value distributed as follows:				
To Employees – remuneration	28,706	9.4	25,550	9.7
To Government – VAT, excise duties	141,175	46.1	126,434	48.0
To Government – corporate tax	37,787	12.3	30,433	11.6
To Shareholders - dividends	75,000	24.5	60,000	22.8
To Reinvestment:				
- Depreciation and amortisation	12,684	4.1	10,015	3.8
- Retained income	10,941	3.6	10,942	4.2
Total distributions	306,293	100.0	263,374	100.0

Value distributed (%)



Financial highlights

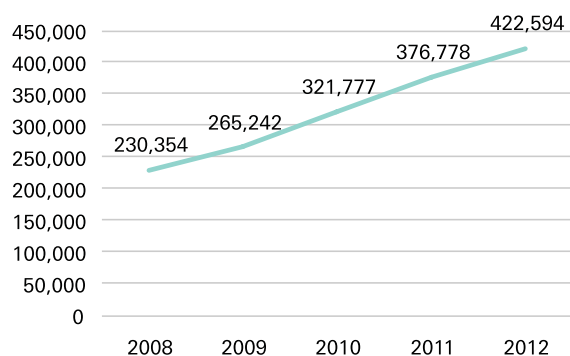
Consolidated Five-Year Financial summary (TZS M)

	2008 TZS M	2009 TZS M	2010 TZS M	2011 TZS M	2012 TZS M
For the year:					
Gross Turnover	230,354	265,242	321,777	376,778	422,594
VAT	36,972	40,098	45,886	52,985	58,805
Revenue	193,382	225,144	275,891	323,793	363,789
Excise duty	56,501	58,751	64,883	73,449	82,370
Net sales	136,881	166,393	211,008	250,344	281,419
EBITDA	50,976	73,131	95,005	108,939	134,028
Depreciation and amortization	6,554	6,924	9,140	10,015	12,684
Gross Profit	85,166	113,280	137,221	160,567	187,714
Operating income	44,429	66,207	85,865	98,923	121,345
Net Finance (income) expense	142	421	1,806	(2,452)	(1,201)
Taxation	13,508	19,759	23,859	30,433	37,787
Net income	31,063	46,028	60,200	70,942	85,941
At year end:					
Net Property, plant and equipment	37,115	48,057	70,236	93,761	96,527
Total assets	99,891	149,791	176,779	204,616	222,982
Interest bearing debts	-	10,000	-	-	-
Total Liabilities	37,038	66,184	47,972	56,182	50,065
Total shareholders' equity	62,288	83,607	128,807	148,434	172,917
For the year:					
Net cash generated by operating activities	36,473	38,396	66,509	85,638	72,125
Net cash used in investing activities	(4,363)	(17,226)	(30,924)	(33,048)	(15,552)
Net cash used in financing activities	(27,755)	(10,000)	(25,000)	(50,000)	(60,000)
Cash Flow for the year	4,355	11,170	10,585	2,590	(3,427)
Dividend per Share (TZS)	275	150	300	600	750
Earning per Share (TZS)	311	460	602	709	859
Profitability:					
Return on equity	51%	63%	57%	51%	53%
EBITDA margin	37%	44%	45%	44%	48%
Operating income margin	32%	40%	41%	40%	43%
Total assets turnover	1.50	1.33	1.29	1.31	1.32
Stability:					
Current ratio	177%	179%	267%	264%	378%
Debt Ratio (Total liabilities/ Total Assets)	38%	44%	27%	27%	22%

Financial highlights

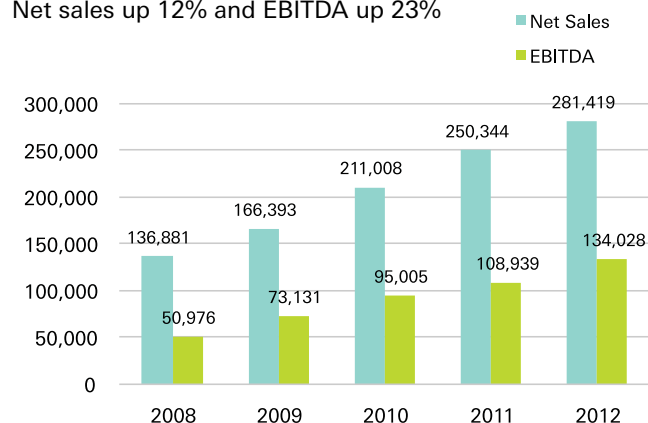
Gross turnover (TZS M)

Gross turnover up 12%



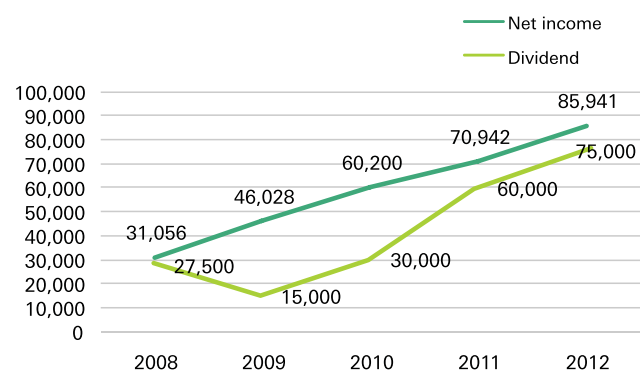
Net sales and EBITDA (TZS M)

Net sales up 12% and EBITDA up 23%

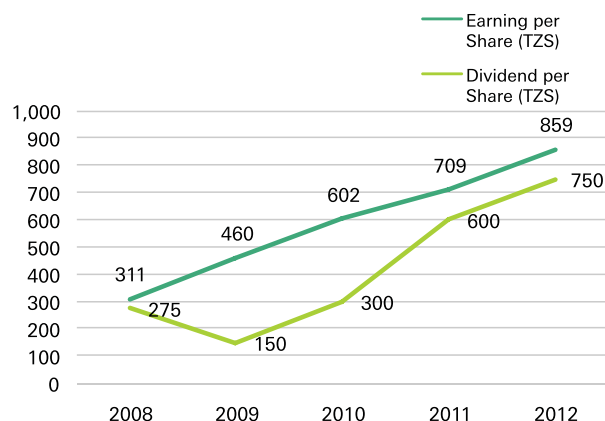


Net income and dividend (TZS M)

Net income up 21% and dividend up 25%



Dividend up 25% and earnings up 21%



Dividend per share since IPO in 2000

Year	Ordinary Dividend in TZS	Special Dividend in TZS	Total Dividend in TZS	Year	Ordinary Dividend in TZS	Special Dividend in TZS	Total Dividend in TZS
2000	117	-	117	2007	150	25	175
2001	147	80	227	2008	200	75	275
2002	147	160	307	2009	150	-	150
2003	156	63	219	2010	300	-	300
2004	156	-	156	2011	400	200	600
2005	156	-	156	2012	500	250	750
2006	100	-	100	Total			3,532



02. TCC at a glance

TCC at a glance

Our history

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

In 1967, the Government of Tanzania acquired a 60% shareholding in the Company under the Nationalization Program and in 1975 it bought the remaining 40%.

In 1995, R.J. Reynolds of the USA acquired a 51% stake in TCC. In 1999, Japan Tobacco Inc. (JT) acquired all non-US tobacco operations of R.J. Reynolds, including its 51% stake in TCC.

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

Our organization

TCC's headquarters and factory are located at 20 Nyerere Road in Dar es Salaam. The Company has 16 branches organized in three geographical groupings: the Coast region, the West region and the South region. The Coast region comprises of Dar es Salaam, Arusha, Moshi, Tanga, Mtwara and Zanzibar. The West region consists of Mwanza, Shinyanga, Bukoba, Musoma and Kigoma. Mbeya, Morogoro, Dodoma, Iringa and Songea constitute the South region.

Our vision, mission and values

Our vision is to be the best Company in East and Central Africa. Our mission is to grow volumes while defending our market share, by delivering quality brands, maximizing consumer and customer satisfaction through innovation, engaged employees, integrity and excellence in execution. Our 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.

Our brands

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

Our contribution to the economy

The Company's principal business is the manufacturing, marketing, distribution

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

Our engagement

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

risks of smoking and is committed to developing reduced-risk products, fostering understanding between smokers and non-smokers, while respecting local legislation, norms and cultures. TCC is also committed to providing a safe workplace for its employees and to conducting its business in a way that is environmentally sustainable.

Through its Corporate Philanthropy Programs (CP), TCC helps people who are less-advantaged improve their quality of life, with a specific focus on poverty alleviation, adult education, older people and people with disabilities. The Company also promotes cultural heritage and contemporary art.

TCC kwa muhtasari

Historia yetu

Tanzania Cigarette Company Ltd. (TCC), iliyokuwa East African Tobacco (EAT), ilizinduliwa Desemba 4, 1961 na Mwalimu Julius Kambarage Nyerere wakati huo akiwa Waziri Mkuu wa Tanganyika. Mwalimu Nyerere baadaye alikuja kua Rais wa kwanza wa Tanzania.

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

Mwaka 1995, kampuni ya R.J.Reynolds ya Marekani ilinunua 51% ya hisa za TCC. Mwaka 1999, Japan Tobacco Inc. (JT), ilinunua shughuli za makampuni ya tumbaku zilizomilikiwa na R.J. Reynolds zilizokua nje ya Marekani, zikiwemo 51% ya hisa za TCC.

Mwezi Septemba 2000, JT, kupitia kitengo chake cha tumbaku cha kimataifa, Japan Tobacco International (JTI), iliongeza hisa zake TCC kutoka 51% hadi 75% na hivyo kuifanya JTI kua mbia mkuu wa hisa za TCC. Watanzania wanamiliki 25% ya hisa zilizobaki kupitia Soko la Hisa la Dar es Salaam (DSE).

Kampuni yetu

Makao makuu ya Kampuni ya TCC pamoja na kiwanda vipo kiwanja namba 20, Barabara ya Nyerere, Dar es Salaam. Kampuni ina matawi 16 yaliyogawiwa katika maeneo ya kanda tatu za kijiografia – Kanda ya Pwani, Magharibi na Kusini. Kanda ya Pwani inajumuisha mikoa ya Dar es Salaam, Arusha, Moshi, Tanga, Mtwara na Zanzibar. Kanda ya Magharibi inajumuisha mikoa ya Mwanza, Shinyanga, Bukoba, Musoma na Kigoma. Mikoa ya Mbeya, Morogoro, Dodoma, Iringa na Songea inaunda Kanda ya Kusini.

Lengo, dhamira na maadili yetu

Lengo letu ni kuwa Kampuni bora Afrika Mashariki na Kati. Dhamira yetu ni kukuza wingi wa bidhaa, huku tukitetea mgao wetu wa soko kwa kutoa bidhaa bora na kuzidi kuwaridhisha walaji na wateja kupitia ubunifu, wafanyakazi walioshirikishwa, uadilifu na umahiri katika utendaji. Maadili yetu ni:

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

Changamoto

Tunahakikisha uboreshaji endelevu. Hii ina maana kuweka ubora kwenye kila kitu tunachokifanya na kamwe hatukubali kuwa wa pili kwa ubora. Tunaweka viwango vinavyokuwa vigezo na alama linganishi kwa sekta yote, Hii inatuwezesha kuukabili utendaji halisi wa sasa na kuwa kiongozi wa soko - kuwa kiongozi na si mfuasi katika soko.

Bidhaa zetu

TCC inazalisha na kuuza aina 8 ya bidhaa za sigara katika soko la ndani kwa walaji mbalimbali. Bidhaa za TCC ni pamoja na Camel – hii ni sigara ya Kimarekani iliyozinduliwa tangu mwaka 1913; Embassy – bidhaa ya ladha ya juu ya soko la ndani na Iceberg – bidhaa ya mentho ya ladha ya juu; Portsman, iliyokuwa inaitwa Sportsman, na Sweet Menthol – bidhaa zenye soko kubwa kuliko zote kwenye soko la ndani; Club na Safari bidhaa zenye kuongeza thamani; na Crescent & Star au Nyota – sigara isiyo na kichungi.

Mchango wetu katika uchumi

Shughuli kuu ya TCC ni kuzalisha, kusambaza na kuuza bidhaa za

tumbaku. TCC ni miongoni mwa makampuni makubwa Tanzania yanayotumia malighafi ya kusindika ya hapa nchini, na hivyo tumbaku kuongeza thamani ya malighafi za ndani. Pia, TCC inatoa ajira za moja kwa moja kwa wafanyakazi zaidi ya 600 na kusaidia ajira zisizo za moja kwa moja za wakulima wa tumbaku zaidi 100,000. Vilevile zaidi ya wadau 2,500 hufaidika na biashara ya TCC. TCC inaiingizia nchi fedha za kigeni kupitia biashara yake ya mauzo ya nje. TCC ni miongoni mwa wachangiaji wakubwa wa mapato ya kodi kwenye Hazina.

Ushiriki wetu

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

kiafya yanayosababishwa na kuvuta sigara na imedhamiria kutengeneza bidhaa zilizopunguzwa madhara na kukuza maelewano kati ya wavutaji sigara na wasiovuta, wakati huo huo kuheshimu sheria, kanuni, desturi na utamaduni wa nchi. TCC pia imedhamiria kuwa na mazingira salama ya kazi kwa wafanyakazi wake na kufanya biashara kwa namna inayodumisha mazingira bora.

Kampuni inashiriki katika kusaidia maendeleo ya jamii. Programu zake zinalenga wasiojiweza ili kuboresha maisha yao huku ikilenga kupunguza umaskini, kutoa elimu ya watu wazima, kusaidia wazee na wasiojiweza. Vilevile Kampuni inakuza urithi wa utamaduni na sanaa ya kisasa.



03. To our stakeholders

To our stakeholders

Message from the Chairman



Solid results despite economic challenges

I am pleased to report that we delivered solid results for the year ended December 31, 2012. It is a notable achievement that our profits grew compared to prior year, despite a challenging domestic economic environment and highly competitive export markets.

This increase was largely driven by pricing to recover margin erosion, following a huge excise tax increase of 20.45% in July 2012. Gross turnover increased from TZS 376.8 billion in 2011 to TZS 422.6 billion in 2012 or 12% up on prior year. We delivered a profit before tax of TZS 123.7 billion in 2012 compared to TZS 101.4 billion in 2011, equivalent to a 22% increase over last year. Furthermore, net profit increased by 21% to TZS 85.9 billion in 2012 from TZS 70.9 billion in 2011.

Value for stakeholders

In line with our strategic focus on sustainable top-line growth, we invested an additional TZS 15.6 billion in plant and machinery as well as distribution infrastructure (2011: TZS 33.0 billion). Furthermore, we continued to invest over half a billion Shillings in training and developing our people. These investments aim to further improve the quality of our products, the equity of our brands, distribution reach and the quality of our human capital.

We contributed TZS 179.0 billion to the Treasury in the form of excise tax, VAT

and corporate tax (2011: TZS 156.9 billion), equivalent to 42% of our total gross turnover for the year. Our business continued to sustain over 600 direct jobs, and indirectly, the employment of over 100,000 tobacco farmers and more than 2,500 other business partners. The value of our contribution to the economy of Tanzania is reflected in the awards TCC received in 2012 from the Tanzania Revenue Authority, the Parastatal Pensions Fund and the National Board of Accountants and Auditors.

As a result of the strong performance in 2012, the Board of Directors of TCC, at its meeting of March 8, 2013, recommended a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2011: TZS 10.0 billion or TZS 100 per share) and a special gross dividend of TZS 25 billion or TZS 250 per share (2011: TZS 20 billion or TZS 200 per share) for the year ended 31 December, 2012.

Combined with the interim ordinary gross dividend of TZS 30 billion or TZS 300 per share paid in October 2012, the total gross dividend for the year will be TZS 75 billion or TZS 750 per share (2011: TZS 60.0 billion or TZS 600 per share). The final gross ordinary and special dividends are subject to shareholders' approval at the Annual General Meeting (AGM) of shareholders scheduled for April 12, 2013.

Adapting for future challenges

We recognize that another excise tax increase in 2013/14, following the

20.45% increase in July, 2012, could fuel illicit trade in tobacco products. It may also undermine the long-term growth of the tobacco industry, specifically: the employment and income of tobacco farmers and other stakeholders in the tobacco value chain, the future investments, the competitiveness of our industry in the East Africa Community (EAC) and, the ability to generate future tax revenues for the Treasury.

We remain concerned about the lack of specific tobacco regulations despite the enactment of the Tobacco Law in 2003.

We trust that Government will act on our proposals to keep excise tax unchanged in 2013/14 and put in place the long-overdue tobacco regulations.

I am optimistic about the prospects for 2013. This optimism is based on the positive economic outlook for 2013, the quality of our products and our people, the equity of our brands, the strength of our distribution infrastructure and our ability to adapt to and address challenges.

Appreciation

Finally, I would like to thank the TCC Board of Directors, Management, Employees, Shareholders and all our stakeholders for their continued support to TCC.

A handwritten signature in black ink, appearing to read 'Majd Abdou', written over a light-colored background.

Majd Abdou
Chairman and CEO

Kwa wadau wetu

Waraka kutoka kwa Mwenyekiti

Mafanikio mazuri lichwa ya changamoto za kiuchumi

Ninayo furaha kutoa taarifa kwamba tulipata mafanikio mazuri kwa mwaka uliyoishia Desemba 31, 2012. Ni mafanikio dhahiri kwa kuwa faida yetu iliongezeka ikilinganishwa na mwaka uliopita, licha ya changamoto za mazingira magumu ya kiuchumi nchini na ushindani mkubwa wa soko la nje.

Mafanikio haya yametokana na ongezeko la bei kufidia kupungua kwa mapato kulikosababishwa na ongezeko kubwa la ushuru wa bidhaa za ndani la 20.45% mwezi Julai, 2012. Mapato ya jumla yaliongezeka kutoka Shilingi bilioni 376.8 mwaka 2011 hadi kufikia Shilingi bilioni 422.6 mwaka 2012 sawa na ongezeko la 12% ikilinganishwa na mwaka uliopita. Tulipata faida kabla ya kutoa kodi ya Shilingi bilioni 123.7 mwaka 2012 ikilinganishwa na Shilingi bilioni 101.4 mwaka 2011, sawa na ongezeko la 22% ikilinganishwa na mwaka uliopita. Zaidi ya hayo, faida halisi iliongezeka kwa 21%, toka Shilingi bilioni 70.9 mwaka 2011 mpaka Shilingi bilioni 85.9 mwaka 2012.

Thamani kwa wadau

Kulingana na lengo letu la kimkakati katika ukuaji endelevu wa kiwango cha juu, tumewekeza Shilingi bilioni 15.6 zaidi katika mitambo na mashine pamoja na miundombinu ya usambazaji (2011: Shilingi bilioni 33.0). Aidha tumewekeza zaidi ya Shilingi nusu bilioni katika mafunzo na maendeleo ya wafanyakazi wetu. Uwekezaji huu unalenga kuboresha zaidi ubora, usawa wa bidhaa zetu, usambazaji na ubora wa mtaji wa rasimali watu.

Tumechangia Shilingi bilioni 179.0 Hazina kama ushuru wa bidhaa za

ndani, Kodi ya Ongezeko la Thamani na kodi ya mapato ya Makampuni (2011: Shilingi bilioni 156.9), sawa na 42% ya mapato ya jumla kwa mwaka wa taarifa hii. Biashara yetu imeendelea kudumisha ajira za moja kwa moja zaidi ya 600 na ajira zisizo za moja kwa moja za wakulima wa tumbaku zaidi ya 100,000 na wabia wengine wa biashara zaidi ya 2,500. Thamani ya mchango wetu kwa uchumi wa Tanzania inadhihirishwa na tuzo ambazo TCC imepata mwaka 2012 kutoka Mamlaka ya Mapato Tanzania, Mfuko wa Pensheni wa Mashirika ya Umma na Bodi ya Taifa ya Wahasibu na Wakaguzi.

Kutokana na mafanikio makubwa ya utendaji kwa mwaka 2012, Bodi ya Wakurugenzi ya TCC katika mkutano wake wa Machi 8, 2013 ilipendekeza gawio la mwisho la kawaida la jumla la Shilingi bilioni 20 au Shilingi 200 kwa kila hisa (2011: Shilingi bilioni 10 au Shilingi 100 kwa kila hisa). Bodi pia ilipendekeza gawio maalumu la Shilingi bilioni 25 au Shilingi 250 kwa kila hisa (2011: Shilingi bilioni 20 au Shilingi 200 kwa kila hisa) kwa mwaka uliyoishia Desemba 31, 2012.

Ukichanganya na gawio la kati la jumla la Shilingi bilioni 30 au 300 kwa hisa moja lililolipwa mwezi Oktoba 2012, gawio la jumla kwa mwaka litakuwa Shilingi bilioni 75 au Shilingi 750 kwa kila hisa (2011: Shilingi bilioni 60 au Shilingi 600 kwa kila hisa). Gawio la jumla la mwisho la kawaida na gawio maalumu linategemea idhini ya wabia katika Mkutano Mkuu wa Mwaka wa wabia (AGM) uliopangwa kufanyika Aprili 12, 2013.

Kujizatiti kwa changamoto za baadaye

Tunatambua kuwa ongezeko jingine la ushuru wa bidhaa za ndani mwaka 2013/2014, juu ya ongezeko la 20.45%,

Julai, 2012, linaweza kuleta mfumuko wa bidhaa bandia za tumbaku. Pia linaweza kudhoofisha ukuaji wa muda mrefu wa sekta ya tumbaku, hasa katika ajira na mapato ya wakulima wa tumbaku na wadau wengine wanaofaidika na sekta ya tumbaku, uwekezaji wa siku zijazo, ushindani wa sekta yetu katika jumuiya ya Afrika Mashariki (EAC) na uwezo wa kuzalisha na kulipa kodi Hazina kwa siku zijazo.

Aidha, bado tuna wasiwasi kuhusu kutokuwepo kwa kanuni mahususi za udhibiti wa tumbaku licha ya kutungwa kwa Sheria ya Tumbaku, Mwaka 2003.

Tunaamini Serikali itafanyia kazi mapendekezo yetu ya kutopandisha ushuru wa sigara mwaka 2013/14 na kukamilisha kanuni za udhibiti wa tumbaku zinazosubiriwa.

Nina matumaini kwamba mwaka 2013 utakua wa mafanikio. Matumaini haya yanatokana na ukuaji-chanya wa uchumi, ubora wa bidhaa zetu na wafanyakazi wetu, usawa wa bidhaa zetu, ubora wa miundombinu yetu ya usambazaji na uwezo wetu wa kukabiliana na kushughulikia changamoto.

Shukurani

Mwisho, napenda kushukuru Bodi ya Wakurugenzi ya TCC, Menejimenti, Wafanyakazi, Wabia na wadau wetu wote kwa kuendelea kuisaidia TCC.



Majd Abdou

Mwenyekiti wa Bodi na Afisa Mtendaji Mkuu

04. Directors and Management team

Members of the board



Majd Abdou, Canadian

Chairman & CEO (Executive)

Master 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.



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 15 years of experience in the tobacco industry. He joined the Board of Directors of TCC in 2008.



Ramadhani Khijjah, Tanzanian

Director (Non-executive)

BA (Statistics), MA (Development Economics)

Mr. Ramadhani Khijjah is the Permanent Secretary to the Treasury, Ministry of Finance. He represents the Government of Tanzania on the Board of TCC. Mr. Khijjah joined the Board of Directors of TCC in 2009.



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 West, 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 16 years experience in the tobacco industry. He joined the Board of Directors of TCC in 2002.



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 10 years of experience in the tobacco industry. He joined the Board of Directors of TCC in 2005.



Olivier Blanc, Swiss

Director (Non-executive)

Law Degree, LL.M, 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.



Vintan Mbiro, Tanzanian

Secretary to the Board (Executive)

LLB, LL.M, Advocate of the High Court of Tanzania and Courts subordinate thereto

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



Vintan Mbiro
Director Legal



Caroline Kavishe
Director Human Resources



Paul Makanza
Director Corporate Affairs



Frank Usiri
Director Company Service



Moses Gunda
Director C&TM Operations



Christo Kruger
Director Finance & IT



Stella Urio
Director C&TM Portfolio
and Brand Strategy



Chris Yamat
Director C&TM
Development and Planning



Tunu Kinabo
Acting Director C&TM
Development and Planning



05. Business Review

Business review

Operating environment

2012 was marked by tough economic conditions and challenges: low disposable income constrained by a double digit inflation rate of 12.1% at December; intense competition for “share of wallet” among fast moving consumer goods companies and other players in the industry; and an unprecedented excise tax increase of 20.45% in July 2012. These and other factors combined negatively impacted the volume growth of TCC products.

Despite the tough economic situation in 2012, the Company remained focused on developing the fundamentals of the business: product quality, brands, distribution and people.

Review of operations

Production activities

TCC believes in safety first. The Company’s safety program continued to deliver on its key objective – zero accidents at the work place. As a result of on-going company-wide safety awareness programs and measures that have been put in place, there were no injuries in 2012.

The Company invested TZS 12.2 billion in plant, machinery and equipment in 2012 to enhance product quality, production capacity and efficiency. The installation of a new mid-speed line with a capacity for 10,000 cigarettes per minute will be completed in early 2013. A co-generation project to use the exhaust gas from our electricity generator to produce steam and reduce therewith the natural gas consumption will also be completed in early 2013.

TCC’s product quality continued to rank at par with those of other JTI production facilities around the world. Consumer complaints, a qualitative measure of product quality, remained low in 2012 at 2.75 complaints per billion cigarettes. Productivity, measured as cigarettes produced per man hour (CpMH), increased by 23.6% over the previous year.

TCC maintained its Environmental, Health and Safety (EHS) management system certification, ISO 14001 and OHSAS

18001, following a rigorous surveillance audit conducted by Corporate EHS Geneva in 2012. In addition TCC’s EHS Employees Involvement program won the EHS Excellence Awards 2012 (JTI’s top EHS awards).

Brand and distribution activities

TCC maintained its market leadership in 2012 despite increased competition. Portsman and Sweet Menthol remained the top selling domestic brands with a combined market share of 74%.

To further build on the strong equity of its brands, the Company launched a new thematic campaign for Embassy, the leading domestic premium brand. A series of music competitions were conducted under the Str8 Muzik platform to enhance the visibility of Sweet Menthol.

The Company invested in 100 motorbikes for its dealers to improve its reach in remote areas; it is in the process of opening up a distribution

depot in Sumbawanga, Rukwa region; restructured its Dar es Salaam branch into three separate business units; and embarked on a number of projects to enhance distribution efficiency. These include digital mapping and sales force automation projects.

TCC and the Ministry of Lands, Housing and Human Settlement collaborated on a project to develop digital maps of Tanzania for TCC. The project will continue in 2013 and will help the Company to plot its distribution across the country and address the distribution gaps discovered.

Automation of sales and marketing activities began in 2012 to further improve the accuracy and speed of decision making as well as planning. This initiative will continue in 2013 to include automation of order processing, tracking, shipment and invoicing. Once completed, it will facilitate planning of distribution routes, effective management of marketing and merchandizing activities, and optimize the performance of the sales team.



People

Developing our pool of talent and ensuring the wellness of employees remained key pillars of TCC's people programs in 2012.

The Company continued to invest over half a billion Shillings in training and development as the key people program, with a focus on promoting functional skills. Attention was devoted to young talent as well as high caliber future employees. The Company's Internship and Young Graduate Programs for fresh graduates gained momentum: 24 fresh college graduates enrolled on the program, with nine of them under the Six Months Internship Program and the rest on the two-year Young Graduate Development Program.

The uptake on the Company's Will Writing Project also continued on the upward trend with almost 40% of the total workforce writing their wills to secure their families in the unfortunate event of death.

Employee motivation remained high on the Company's agenda. Twenty-seven employees were recognized and awarded for outstanding performance in their respective areas of responsibility and three were nominated to attend the Regional JTI Striving for Excellence Awards in London.

In an effort to better understand and improve the way employees feel about the Company, TCC once again engaged Towers Watson, a global expert in employee engagement surveys (EES), to undertake the EES 2012. In total, 82% of all employees (4% higher than in 2010) participated in the survey.

The results indicated significant improvement in the areas of operational efficiency, communication, as well as

performance management, with room for improvement in other areas. Areas for improvement will be addressed during the course of 2013.

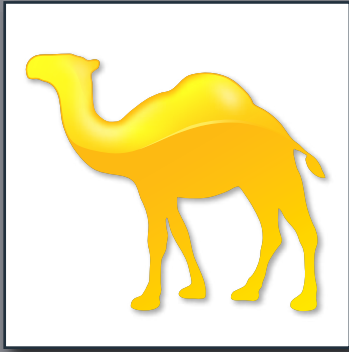
Management and the TCC's employees union successfully concluded a new voluntary agreement in December 2012, with improved benefits for employees.

Corporate philanthropy

Corporate Philanthropy (CP) is how TCC describes its choice to contribute to societies in which it conducts business, in a way that is meaningful, considered, voluntary and outside of its commercial operations. The goal is to help people who are less-advantaged to improve their quality of life, and promote the arts.

The Company's CP programs focus on two broad aspects: People (poverty alleviation, older 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.

In 2012 TCC contributed to the improvement of access to tertiary education for adult females. This project was implemented in collaboration with Tanzania Education Authority. Over 234 people benefitted from this project in 2012. In addition, various arts projects were implemented in partnership with the Vipaji Foundation. These include a clay and metal sculpture exhibition, pastel painting workshops and support to the annual Visa2Dance exhibition. Over 400 local artists benefitted from this arts and culture program in 2012.



Mapitio ya Biashara

Mazingira ya uendeshaji biashara

Mwaka 2012 ulikuwa mwaka wenye mazingira magumu ya kiuchumi na changamoto, pato dogo la kutumika lililoathiriwa na kiwango kikubwa cha mfumuko wa bei cha 12%, mwezi Desemba; ushindani mkubwa wa “hisa ya mfuko” miongoni mwa kampuni za bidhaa za mlaji zinazonunulika haraka (FMCG) na washiriki wengine katika sekta hii; na ongezeko kubwa la ushuru kwa bidhaa za ndani la 20.45% mwezi Julai, 2012 ambalo halijawahi kutokea. Sababu hizi na nyinginezo kwa pamoja zimeathiri ukuaji wa kiasi cha bidhaa za TCC.

Licha ya hali ngumu ya kiuchumi mwaka 2012, kampuni iliendelea kuzingatia misingi ya biashara: aina za bidhaa, ubora, usambazaji na wafanyakazi.

Mapitio ya uendeshaji shughuli

Shughuli za uzalishaji

TCC inaamini usalama kwanza. Mpango wa usalama kazini kwenye Kampuni umeendelea kutekeleza lengo lake kuu – kutokuwa na ajali kabisa mahali pa kazi. Kutokana na programu zinazoendelea za uhamasishaji na hatua zilizowekwa za usalama kazini kwa Kampuni nzima, hakukuwa na ajali zozote za kupoteza muda wa kazi kwa mwaka 2012.

Kampuni imewekeza Shilingi bilioni 12.2 katika mitambo, mashine na vifaa mwaka 2012 ili kuimarisha ubora wa bidhaa, uwezo wa uzalishaji na ufanisi. Kufungwa kwa mtambo mpya wa kasi-ya-kati wenye uwezo wa kutengeneza sigara 10,000 kwa dakika kutakamilika mapema mwaka 2013. Mradi wa uzalishaji nishati wa pamoja kwa kutumia gesi ya ekzosi kutoka kwenye jenereta yetu ya umeme kwenda kuzalisha mvuke na hivyo kupunguza matumizi ya gesi asili nao pia utakamilika mapema mwaka 2013.

Ubora wa bidhaa za TCC uliendelea kuwa na viwango sawa na vile vya viwanda vingine vya uzalishaji vya JTI duniani kote. Malalamiko ya walaji, kipimo cha ubora wa bidhaa zetu, yalibaki kuwa machache mwaka 2012 kwa kiwango cha malalamiko 2.75 kwa sigara bilioni moja. Tija, kupimwa

kwa sigara zinazozalishwa na mtu kwa saa (CpMH), iliongezeka kwa zaidi ya 23.6% kulinganisha na mwaka uliopita.

TCC iliendelea kufuata mfumo wa usimamizi wa Uhifadhi wa Mazingira, Afya na Usalama kazini (EHS) kwa kupata hati za viwango za ISO 14001 na OHSAS 18001 baada ya ufuatiliaji na ukaguzi mkali uliyofanywa na idara ya EHS Makao Makuu ya JTI, Geneva mwaka 2012. Pia programu ya Ushirikishaji Wafanyakazi katika EHS ya TCC ilijinyakulia tuzo ya Umahiri katika EHS kwa mwaka 2012 (EHS Excellence Awards) (Tuzo ya Juu zaidi za EHS za JTI).

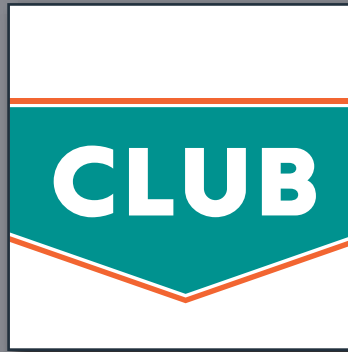
Aina za bidhaa na shughuli za usambazaji

TCC iliendelea kuongoza katika soko mwaka 2012 licha ya ongezeko la ushindani. Portsman na Sweet Menthol kwa pamoja zilibaki kuwa aina za bidhaa za ndani zilizotawala soko kwa kumiliki 74% ya soko.

Ili kuendelea kujenga usawa thabiti wa bidhaa zake, Kampuni ilizindua kampeni maalumu ya Embassy- bidhaa ya ladha ya juu ya soko la ndani, pamoja na mfululizo wa mashindano ya muziki chini ya jukwaa la Str8Muzik ili kuimarisha mwonekano wa Sweet Menthol.

Kampuni iliwekeza katika pikipiki 100 kwa wauzaji wake ili kuimarisha ufikaji katika maeneo ya pembezoni, Kampuni iko katika utaratibu wa kufungua kituo cha usambazaji mjini Sumbawanga, Mkoani Rukwa; kuunda upya tawi lake la Dar es salaam kuwa vitengo vitatu vya biashara; na kufanya miradi mbalimbali ya kuimarisha ufanisi wa usambazaji. Hii inajumuisha miradi ya ubainishaji maeneo ki-dijitali na matumizi ya mashine za mauzo kwa wafanyakazi.

TCC na Wizara ya Ardhi, Nyumba na Maendeleo ya Makazi zilishirikiana katika mradi wa kutayarisha ramani ya Tanzania ya dijitali kwa ajili ya TCC. Mradi huo utaendelea mwaka 2013 na utasaidia Kampuni kuweka usambazaji wake nchini kote na kushughulikia upungufu wa usambazaji uliogundulika.



Kufanya shughuli za masoko na mauzo kwa mashine za automati kulianza mwaka 2012 ili kuendelea kuboresha usahihi na kasi ya kufanya maamuzi pamoja na kuweka mipango. Juhudi hii itaendelea mwaka 2013 kujumuisha ushughulikiaji wa uagizaji, ufuatiliaji, usafirishaji na utayarishaji madai kwenye mfumo wa automati. Mfumo huo utakapokamilika, utawezesha kupanga njia za usambazaji, usimamizi wenye tija wa shughuli za masoko na bidhaa za biashara, na kuongeza zaidi utendaji wa timu ya mauzo.

Wafanyakazi

Uendelezaji wa wafanyakazi wenye vipaji na kuhakikisha afya za wafanyakazi zilibaki kuwa mihimili mikuu ya programu zinazohusu wafanyakazi kwa mwaka 2012.

Mwaka 2012, Kampuni iliwekeza Shilingi milioni 528 katika mafunzo na maendeleo kama programu muhimu ya wafanyakazi, kwa kuzingatia zaidi uhimizaji wa stadi za kazi. Umakini zaidi uliwekwa kwenye vipaji vipya pamoja na wafanyakazi hodari wa siku zijazo. Programu ya Mafunzo kwa Wahitimu Wapya inazidi kufanikiwa; Wahitimu wapya wa vyuo 24 walijiandikisha katika programu hii, 9 kati yao walikuwa katika Mazoezi ya Maandalizi ya miezi sita na waliobaki waliingizwa kwenye Mpango wa miaka miwili wa Maendeleo wa Wahitimu Wapya.

Mwitikio katika mradi wa Kuandika Wosia wa Kampuni pia uliendelea kuongezeka kwa kuwa na takribani 40% ya jumla ya wafanyakazi wote kuandika wosia wao ili kuzilinda familia zao panapotokea tukio la kifo.

Motisha kwa wafanyakazi imebaki kuwa kipaumbele cha juu kwenye ajenda ya Kampuni. Wafanyakazi ishirini na saba walitambuliwa na kutunukiwa kwa utendaji kazi wao mahiri katika maeneo yao ya kazi. Watatu kati yao walipendekezwa kuhudhuria Tuzo za Umahiri kazini katika kanda, zilizofanyika jijini London.

Katika juhudi za kuelewa vizuri zaidi na kuimarisha namna wafanyakazi wanavyohisi kuhusu Kampuni, TCC kwa mara

nyingine tena ilikodi Towers Watson, bingwa wa kimataifa katika utafiti wa ushirikishaji wafanyakazi (EES) kufanya EES 2012. Kwa jumla 82% ya wafanyakazi wote (4% zaidi ya mwaka 2010) walishiriki katika utafiti huo.

Matokeo yameonyesha kuna mabadiliko makubwa katika maeneo ya ufanisi wa uendeshaji, mawasiliano, pamoja na usimamizi wa utendaji na kuwapo kwa fursa za kuboresha zaidi maeneo mengine. Maeneo ya kuboresha yatashughulikiwa katika mwaka 2013. Menejimenti na Chama cha Wafanyakazi wa TCC wametia sainsi mkataba mpya wa hiari wenye mafao bora zaidi kwa wafanyakazi mwezi Desemba, 2012.

Msaada wa Kampuni kwa jamii

Msaada wa Kampuni kwa jamii (CP) ni namna TCC inavyoamua kuchangia jamii inamofanyia shughuli zake za biashara, kwa namna yenye manufaa, iliyofikiwa, kwa hiari na nje ya shughuli zake za kibiashara. Lengo likiwa ni kuwasaidia watu waliokosa fursa kuboresha maisha yao, na kukuza sanaa.

Programu za msaada wa Kampuni kwa jamii zinalenga vipengele viwili vikubwa: Watu (kutokomeza umaskini, kusaidia wazee, elimu ya watu wazima na watu wenye ulemavu); na Sanaa (urithi wa utamaduni, sanaa ya kisasa na utamaduni wa Kijapani). Maeneo haya yanaonyesha Malengo ya Maendeleo ya Milenia (MDGs) ya Umoja wa Mataifa yanayowakilisha ajenda inayokubalika kimataifa kwa mahitaji ya jamii.

Katika mwaka 2012 TCC ilichangia katika kuboresha upataji wa elimu ya jamii kwa wanawake watu wazima. Mradi huu ulitekelezwa kwa kushirikiana na Mamlaka ya Elimu Tanzania (TEA). Zaidi ya watu 234 walinufaika na mradi huu mwaka 2012. Aidha, miradi mbalimbali ya sanaa ilitekelezwa kwa ushirikiano na Vipaji Foundation. Miradi hiyo ni pamoja na maonyesho ya vinyago vya mfyanzi na chuma, warsha za uchoraji kwa kutumia chaki za rangi ya mafuta na kusaidia maonyesho ya mwaka ya Visa2Dance. Zaidi ya wasanii 400 wa nchini walinufaika na programu hii ya sanaa na utamaduni mwaka 2012.



06. Financial
Information

Corporate information

for the year ended 31 December 2012

Directors and advisers:

Directors

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

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

Mr. Ramadhani Khijja*

Mr. Olivier Blanc*
(Appointed on 27 June 2012)

Mr. Julius Mallaba*
(Resigned on 8 May 2012)

Mr. Hubertus Maria Antonius Ooms*

Mr. Paul Makanza

Mr. David Thorn

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

Mr. Christo Kruger
(Appointed on 10 February 2012)

* Non-executive Directors

Shareholding structure:

Shareholder

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

Principal bankers

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

Shareholder classification

Local	25.00%
Foreign	75.00%
Total	100.00%

**Based on share register as at 31 December 2012

Secretary, Registered Office and Principal place of business

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

Auditors

Deloitte & Touche
Certified Public Accountants (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 2012

The Directors present this report and the audited financial statements for the financial year ended 31 December 2012, which disclose the state of affairs of the Company.

Incorporation

Tanzania Cigarette Company Limited (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 on the Dar es Salaam Stock Exchange (DSE). The Company is located at plot number 20 Nyerere Road, Dar es Salaam.

Vision and values

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

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; and

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; Iceberg; Portsman (formerly Sportsman) and Sweet Menthol – the two top selling domestic brands; Club and Safari; and Crescent & Star – a non-filter brand.

Report of the Directors

for the year ended 31 December 2012 (continued)

Composition of board of Directors

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

NAME	POSITION	NATIONALITY
Mr. Simaan Matta (Resigned 20 January 2012)	Chairman & CEO	Jordanian
Mr. Majd Abdou (Appointed 20 January 2012)	Chairman & CEO	Canadian
Mr. Ramadhani Khijja	Director	Tanzanian
Mr. Paul Makanza	Director	Tanzanian
Mr. Julius Mallaba (Resigned 8 May 2012)	Director	Tanzanian
Mr. Hubertus Maria Antonius Ooms	Director	Dutch
Mr. David Thorn	Director	British
Mr. Ivo van Wingerden (Resigned 10 February 2012)	Director	Dutch
Mr. Christo Kruger (Appointed 10 February 2012)	Director	South African
Mr. Olivier Blanc (Appointed 27 June 2012)	Directors	Swiss

Corporate governance

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

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

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

Responsible Marketing

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

Report of the Directors

for the year ended 31 December 2012 (continued)

Know Your Customer (KYC)

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

Equal Opportunity Employer

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

Code of Conduct

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

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

Reporting Concerns Mechanism

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

Environment Health and Safety (EHS)

Environment, Health and Safety (EHS) is about protecting the health and safety of TCC employees, preventing accidents in the work place and minimizing the harm our activities can cause to the environment. A strong framework has been implemented to manage risks and make the most of EHS opportunities such as waste minimization and energy efficiency. The company has been ISO 14001 and OHSAS 18001 certified since 2004 and it has been able to maintain the certification through its well established Environmental Health and Safety Management system.

Report of the Directors

for the year ended 31 December 2012 (continued)

Capital structure

The Company's shareholding structure as at 31 December 2012 is shown in page 1. The details of Company's share capital are shown below:

	2012 TZS M	2011 TZS M
Authorized:		
125,000,000 Ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid:		
100,000,000 Ordinary shares	<u>2,000</u>	<u>2,000</u>

The Ordinary shares of the Company are held as follows:

Shareholder	2012 Number of Shares	2011 Number of Shares
JTIH B.V.	75,000,000	75,000,000
Minority shareholders	<u>25,000,000</u>	<u>25,000,000</u>
	<u>100,000,000</u>	<u>100,000,000</u>

Shareholders of the company

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

Directors' interest in issued and paid up share capital

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

Report of the Directors

for the year ended 31 December 2012 (continued)

Management

The Company is organized into 8 departments, headed by a director. These departments are:

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

Stock exchange information

In 2000, the Company was listed on the Dar es Salaam Stock Exchange at an initial public offering (IPO) price of TZS 410 per share. The performance of the Company's shares in the secondary market as measured by market capitalization as at 31 December 2012 was TZS 420 billion (2011: TZS 314 billion).

Results and dividend

During the year, the Directors declared an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in October 2012 (2011: 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 20 billion or TZS 200 per share (2011: TZS 10 billion or TZS 100 per share) and a special gross dividend of TZS 25 billion or TZS 250 per share (2011: TZS 20 billion or TZS 200 per share). The final ordinary and special dividends are subject to adoption by shareholders at the Annual General Meeting and, once approved, the total gross dividend relating to current year will equal TZS 75 billion or TZS 750 per share (2011: TZS 60 billion or TZS 600 per share).

Performance for the year

Despite a tough domestic economic environment and highly competitive export markets, gross turnover increased from TZS 376.8 billion in 2011 to TZS 422.6 billion in 2012 or 12% up on prior year. The Company recorded a profit before tax of TZS 123.7 billion in 2012 compared to TZS 101.4 billion in 2011, equivalent to a 22% increase over the prior year. Net profit increased by 21% to TZS 85.9 billion in 2012 from TZS 70.9 billion in 2011.

The Company's business fundamentals remained sound in 2012 with strong liquidity evidenced by cash and cash equivalent of TZS 30.4 billion (2011: TZS 33.8 billion). During 2012 the Company invested an additional TZS 15.6 billion (2011: TZS 33.0 billion) in product quality, production capacity and sales distribution infrastructure.

Report of the Directors

for the year ended 31 December 2012 (continued)

Tax compliance and rewards

The Company was fully tax compliant in 2012, with no tax disputes with the Tanzania Revenue Authorities (TRA). It was awarded several certificates of compliance by the TRA and was recognized as one of the top 3 most compliant and largest tax payers in Tanzania at the TRA 6th Annual Tax Payers Day held on November 7, 2012.

Risk management and internal control

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

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

The efficiency of any internal control system is dependent on the strict observation of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2012 and is of the opinion that they met accepted criteria.

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

Solvency

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

Employee's welfare

Management and employees' relationship

Management and the employee's Labor Union successfully concluded a new Voluntary Agreement on December 20, 2012.

Report of the Directors

for the year ended 31 December 2012 (continued)

Training and development

For the year ended 31 December 2012, the Company continued to invest over half a billion Shillings 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 improve training and development in order to meet the demands of our dynamic growing business. Training programs have been and are continually being reviewed and developed to ensure employees are adequately trained at all levels.

Medical assistance

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

Health and safety

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

Financial assistance to staff

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

Wills project

The Company, through external lawyers, facilitates employees in writing and revising their wills. All employees are encouraged to have a will to ensure their families or beneficiaries are compensated on their death.

Employees benefit plan

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

The average number of employees during the year was 669 (2011:617).

Report of the Directors

for the year ended 31 December 2012 (continued)

Gender parity

At 31 December 2012 the Company had 682 employees (31 December 2011: 630 employees), out of which 125 were female and 557 were male (2011: Female 112, Male 518).

Related party transactions and balances

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

Political and charitable donations

The Company did not make any political donations during the year. In 2012 TCC contributed to the improvement of access to tertiary education for adult females. This project was implemented in collaboration with Tanzania Education Authority (TEA). Over 234 people benefitted from this project in 2012. In addition, various arts projects were implemented in partnership with the Vipaji Foundation. These include a clay and metal sculpture exhibition, pastel painting workshops and support to the annual Visa2Dance exhibition. Over 400 local artists benefitted from this arts and culture program in 2012.

Donation made to charitable organizations and Non-governmental organizations during the year amounted to TZS 379 million (2011: TZS 473 million).

Auditors

The auditors, Deloitte & Touche, having expressed their willingness continue in office in accordance with Section 170(1) of the Tanzanian Companies Act, 2002. A resolution proposing their re-appointment as auditors of the Company for the year 2013 will be put to the Annual General Meeting.

Approved and authorized for issue by the Board of Directors on 8 March 2013 and signed on its behalf by:



Mr. Majd Abdou
Chairman

Statement of Director's 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 operating result 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 judgments 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
8 March 2013



Mr. Paul Makanza
Director

Independent auditor's report

to the members of Tanzania Cigarette Company Limited

Report on the financial statements

We have audited the accompanying financial statements of Tanzania Cigarette Company Limited, set out on pages 36 to 77 which comprise the statement of financial position as at 31 December 2012, 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 true and fair view in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Company as at 31 December 2012 and of its financial performance 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 are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Tanzania)
Dar es Salaam
Signed by: **David C. Nchimbi**

8 March 2013

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2012

	Notes	2012 TZS M	2011 TZS M
Gross turnover		422,594	376,778
- VAT		(58,805)	(52,985)
Revenue	5	363,789	323,793
- Excise duty		(82,370)	(73,449)
Net sales		281,419	250,344
Cost of sales	6	(93,705)	(89,777)
Gross profit	5	187,714	160,567
Marketing, selling & distribution expenses		(30,362)	(27,974)
Administration expenses		(35,143)	(32,917)
Other expenses		(1,142)	(1,080)
Other gains		438	1,893
Interest income		2,229	891
Interest expense		(6)	(5)
Profit before taxation	7	123,728	101,375
Income tax expense	8	(37,787)	(30,433)
Profit for the year		85,941	70,942
Other comprehensive income			
- Defined benefit actuarial loss	25	(2,082)	(1,879)
- Tax relating to components of Other comprehensive income	8	624	564
Total comprehensive income		84,483	69,627
Earnings per share			
Basic and diluted (TZS per share)	9	859	709

Statement of financial position

as at 31 December 2012

	Notes	2012 TZS M	2011 TZS M
Assets			
Non-current assets			
Property, plant and equipment	11	96,527	93,761
Intangible assets	12	793	1,058
Investment in subsidiary	13	-	-
Total non-current assets		97,320	94,819
Current assets			
Inventories	14	73,547	57,530
Trade and other receivables	15	21,711	18,436
Cash and bank balances	16	30,404	33,831
Total current assets		125,662	109,797
Total assets		222,982	204,616
Equity and liabilities			
Capital and reserves			
Share capital	17	2,000	2,000
Defined benefit actuarial losses		(2,773)	(1,315)
Retained earnings		173,690	147,749
Shareholders' equity		172,917	148,434
Non-current liabilities			
Deferred tax liability	18	4,596	5,923
Defined benefit obligation	25	12,209	8,598
Total non-current liabilities		16,805	14,521
Current liabilities			
Trade and other payables	19	28,363	41,077
Tax payable	8	4,897	584
Total current liabilities		33,260	41,661
Total liabilities		50,065	56,182
Total equity and liabilities		222,982	204,616

The financial statements on pages 36 to 77 were approved and authorized for issue by the Board of Directors on 8 March 2013 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 2012

	Notes	Share capital TZS M	Defined benefit actuarial losses TZS M	Retained earnings TZS M	Total TZS M
At 1 January 2011		2,000	-	126,807	128,807
Profit for the year		-	-	70,942	70,942
Other comprehensive income, net of tax		-	(1,315)	-	(1,315)
Total		2,000	(1,315)	197,749	198,434
Dividend paid (2010 final and 2011 interim)	10	-	-	(50,000)	(50,000)
Balance at 31 December 2011		2,000	(1,315)	147,749	148,434
At 1 January 2012		2,000	(1,315)	147,749	148,434
Profit for the year		-	-	85,941	85,941
Other comprehensive income, net of tax		-	(1,458)	-	(1,458)
Total		2,000	(2,773)	233,690	232,917
Dividend paid (2011 final and 2012 interim)	10	-	-	(60,000)	(60,000)
Balance at 31 December 2012		2,000	(2,773)	173,690	172,917

Statement of cash flows

for the year ended 31 December 2012

	Notes	2012 TZS M	2011 TZS M
Profit before taxation		123,728	101,375
<i>Adjustments for:</i>			
Depreciation and amortization		12,684	10,015
Defined benefit obligation		1,698	1,624
Interest expense		6	5
Interest income		(2,229)	(891)
Loss/(profit) on disposal of property, plant and equipment		367	(227)
		136,254	111,901
<i>Working capital changes:</i>			
Increase in inventories		(16,017)	(2,129)
Movement in related party balances		769	(10,080)
(increase)/decrease in trade and other receivables		(2,566)	79
(Decrease)/increase in trade and other payables		(14,192)	13,658
Cash flows from operations		104,248	113,429
Defined benefit paid	25	(169)	(340)
Interest received/(paid)		2,223	886
Taxation paid	8 (d)	(34,177)	(28,337)
Net cash generated by operating activities		72,125	85,638
Cash flows from investing activities:			
Purchase of property, plant and equipment	11	(15,803)	(33,281)
Proceeds from disposal of property, plant and equipment		251	233
Net cash used in investing activities		(15,552)	(33,048)
Cash flows from financing activities:			
Dividends paid to owners	10	(60,000)	(50,000)
Net cash used in financing activities		(60,000)	(50,000)
Net (decrease)/increase in cash and cash equivalents		(3,427)	2,590
Cash and cash equivalents at the beginning of the year		33,831	31,241
Cash and cash equivalents at the end of the year		30,404	33,831
Represented by:			
Cash and bank balances		30,404	33,831

Notes to the financial statements

for the year ended 31 December 2012

1. General information

Tanzania Cigarette Company Limited (The Company) is a limited liability Company incorporated in the United Republic of Tanzania. The addresses of its registered office and principal place of business are disclosed in the corporate information on page 1 of this report. The principal activities of the Company are described in the Directors report.

2. Adoption of new and revised International Financial Reporting Standards

a) New standards and amendments to published standards effective for the year ended 31 December 2012

Amendments to IAS 1
Presentation of Items of Other Comprehensive Income

The company has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IFRS 7
Disclosures - Transfers of Financial Assets

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

The application of the amendments had no effect on the company's financial statements as the company did not transfer any such financial assets during the year.

IAS 12 Income taxes
Recovery of Underlying Assets

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

The amendments to IAS 12 did not have any effect on the deferred tax liabilities because the company does not have investment properties.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2012

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

Amendment to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
IFRS 9	Financial Instruments ³
IFRS 10	Consolidated Financial Statements ¹
IFRS 11	Joint Arrangements ¹
IFRS 12	Disclosure of Interests in Other Entities ¹
IFRS 13	Fair Value Measurement ¹
IAS 19 (as revised in 2011)	Employee Benefits ¹
IAS 27 (as revised in 2011)	Separate Financial Statements ¹
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
IAS 32 (as revised in 2011)	Financial Instruments: Offsetting Financial Assets and Liabilities ²
IFRIC 20	Stripping Costs in the Production of a surface Mine ¹
Amendments to IFRS's	Annual improvements to IFRS's 2009-2011 Cycle ¹
Amendments to IAS1	Presentation of financial statements ¹
Amendments to IAS 16	Properties, Plant and Equipment ¹
Amendment to IAS 32	Financial Instruments: Presentation ²

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

² Effective for annual periods beginning on or after 1 January 2014

³ Effective for annual periods beginning on or after 1 January 2015

Amendments to IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods.

The directors anticipate that the application of these amendments to IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future

IFRS 9, Financial Instruments

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

Notes to the financial statements

for the year ended 31 December 2012 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2012 (continued)

IFRS 9, Financial Instruments (continued)

Key requirements of IFRS 9 are described as follows:

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

In December 2011, the IASB issued Amendments to IFRS 9 and IFRS 7. The amendments defer the mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015, with early application permitted. The amendments also modify the transitional requirements from IAS 39 to IFRS 9.

The directors anticipate that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have an impact on amounts reported in respect of the Company's financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review is done.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

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

Key requirements of these five Standards are described below:

IFRS 10, Consolidated Financial Statements

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

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

Notes to the financial statements

for the year ended 31 December 2012 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2012 (continued)

IFRS 11, Joint Arrangements

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

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

IFRS 12, Disclosure of Interests in other Entities

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

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these five standards are applied at the same time.

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

IFRS 13, Fair Value Measurement

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

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

The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the company is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2012 (continued)

IAS 19, Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Directors anticipate that the amendments to IAS19 will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may not have an impact on amounts reported in respect of the Company's defined benefit plan.

IAS 27, Separate Financial Statements

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments.

The Standard also deals with the recognition of dividends, certain group reorganizations and includes a number of disclosure requirements.

The Directors do not anticipate that the amendments to IAS27 will have a significant effect on the Company's financial statements.

IAS 28, Investments in Associates and Joint Ventures

This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The Directors do not anticipate that the amendments to IAS28 will have a significant effect on the Company's financial statements.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2012 (continued)

IAS 32, Financial instruments: Offsetting Financial Assets and Liabilities

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

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

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

The Directors anticipate that the application of these amendments to IAS 32 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Under the Interpretation, the costs from this waste removal activity ('stripping') which provide improved access to ore is recognised as a non-current asset ('stripping activity asset') when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

The Interpretation is effective for annual periods beginning on or after 1 January 2013. An entity should apply this Interpretation to production stripping costs incurred on or after the beginning of the earliest period presented, with specific transitional provisions.

The Directors anticipate that the adoption of IFRIC 20 will have no impact on the Company's financial statements as the company does not engage in such activities.

Amendments to IFRS's, Annual improvements to IFRS's 2009-2011

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- amendments to IAS 1 Presentation of Financial Statements;
- amendments to IAS 16 Property, Plant and Equipment; and
- amendments to IAS 32 Financial Instruments: Presentation.

IAS 1 Presentation of Financial Statements

The amendments to IAS 1 clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period (third statement of financial position) only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third statement of financial position and that the related notes are not required to accompany the third statement of financial position.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

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

b) New and amended standards in issue but not yet effective in the year ended 31 December 2012 (continued)

IAS 1 Presentation of Financial Statements (continued)

The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

The directors anticipate that the amendments to IAS 1 will result in the company presenting a statement of financial position at the beginning of the preceding period (third statement of financial position) only when the restatement or reclassification has a material effect on the information in the financial statements

IAS 16, Property, Plant and Equipment

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The directors do not anticipate that the amendments to IAS 16 will have a significant effect on the Company's financial statements.

IAS 32, Financial instruments: Presentation

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

The directors anticipate that the amendments to IAS 32 will have no effect on the Company's financial statements as the Company has already adopted this treatment.

c) Early adoption of standards

The Company early-adopted the revised IAS 1 Presentation of Items of Other Comprehensive Income which was due for adoption for annual periods commencing on or after 1 July 2012.

Notes to the financial statements

for the year ended 31 December 2012 (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).

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 2012 (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 defined benefit plan. The Company operates an unfunded and unvested defined retirement benefit scheme for its employees. Provision is made in the financial statement for the estimated cost of the future benefits under the scheme. No employee contributions are made to the scheme. Provisions to defined contribution retirement benefit plans are recognized as an expense in profit or loss when employees have rendered service entitling them to the scheme with actuarial valuations being carried out at the end of each reporting period. Actuarial gains or losses are fully recognized in other comprehensive income. Past service cost are recognized immediately in profit or loss.

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

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

Taxation

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

Current Corporate tax

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

Taxable profit differs from account profit as reported in the statement of 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.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

3. Significant accounting policies (continued)

Taxation (continued)

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.

Current and deferred tax for the period under review

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Value Added Tax (VAT)

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

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

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

Notes to the financial statements

for the year ended 31 December 2012 (continued)

3. Significant accounting policies (continued)

Taxation (continued)

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 at year end are as follows:

- Cigarettes without filter tip and containing domestic tobacco exceeding 75% is TZS 8,210, per 1,000 cigarettes.
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 19,410 per 1,000 cigarettes.
- Other cigarettes not mentioned in first and second bullet above is TZS 35,117 per 1,000 cigarettes.

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

Investment in Subsidiary Company

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of raw materials and consumable stores are determined by the weighted average cost method. Cost of finished goods and work in progress are valued at direct raw material cost and include a portion of manufacturing overhead expenses, determined on a weighted average basis. Net realizable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Leases

Leases of property and equipment, where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. All other leases are classified as operating leases.

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

Rental income from operating leases is recognized on a straight line basis over the term of relevant lease. The total payments made under operating leases are charged to other operating expenses in profit or loss on a straight line basis over the period of lease. When operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight-line basis, over the estimated useful lives to the estimated residual value.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

Useful lives, residual values and depreciation methods are reviewed on an annual basis with the effect of any changes in estimate accounted for on a prospective basis. Residual values are measured as the estimated amount currently receivable for an asset if the asset were already of the age and condition expected at the end of its useful life. Each significant component included in an item of property, plant and equipment is separately recorded and depreciated. The estimated useful life of assets at time of acquisition is assumed as follows:

	Years
Permanent buildings	50
Temporary buildings	3
Plant and machinery	5 - 20
Other equipment	3 - 10
Motor vehicles	4
Advertising equipment	4

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

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

Intangible assets

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

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

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.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

An impairment loss is recognized if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognized as an expense in profit or loss immediately. The recoverable amount of an asset is the higher of the asset's fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

The value in use of an asset represents the expected future cash flows, from continuing use and disposal that are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

The impairment loss is allocated to reduce the carrying amount of the assets of the cash-generating unit, first to goodwill in respect of the cash generating unit, if any, and then to the other assets on a pro-rata basis based on their carrying amounts. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

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

After the recognition of an impairment loss, any depreciation or amortization charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its estimated residual value, on a systematic basis over its remaining useful life.

Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends declared after the reporting date, are not recognized as liabilities at the reporting date.

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 2012 (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 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 120 days because historical experience has been that receivables that are past due beyond 120 days are difficult to recover. Daily sales outstanding balance during 2012 was 7 days (2011: 7 days).

Cash and cash equivalents

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

Notes to the financial statements

for the year ended 31 December 2012 (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.

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).

Notes to the financial statements

for the year ended 31 December 2012 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

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.

4. Critical accounting judgements and key sources of estimation uncertainties

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

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

Provisions

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

Notes to the financial statements

for the year ended 31 December 2012 (continued)

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

Provisions (continued)

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

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

Impairment provision

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

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

Property, plant and equipment

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

Provisions for pending litigations

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

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.

Taxation

The company is subjected to numerous taxes and levies by various government and quasi-government regulations bodies. As a rule of thumb, the company recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of managements in one way or other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

5. Operation segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The Company has two operating segments namely domestic and export markets. Domestic market has reported revenue from both external customers and intersegment sales or transfers of 90 per cent of the combined revenue, internal and external, of all operating segments, thus qualifying as reportable segment. The absolute measure of its reported profit or loss is more than 96 per cent in absolute amount, of the combined reported profit or loss of all operating segments that report a profit or loss. The reportable operating segment is carrying on the business of manufacturing and selling of cigarette in Tanzania and other operating segment. The brands sold in domestic market are Camel, Club, Embassy, Portman, Sweet Menthol, Iceberg, Safari, Crescent & Star.

Export markets include Democratic Republic of Congo, Mozambique, Malawi, Zambia, Burundi and Comoros. Export markets reported revenue of 10 per cent of the combined revenue (2011: 9 per cent).

Information about transactions with major customers

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

	2012 TZS M	2011 TZS M
Revenue from top ten customers	<u>48,722</u>	<u>34,588</u>

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	
	2012 TZS M	2011 TZS M	2012 TZS M	2011 TZS M
Domestic Market	326,702	295,537	181,099	158,961
Export Market	37,087	28,256	6,615	1,606
Total	<u>363,789</u>	<u>323,793</u>	<u>187,714</u>	<u>160,567</u>
Marketing , Selling & Distribution expenses:				
- Export market			(5,300)	(4,096)
- Domestic market			(25,062)	(23,878)
General & Administration costs			(35,143)	(32,917)
Other expenses			(1,142)	(1,080)
Other gains			438	1,893
Interest income			2,229	891
Interest expense			(6)	(5)
Profit before tax			<u>123,728</u>	<u>101,375</u>

Notes to the financial statements

for the year ended 31 December 2012 (continued)

5. Operation segments (continued)

	2012 TZS M	2011 TZS M
Segment assets		
Property, plant and equipment	96,527	93,761
Other intangible assets	793	1,058
Total segment non-current assets	97,320	94,819
Inventories	73,547	57,530
Trade and other receivables	21,711	18,436
Cash and cash equivalents	30,404	33,831
Total segment current assets	125,662	109,797
Consolidated assets	222,982	204,616
Segment liabilities		
Deferred tax liability	4,596	5,923
Defined benefit obligation	12,209	8,598
Total segment non-current liabilities	16,805	14,521
Trade and other payables	28,363	41,077
Taxation Payable	4,897	584
Total segment current liabilities	33,260	41,661
Consolidated liabilities	50,065	56,182

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

Notes to the financial statements

for the year ended 31 December 2012 (continued)

5. Operation segments (continued)

Other segment information

	Depreciation and amortization		Additions to non-current assets	
	2012 TZS M	2011 TZS M	2012 TZS M	2011 TZS M
Leasehold	817	757	1,231	3,020
Plant and machinery	8,465	6,683	1,888	19,589
Other equipment	637	453	2,363	512
Motor vehicles	2,500	1,857	2,397	4,882
Capital work in progress	-	-	7,924	5,278
Intangible assets	265	265	-	-
Total	12,684	10,015	15,803	33,281

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

	2012 TZS M	2011 TZS M
Embassy	26,802	40,057
Portsmen	141,039	112,234
Sweet Menthol	118,911	114,179
Safari	19,482	14,786
Other	20,468	14,281
	326,702	295,537

6. Cost of sales

	2012 TZS M	2011 TZS M
Direct Costs	60,237	61,449
Indirect costs	33,468	28,328
	93,705	89,777

Notes to the financial statements

for the year ended 31 December 2012 (continued)

7. Profit before taxation

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

	2012 TZS M	2011 TZS M
Directors' emoluments	3,646	3,357
Depreciation and amortization	12,684	10,015
Technical & Management service fees	10,994	10,221
Auditor's remuneration:		
- Audit Services	165	140
Loss/(profit) on disposal of property, plant and equipment	367	(227)
Foreign exchange gain	(161)	(1,566)
Employee benefits:		
<i>Short term benefits:</i>		
- Salaries	18,227	15,851
- Bonus	2,991	2,187
- Fringe	2,408	2,303
- Vacation	1,273	1,300
- Other	528	816
<i>Long term benefits:</i>		
Defined benefit obligation	1,698	1,624
NSSF and PPF contributions	1,581	1,469
Total employee benefits	28,706	25,550

8. Taxation

(a) Income tax recognized in profit or loss

	2012 TZS M	2011 TZS M
Current taxation – current year at 30%	37,711	27,246
– Prior year under/(over) provision	779	(174)
	38,490	27,072
Deferred taxation – current year	(283)	3,414
– Prior year overprovision	(420)	(53)
	(703)	3,361
Total income tax charge to profit and loss	37,787	30,433

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 2012 (continued)

8. Taxation (continued)

(b) Reconciliation of accounting profit to tax charge

	2012 TZS M	2011 TZS M
Accounting profit before taxation	123,728	101,375
Tax charge at 30%	37,118	30,413
Income subject to lower rate of tax or not subject to tax	(31)	(16)
Disallowable expenditure	341	263
Current tax of prior years	779	(174)
Deferred tax adjustment – prior years	(420)	(53)
Taxation charge	37,787	30,433
(c) Income tax in other comprehensive income		
Deferred tax credit - Defined benefit plan actuarial loss	(624)	(564)
(d) Taxation payable		
Balance at beginning of the year	(584)	(1,849)
Charge for the year (Note 8(a))	(38,490)	(27,072)
Corporation tax paid	34,177	28,337
Balance at end of year	(4,897)	(584)

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)	85,941	70,942
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (TZS)	859	709

There were no potential dilutive shares outstanding at 31 December 2012 and at 31 December 2011.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

10. Dividends

	2012 TZS M	2011 TZS M
Interim dividend for the year	30,000	30,000
Final dividend for the year	45,000	30,000
Total	75,000	60,000
Number of ordinary shares in issue (million)	100	100
Dividend per share (TZS)	750	600

During the year, the Directors declared an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in October 2012 (2011: 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 20 billion or TZS 200 per share (2011: TZS 10 billion or TZS 100 per share) and a special gross dividend of TZS 25 billion or TZS 250 per share (2011: TZS 20 billion or TZS 200 per share). The final ordinary and special dividends are subject to adoption by shareholders at the Annual General Meeting and, once approved, the total gross dividend relating to current year will equal TZS 75 billion or TZS 750 per share (2011: TZS 60 billion or TZS 600 per share).

11. Property, plant and equipment

	2012 TZS M	2011 TZS M
Cost	153,915	146,776
Accumulated depreciation	(57,388)	(53,015)
	96,527	93,761
Leasehold property	24,943	23,132
Plant and machinery	57,826	61,816
Other equipment	4,191	1,403
Motor vehicles	6,313	6,204
Capital work in progress	3,254	1,206
	96,527	93,761

No assets were pledged as security at year end or during the year under review (2011: None).

Notes to the financial statements

for the year ended 31 December 2012 (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 2011	25,127	71,028	3,216	9,498	6,093	114,962
Additions	3,020	19,589	512	4,882	5,278	33,281
Transfers	290	9,868	7	-	(10,165)	-
Disposals	-	-	(16)	(1,451)	-	(1,467)
At 31 December 2011	28,437	100,485	3,719	12,929	1,206	146,776
Additions	1,231	1,888	2,363	2,397	7,924	15,803
Transfers	1,622	2,980	1,062	212	(5,876)	-
Disposals	(370)	(6,905)	(125)	(1,264)	-	(8,664)
At 31 December 2012	30,920	98,448	7,019	14,274	3,254	153,915
Accumulated depreciation						
At 1 January 2011	4,548	31,986	1,873	6,319	-	44,726
Charge for the year	757	6,683	453	1,857	-	9,750
Disposals/transfers	-	-	(10)	(1,451)	-	(1,461)
At 31 December 2011	5,305	38,669	2,316	6,725	-	53,015
Charge for the year	817	8,465	637	2,500	-	12,419
Disposals/transfers	(145)	(6,512)	(125)	(1,264)	-	(8,046)
At 31 December 2012	5,977	40,622	2,828	7,961	-	57,388
Net book value:						
At 31 December 2012	<u><u>24,943</u></u>	<u><u>57,826</u></u>	<u><u>4,191</u></u>	<u><u>6,313</u></u>	<u><u>3,254</u></u>	<u><u>96,527</u></u>
At 31 December 2011	<u><u>23,132</u></u>	<u><u>61,816</u></u>	<u><u>1,403</u></u>	<u><u>6,204</u></u>	<u><u>1,206</u></u>	<u><u>93,761</u></u>

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

Included in property, plant and equipment are assets with an original cost of TZS 13,480 million (2011: TZS 1,466 million) which are fully depreciated and whose normal depreciation charge for the year would have been TZS 3,591 million (2011: TZS 381 million).

Notes to the financial statements

for the year ended 31 December 2012 (continued)

12. Intangible assets

	2012 TZS M	2011 TZS M
Cost	2,646	2,646
Amortization		
At beginning of year	1,588	1,323
Charge for the year	265	265
At end of year	1,853	1,588
Net book value	793	1,058

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

	2012 TZS M	2011 TZS M
TCC (Kenya) Limited	534	534
Allowance for impairment	(534)	(534)
	-	-

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

The subsidiary has not been consolidated because the parent Company has determined that the investment is not material and has no impact to the reported profit or loss and its statement of financial position. The Company also took advantage of exemptions available under paragraph 10 of the IAS 27, Consolidated and separate financial statements.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

14. Inventories

	2012 TZS M	2011 TZS M
Raw materials	52,892	36,838
Work in progress	220	203
Consumable stores	5,109	5,187
Goods in transit	2,028	9,014
Finished goods	13,839	6,775
	74,088	58,017
Allowance for obsolete materials	(541)	(487)
	73,547	57,530
Inventories carried at net realizable value below cost:	-	-

15. Trade and other receivables

	2012 TZS M	2011 TZS M
Trade receivables	6,355	5,791
Amounts due from related companies (Note 21)	753	44
Prepayments and other receivables	15,169	13,129
	22,277	18,964
Allowance for doubtful receivables	(566)	(528)
	21,711	18,436
Movement in the allowance for doubtful debts:-		
At the beginning of the year	528	134
Amounts recovered during the year	(66)	(15)
Increase in allowance during the year	104	409
At the end of the year	566	528

16. Cash and bank balances

	2012 TZS M	2011 TZS M
Cash in hand	11	56
Bank balances	30,393	33,775
	30,404	33,831

Notes to the financial statements

for the year ended 31 December 2012 (continued)

17. Share capital

	2012 TZS M	2011 TZS M
Authorized:		
125,000,000 Ordinary shares of TZS. 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid:		
100,000,000 Ordinary shares of TZS. 20 each	<u>2,000</u>	<u>2,000</u>

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

	2012 Ordinary Shares Million	2011 Ordinary Shares Million
Resident shareholders:		
General public	11.5	11.5
Public Service Pension Fund	4.3	4.3
Parastatal Pension Fund	3.0	3.0
United Republic of Tanzania	2.5	2.5
National Social Security Fund	2.2	2.2
The Local Authorities Provident Fund	0.6	0.6
Alliance Insurance Corporation Limited	0.4	0.4
Trustees of the TCC Employees Share Option Scheme	0.3	0.3
Government Employees Provident Fund	0.2	0.2
	25.0	25.0
Non-resident shareholder:		
JT International Holding B.V.	75.0	75.0
Total ordinary shares in issue	<u>100</u>	<u>100</u>

18. Deferred tax liability

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

The net deferred tax liability is attributable to the following:

	2012 TZS M	2011 TZS M
Accelerated capital allowances	9,814	9,159
Provisions	(5,218)	(3,236)
	<u>4,596</u>	<u>5,923</u>

Notes to the financial statements

for the year ended 31 December 2012 (continued)

18. Deferred tax liability (continued)

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	9,159	655	-	9,814
- Provisions	(657)	(899)	-	(1,556)
- Defined benefit obligation	(2,579)	(459)	(624)	(3,662)
	5,923	(703)	(624)	4,596

19. Trade and other payables

	2012 TZS M	2011 TZS M
Trade payables	5,069	12,169
Amounts due to related companies (Note 21)	3,569	2,091
Excise tax and VAT payable	7,034	9,681
Other liabilities and accruals	8,481	13,531
Provisions (Note 20)	4,210	3,605
	28,363	41,077

20. Provisions

	2012 TZS M	2011 TZS M
Bonus provision	3,286	2,789
Provision for leave pay	924	816
	4,210	3,605

	Opening balance TZS M	Utilized/ reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	2,789	(2,493)	2,990	3,286
Provision for leave pay	816	(1,165)	1,273	924
	3,605	(3,658)	4,263	4,210

Notes to the financial statements

for the year ended 31 December 2012 (continued)

21. Related party transactions and balances

Related companies

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

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

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

Contracts with related parties

The Company has agreements with JT International SA and JT International Holding B.V for provision of managerial, technical and administrative services since 1 January 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 10,994 million (2011: TZS 10,221 million).

Other transactions with related parties

i. Purchase of goods and services

	2012 TZS M	2011 TZS M
Payable to JT International Companies	(3,569)	(2,091)
Receivable from JT International Companies	<u>753</u>	<u>44</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.

iii. Compensation of key management personnel

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

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

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

Notes to the financial statements

for the year ended 31 December 2012 (continued)

21. Related party transactions and balances (continued)

iii. Compensation of key management personnel (continued)

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

	2012 TZS M	2011 TZS M
Key management remuneration	3,646	3,357
Non-executive Directors emoluments	30	40

22. Commitments

i. Capital commitments

Authorized but not contracted for	6,664	18,753
Authorized and contracted for	6,978	13,836
	<u>13,642</u>	<u>32,589</u>

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 2012 the company had a commitment for purchase of leaf totaling TZS 7,314 million (2011: TZS 8,356 million).

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 alleges various charges against the Company with regard to breach of Sections 10 & 11 of the Fair Competition Act No. 8 of 2003.

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. 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 lost the related cases, are not likely to be material.

24. Bank overdraft

The company had an overdraft facility with Standard Chartered Bank (Tanzania) up to a limit of TZS 3,000,000,000 in order to meet its working capital requirements. The facility is secured by a guarantee from the ultimate parent company Japan Tobacco Inc. The effective interest rate for the facility is a 91 Days Treasury Bills plus 2.7% p.a. and is charged on daily overdrawn amount and repayable monthly (minimum price floor of 6%). The facility expires on 20 July 2013. As at 31 December 2012, there were no drawdowns made by the company (2011: NIL).

Notes to the financial statements

for the year ended 31 December 2012 (continued)

25. Retirement benefits

Statutory retirement benefits

The Company has an obligation to make statutory contributions for retirement benefits to its employees. All eligible employees of the Company are members of the National Social Security Fund of Tanzania (NSSF) or Parastatal Pension Funds (PPF), to which the Company contributes 10% and 15% and the employee contributes 10% and 5% respectively every month. During the year ended 31 December 2012, the Company's contributions to the funds amounted to TZS 1,581 million (2011: TZS 1,469 million).

Defined benefit obligation

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

The Company provides for retirement benefit cost based on assessments made by independent actuaries. The most recent actuarial valuation was carried out at 31 December 2012 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:

	2012 Percentage	2011 Percentage
Discount rate	11.50	13.25
Salary inflation	11.75	11.75
Cost of living increase	8.75	8.75

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

	2012 TZS M	2011 TZS M
Current service cost	516	391
Past service cost	-	400
Interest cost	1,182	833
Actuarial loss recognized in Other comprehensive income	2,082	1,879
Net cost for the year	3,780	3,503

Notes to the financial statements

for the year ended 31 December 2012 (continued)

25. Retirement benefits (continued)

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

	2012 TZS M	2011 TZS M
Opening defined benefit obligation	8,598	5,435
Current service cost	516	391
Past service cost	-	400
Interest cost	1,182	833
Actuarial losses recognized	2,082	1,879
Benefits paid	(169)	(340)
Closing defined benefit obligation	12,209	8,598

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:-

	2012 TZS M	2011 TZS M
Buildings	1,054	1,080
Motor vehicles	214	239
	1,268	1,319

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.

Notes to the financial statements

for the year ended 31 December 2012 (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 2012 without taking account of the value of any collateral obtained was:

	Fully performing TZS M	Past due TZS M	Impaired TZS M
Trade and other receivables	7,107	-	566
Cash and bank balances	30,404	-	-
Total credit exposure	37,511	-	566

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

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

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:

	2012 TZS M	2011 TZS M
At the beginning of the year	(528)	(134)
Amounts recovered during the year	66	15
Increase in allowance during the year	(104)	(409)
At the end of the year	(566)	(528)

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.

Notes to the financial statements

for the year ended 31 December 2012 (continued)

27. Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

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

Maturity analysis for financial liabilities as at 31 December 2012 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	(1,694)	(6,945)	-	-	(8,639)

Maturity analysis for financial liabilities as at 31 December 2011 showing the remaining contractual maturities:

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade payables	(2,554)	(11,706)	-	-	(14,260)

Maturity analysis for financial assets as at 31 December 2012 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	6,376	165	-	-	6,541
Cash and bank balances	30,404	-	-	-	30,404
Total	36,780	165	-	-	36,945

Maturity analysis for financial assets as at 31 December 2011 showing the remaining contractual maturities:

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade receivables	5,156	151	-	-	5,307
Cash and bank balances	33,831	-	-	-	33,831
Total	38,987	151	-	-	39,138

Notes to the financial statements

for the year ended 31 December 2012 (continued)

27. Financial risk management objectives and policies (continued)

Market risk management

(i) Interest rate risk

The company is not exposed to interest rate risk because it does not have interest earning liabilities. The company has received interest income amounting to TZS 2,229 million (2011:891 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 2012, 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 474 million (2011 – TZS 617 million).

The carrying amounts of the Company's material foreign currency denominated monetary assets and liabilities that will have an impact on profit or loss when exchange rates change, as at 31 December 2011 are as follows:

	2012 TZS M	2011 TZS M
Trade and other receivables	1,530	1,000
Trade and other payables	(11,378)	(13,338)
Open position	(9,848)	(12,338)

Notes to the financial statements

for the year ended 31 December 2012 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization

	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
As at 31 December 2012					
Assets					
Non-current assets					
Property, plant and equipment	-	-	96,527	-	96,527
Intangible assets	-	-	793	-	793
Current assets					
Inventories	-	-	73,547	-	73,547
Trade and other receivables	6,541	-	15,170	-	21,711
Cash and bank balances	30,404	-	-	-	30,404
Total assets	36,945	-	186,037	-	222,982
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	173,690	173,690
Defined benefit actuarial losses	-	-	-	(2,773)	(2,773)
Non-current liabilities					
Deferred tax liability	-	-	4,596	-	4,596
Defined benefit plan	-	-	12,209	-	12,209
Current liabilities					
Trade and other payables	-	8,638	19,725	-	28,363
Taxation Payable	-	-	4,897	-	4,897
	-	8,638	41,427	172,917	222,982

Notes to the financial statements

for the year ended 31 December 2012 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization

	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
As at 31 December 2011					
Assets					
Non-current assets					
Property, plant and equipment	-	-	93,761	-	93,761
Intangible assets	-	-	1,058	-	1,058
Current assets					
Inventories	-	-	57,530	-	57,530
Trade and other receivables	5,307	-	13,129	-	18,436
Cash and bank balances	33,831	-	-	-	33,831
Total assets	39,138	-	165,478	-	204,616
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	147,749	147,749
Defined benefit actuarial losses	-	-	-	(1,315)	(1,315)
Non-current liabilities					
Deferred tax liability	-	-	5,923	-	5,923
Defined benefit plan	-	-	8,598	-	8,598
Current liabilities					
Trade and other payables	-	14,260	26,817	-	41,077
Taxation Payable	-	-	584	-	584
	-	14,260	38,915	151,441	204,616

Notes to the financial statements

for the year ended 31 December 2012 (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 2011.

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

	2012 TZS M	2011 TZS M
Share capital	2,000	2,000
Defined benefit actuarial losses	(2,773)	(1,315)
Retained earnings	173,690	147,749
Equity	172,917	148,434

As at 31 December 2012 the Company was not financed by any debt (2011: NIL).

29. Fair values

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

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).

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