ANNUAL REPORT
for the year ended December 31, 2019

Tanzania Cigarette Public Limited Company
Rasilimali ya Tanzania

FROM SEED TO PACK

CONTENTS

01. Financial highlights 5

02. TCC at a glance 9

    Our vision and mission 9

    Our values 10

03. To our stakeholders

    Message from the Chairman 13

    Message from the CEO 19

04. Directors and management team 25

    Members of the Board 26

    Management team 27

05. Business review 28

06. Reports and Financial statements for the year ended December 31, 2019 35

    Corporate information 36

    Report of the directors 37

    Statement of directors' responsibilities 46

    Declaration by the head of finance 47

    Independent auditor's report 48

    Statement of profit or loss and other comprehensive income 50

    Statement of financial position 51

    Statement of changes in equity 52

    Statement of cash flows 53

    Notes to the financial statements 54

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Consolidated five-year financial summary

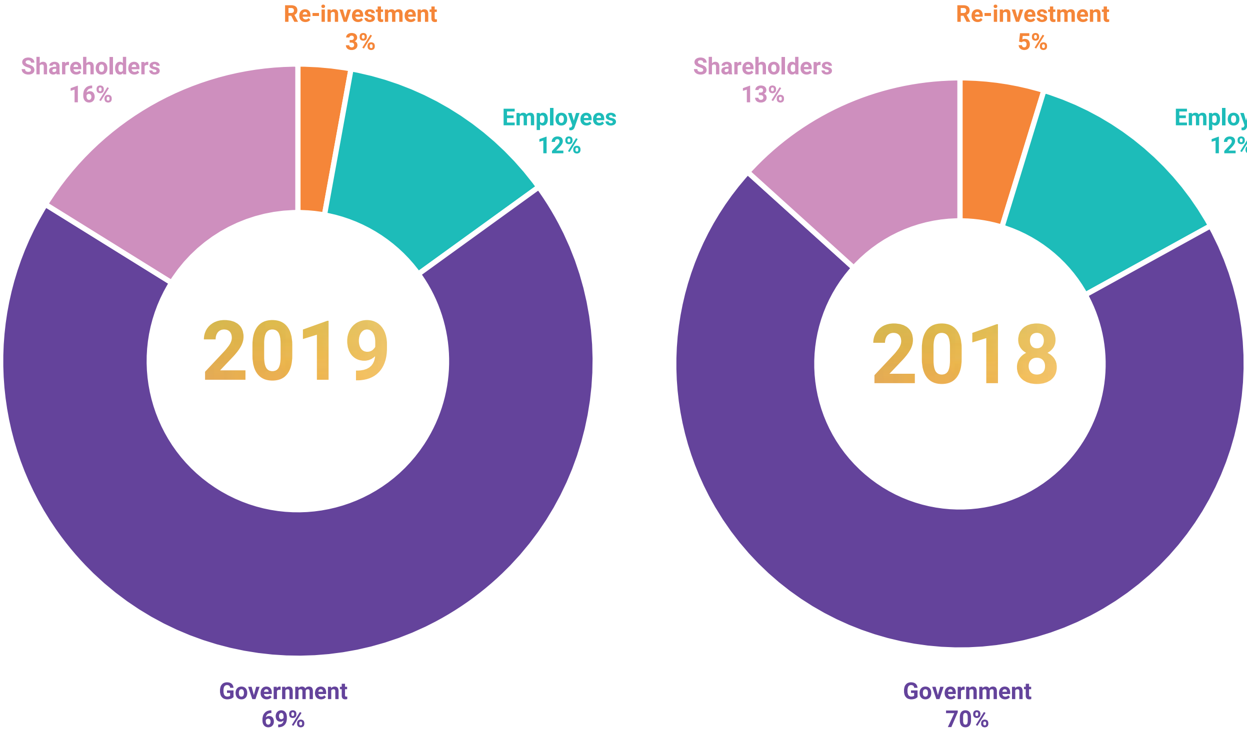
	2015 TZS M	2016 TZS M	2017 TZS M	2018 TZS M	2019 TZS M
Revenue	**300,550**	**300,962**	**279,749**	**294,386**	**309,771**
EBITDA	112,840	108,159	76,723	84,185	93,380
Depreciation and amortization	15,710	12,890	12,007	13,101	13,496
Gross Profit	178,997	170,892	158,148	166,108	175,896
Operating income	97,130	95,269	64,716	71,084	79,884
Net Finance and foreign exchange (gains)/loss	(2,263)	(3,365)	(1,201)	(397)	(1,263)
Corporate tax	31,585	29,964	20,558	23,544	26,936
Net income	**65,711**	**68,669**	**45,357**	**47,936**	**51,248**
At year end:					
Net Property, plant and equipment	87,474	89,353	96,765	98,117	97,754
Total assets	229,972	257,212	259,802	266,614	268,627
Interest bearing debts	-	-	-	-	-
Total Liabilities	55,632	70,496	76,907	76,420	81,486
Total shareholders' equity	174,340	186,716	182,895	190,194	187,141
For the year:					
Net cash generated by operating activities	66,419	61,507	62,674	49,736	74,275
Net cash used in investing activities	(7,535)	(14,261)	(19,497)	(13,915)	(11,808)
Net cash used in financing activities	(70,000)	(60,000)	(50,000)	(40,000)	(55,047)
Cash Flow for the year	(11,116)	(12,754)	(6,823)	(4,179)	7,420
	2015	2016	2017	2018	2019
Dividend per share (TZS)	600	600	400	450	550
Earning per share (TZS)	657	687	454	479	512
Profitabilty:					
Return on equity	37%	38%	25%	26%	27%
EBITDA margin	38%	36%	27%	29%	30%
Operating income margin	32%	32%	23%	24%	26%
Total assets turnover	1.26	1.17	1.08	1.10	1.15
Stability:					
Current ratio	346%	289%	254%	274%	255%
Debt ratio (total liabilities/total assets)	24%	27%	30%	29%	30%

FINANCIAL HIGHLIGHTS

Value added

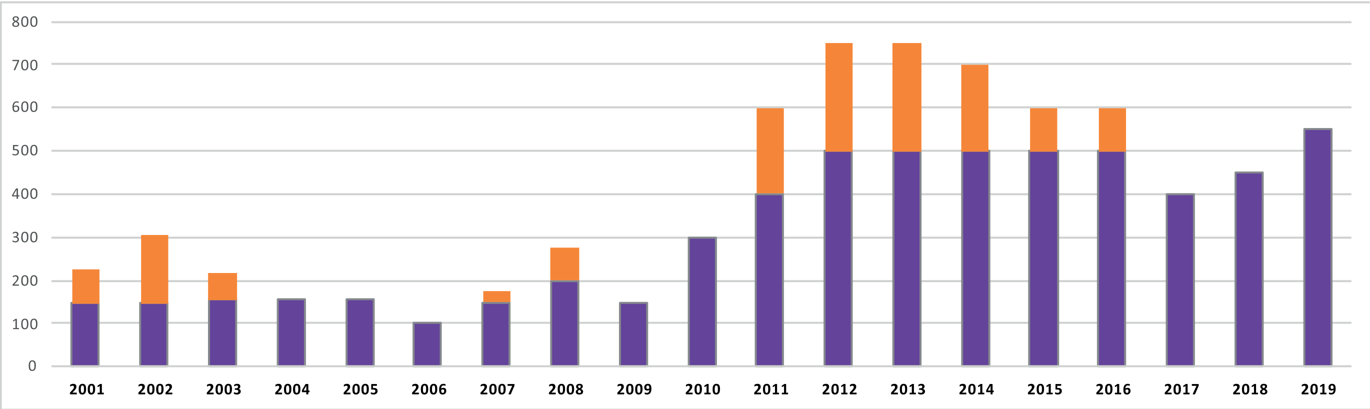
	2019 TZS M	%	2018 TZS M	%
Gross turnover	517,167		506,739	
Operating expenditures - suppliers	(176,634)		(168,379)	
Total Value added	**340,533**	**100.0**	**338,360**	**100.0**
Value distributed as follows:				
To Employees - remuneration	41,447	12.2	41,426	12.2
To Government - vat,excise duties	207,396	60.9	212,353	62.8
To Government - corporate tax	26,936	7.9	23,544	7.0
To shareholders - dividends	55,000	16.1	45,000	13.2
To Reinvestment:				
Depreciation and amortisation	13,506	4.0	13,101	3.9
Retained income	(3,752)	-1.1	2,936	0.9
Total distributions	**340,533**	**100.0**	**338,360**	**100.0**

Value distributed (%)



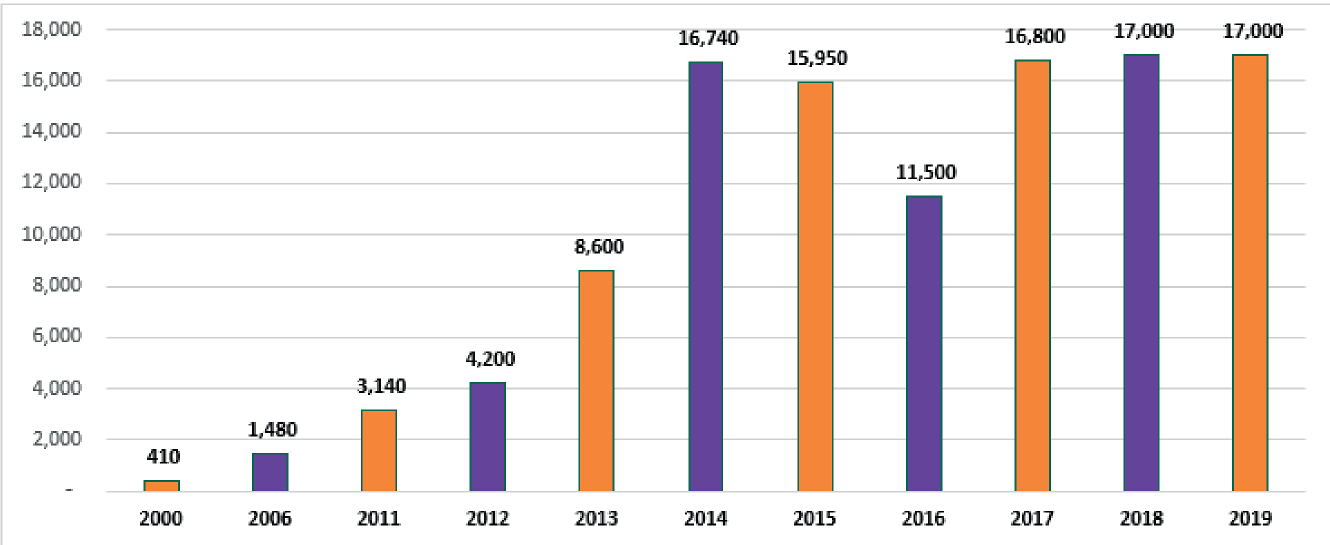
FINANCIAL HIGHLIGHTS

Dividend history



Share price evolution

Share price evolution (TZ/share): 2000-2019



TCC PLC AT A GLANCE
TCC PLC KWA MUHTASARI

OUR VISION AND MISSION

Our vision is to continue to be #1 tobacco company by volume in Tanzania

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

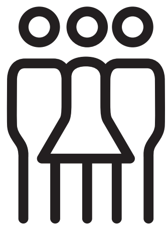
DIRA NA DHAMIRA YETU

Dira yetu ni kuendelea kuwa kampuni namba moja kwa mauzo ya bidhaa za tumbaku Tanzania.

Dhamira yetu ni kukuza wingi wa bidhaa na faida huku tukitetea mgawo wetu wa soko, kuzalisha bidhaa bora na kuendelea kuwaridhisha watumiaji na wateja kwa uwezo wetu wote, kupitia ubunifu, wafanyakazi walioshirikishwa, uadilifu na umahiri katika utendaji.

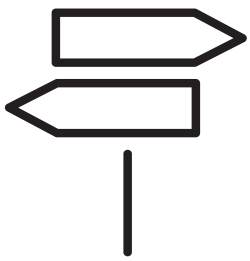
CORE VALUES

Winning attitude
We are driven by success



Better together
We work as 'One Team'

Commitment to quality
We put the consumer
at the heart of what we do



We do the right thing
We act responsibly to drive
sustainable success

MAADILI YETU

Mwelekeo wa ushindi
Tunasukumwa na mafanikio

Umoja ni nguvu
Tunafanya kazi kama "Timu Moja"

Wajibu katika ubora
Tutamtanguliza mtumiaji wa bidhaa zetu katika kila tunachofanya

Tunafanya kwa haki na uadilifu
Tunazingatia wajibu wetu kupata mafanikio endelevu

TO OUR STAKEHOLDERS

MESSAGE FROM THE **CHAIRMAN**

We enter 2020 with positive momentum. We are optimistic about the year ahead, subject to a conducive operating environment.

Paul Makanza
Chairman of the Board

MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

It gives me great pleasure to present to you our Annual Report for the year ended December 31, 2019. It reflects another successful year for the company, in which we continued to deliver strong results and value for all our stakeholders.

Growing shareholder value

Profit after tax grew by 6.9% over prior year to TZS 51.2 billion, driven by robust volume growth in our primary export market, the Democratic Republic of Congo; pricing in the domestic market; and operational cost efficiencies. Coupled with strong operating cashflows of TZS 74.3 billion, this has allowed us to increase gross dividend per share by 22% to TZS 550 for the full year. In November 2019, we paid an interim gross dividend of TZS 300 per share. The balance of TZS 250 per share will be paid on or about May 7, 2020, subject to your approval at the shareholders meeting.

Our share price at the Dar es Salaam Stock Exchange (DSE) remained stable versus prior year, at TZS 17,000 per share, and the highest on the DSE. This reflects your confidence in the long-term fundamentals of our business, its vision and strategy.
The government continued to be the biggest beneficiary of the total value created in 2019. Total value added, i.e. gross turnover less operating expenditure, amounted to TZS 340.5 billion. Nearly 69% of this, or TZS 234.3 billion, was paid to the government in the form of Value Added Tax (VAT), excise and corporate tax.

Focused investment driving our success

TCC is by far the #1 tobacco company in Tanzania by volume. But competition is intensifying. Our challenge is to defend our #1 position. Our strategy is clear -focused investments in our products, distribution and people.

For example, in 2019, we introduced a new tobacco category, Roll-Your-Own (RYO), to serve a previously untapped informal consumer segment. Thus, creating a new source of government's tax revenue as well new jobs. Most of these jobs have been taken up by women in line with TCC's policy to enhance gender diversity.
In addition, we restructured our distribution model to ensure our quality products are always available at the right place and price in a cost-effective manner.
Furthermore, we began implementation of a transformation initiative to improve speed, agility and service delivery, in order to better serve our esteemed customers and consumers.

Committed to strong governance and standards

TCC is committed to promoting transparent, fair, and timely decision-making that carefully considers respective interests of our consumers, shareholders, employees, and the wider society. As a board, our role is to ensure that fully fledged governance structures, policies, procedures and effective internal controls are in place. In line with this mandate, we implemented various initiatives.
For example, we commissioned an external review of our internal controls to identify areas for improvements and implemented recommendations put forward.
In addition, we restructured the Nomination and the Audit Committees in line with best practice.
Furthermore, we welcomed Michal Bachan, our new CEO, effectively August 1, 2019. Michal brings with him vast experience in the tobacco sector. His solid professional background and expertise is an asset to the company. Michal replaces Alan Jackson, who has moved to JTI-Canada. We thank Alan for his contribution to the success of the company.

Improving our environmental and social impact

As with most industries, our operations impact the environment in many ways. Throughout our operation, our environmental protection efforts aim to minimize negative impacts on: global climate change; water resources; wastes management; and recycling. Our target is to reduce Greenhouse Gas Emissions, water withdrawal and waste by 13% by 2023 vs. 2015.
Our 2019 progress is remarkable and we are on track to meet our target. Community Investment has always been a vital part of TCC's sustainability strategy.
We are, therefore, committed to make communities where we operate more inclusive and resilient. These activities also offer volunteering opportunities, allowing our employees to engage with communities, develop new skills, gain a sense of pride and satisfaction. In 2019, over 1,300 people benefitted from our community investment programs. Through our five project partners, we invested over TZS 326 million and volunteered 1,457 man-hours in various community initiatives.

Optimistic about the year ahead

We enter 2020 with positive momentum, optimistic about the year ahead, subject to a conducive operating environment.
Tanzania will hold general elections in October this year.
We are optimistic that peace and tranquillity will prevail. The country's macroeconomic achievements over the last four years – robust economic growth of about 7% per annum, a low inflation rate of under 5% and a stable Shilling – are commendable.
We are confident these gains will be sustained and going forward the benefits will be more inclusive and wide spread.
The on-going reforms to improve the business environment are encouraging. We hope the recommendations of the *Blueprint For Regulatory Reforms to Improve the Business Environment* will be

implemented fully and accelerated. We are also encouraged by the low levels of illicit trade in tobacco products of around 4% vs. an average of +20% in the rest of the region. A clear indication that reasonable excise tax rates, coupled with strong enforcement measures are effective in protecting legitimate businesses and government tax revenue.

Thank you for your continued support

The trust you have bestowed upon the Board of Directors, the Management team and employees of TCC has strengthened all of us in our daily work. I would like to thank you for this. I am also grateful to fellow board members for their effective oversight and wise counsel. To the Management and employees of TCC, thank you for your exemplary service. As always, the Board appreciates your devotion in delivering on our business objectives. To our customers, consumers, business partners and our parent company – JTI – thank you for your continued support to our business. We remain focused on creating sustainable value for all our key stakeholders in the coming years and look forward to reporting our continued progress.

Sincerely,

Paul Makanza
Chairman of the Board

UJUMBE KUTOKA KWA **MWENYEKITI**

Tumeingia mwaka 2020 kwa kishindo chanya. Tuna matumaini makubwa katika siku zijazo yatakayoongozwa na kuwapo kwa mazingira wezeshi ya kufanya biashara.

Paul Makanza
Mwenyekiti wa Bodi

UJUMBE KUTOKA KWA MWENYEKITI

Wapendwa Wanahisa

Ninayo faraja kubwa kuwasilisha kwenu Ripoti ya mwaka wa fedha ulioishia Desemba 31, 2019.

Inaakisi mwaka mwingine wa mafanikio ya kampuni yetu na jinsi tulivyoendelea kuwa na matokeo yenye tija. Shukurani ziwaendee wafanyakazi wetu ambao wanajitoa kufanya kazi kwa moyo na bidii kubwa.

Kuongezeka wa thamani kwa wanahisa

Faida halisi ilikua kwa asilimia 6.9 ambayo ni sawa na shilingi za kitanzania bilioni 51.2, ikilinganishwa na mwaka uliopita. Ongezeko hili ni matokeo ya upangaji mzuri wa bei na umakini katika matumizi ya gharama za uendeshaji.

Hali hii imetuwezesha kuongeza gawio kwa kila hisa kwa asilimia 22 kuwa shilingi za kitanzania 550 kwa mwaka mzima wa 2019.

Gawio la awali la shilingi za kitanzania 300 kwa kila hisa lililipwa Oktoba 2019.

Tutalipa gawio la mwisho la shilingi za kitanzania 250 kwa kila hisa Mei 7, 2020 au kabla ama baada ya siku hiyo.

Bei ya hisa zetu katika Soko la Hisa la Dar es Salaam (Dar es Salaam Stock Exchange) imeendelea kuimarika kwa bei ya shilingi za kitanzania 17,000 kwa hisa kulinganisha na mwaka uliopita Serikali imeendelea kunufaika.

Haya yanadhihirisha imani mliyonayo katika misingi ya muda mrefu ya biashara yetu, maono yake na mikakati inayoeleweka lakini pia na ubora wa wafanyakazi wetu.

Uwekezaji iliyolengwa yachochea mafanikio

TCC ni kampuni namba moja ya tumbaku Tanzania. Lakini sasa ushindani unaongezeka. Changamoto yetu ni kuilinda nafasi yetu ya kuwa namba moja. Mkakati wetu uko wazi - uwekezaji sahihi kwenye bidhaa zetu, usambazaji na rasilimali watu.

Kwa mfano, mwaka 2019 tulianzisha kundi mpya ya tumbaku, Roll-Your-Own (RYO) iliyolenga kuhudumia kundi la walaji lisilo rasmi ambalo halikupata kufikiwa kabla.

Kwa hatua hiyo tukawa tumeiwezesha serikali kupata chanzo kipya cha kodi na ajira. Sehemu kubwa ya ajira hizi zimechukuliwa na wanawake katika kwenda sawa na mtazamo wa TCC kuhakikisha uwepo wa usawa wa kijinsia katika ajira.

Lakini pia tuliunda upya mfumo wa usambazaji kuhakikisha kwamba bidhaa zetu bora zinapatikana katika maeneo sahihi na zina bei inayoakisi thamani ya fedha na ubora wa bidhaa.

Zaidi, tulianza utekelezaji wa mpango wa uboreshaji wa kuboresha kasi ya utoaji huduma bora kwa wakala na wateja wetu.

Uimara wa utawala bora na viwango

TCC imedhamiria kukuza uwazi, haki na kufanya uamuzi kwa kuzingatia maslahi anuai ya wanahisa wake, wakala na wateja wa huduma zetu, wafanyakazi na wana jamii kwa ujumla wake. Sisi tuliomo kwenye Bodi, dhamana yetu ni kuhakikisha ndani ya kampuni pamesimikwa miundo sahihi ya kiutawala, sera na taratibu na mifumo imara ya udhibiti wa ndani. Kutokana na dhamana hii, mwaka jana tulitekeleza baadhi ya mikakati.
Aidha, tuliidhinisha mapitio ya mifumo yetu ya udhibiti wa ndani ili kuainisha maeneo yanayohitaji kuboreshwa na tumetekeleza mapendekezo tuliyopewa, na uhakiki ilifanywa kutokea nje ya kampuni.
Kadhalika, tuliunda upya Kamati za Uteuzi na Ukaguzi ili kwenda sambamba na mahitaji ya utawala bora.
Tulimkaribisha Afisa Mtendaji Mkuu (CEO) Michal Bachan, aliyejiunga nasi kuanzia Agosti 1, 2019. Michal amekuja kuongeza ujuzi wa uongozi na uzoefu wa aina yake alionao katika sekta ya tumbaku. Uimara wake kitaaluma na utaalamu wake uliojengwa na uzoefu ni hazina kubwa kwa kampuni. Michal amekuja kuchukua nafasi ya Alan Jackson ambaye amekwenda kujiunga na JTI-Canada. Napenda kutoa shukurani za dhati kwa uongozi wake imara.

Uboreshaji wa mazingira na jamii

Kama vilivyo viwanda vingi, kazi yetu inagusa mazingira kwa njia mbalimbali. Katika wakati wote wa shughuli za utendaji tumeelekeza jitihada zetu katika kupunguza athari hasi katika mabadiliko ya tabia nchi; vyanzo vya maji, udhibiti taka na kuhamasisha urejeshwaji wa taka kwa kutengeneza bidhaa. Lengo letu ni kupunguza hewa ya ukaa, upotevu wa maji, na kupunguza taka kwa asilimia 13 ifikapo mwaka 2023 kulinganisha na 2015. Tulipata maendeleo mazuri mwaka 2019, tunahakika tutatimiza lengo hili.

Uwekezaji katika jamii umekuwa kwa miaka yote sehemu muhimu ya mikakati ya uendelevu wa TCC. Kwa hiyo, tumedhamiria kuzishirikisha na kuziimarisha jamii zilizo jirani na maeneo yetu ya kazi. Shughuli zetu katika maeneo hayo zimekuwa zikitoa fursa ya kujitolea kwa wafanyakazi wetu kushiriki pamoja na jamii, kuendeleza vipaji na ujuzi vipya, kujenga moyo wa kujivunia na kuridhika.
Zaidi ya wanajamii 1,300 walifaidika na programu za uwekezaji katika jamii mwaka 2019. Kwa kushirikiana na wadau wetu wa miradi mitano, tuliwekeza zaidi ya shilingi za Tanzania milioni 326 na tulifanya kazi za kujitolea kwa saa zipatazo 1,457 katika vikundi mbalimbali vya kijamii.

Matumaini ya mwaka ujayo

Tunauanza mwaka 2020 na msukumo chanya, tukiwa na matumaini makubwa ya yajayo mbele yetu yatakayofanikishwa na mazingira wezeshi ya kufanya biashara.

Oktoba mwaka huu Tanzania itafanya uchaguzi mkuu. Tunataraji amani na utulivu vitatawala. Nchi imepata mafanikio kiuchumi-ukuaji uchumi unaokadiriwa kufikia asilimia 7 kwa mwaka; mfumuko wa bei ulio chini ya asilimia 5 na shilingi imendelea kuimarika, yote haya ni mambo ya kujipongeza.

Tunatumaini mafanikio haya yatakuwa endelevu na kwamba mbele ya safari neema hii itasambaa ikigusa jamii pana.

Mabadiliko yanayoendelea ya kuboresha mazingira ya kufanya biashara yanatia moyo. Tunataraji mapendekezo yaliyomo katika *Blueprint for Regulatory Reforms to Improve the Business Environment* yatatekelezwa yote.

Tunatiwa moyo pia na viwango vya chini vya biashara haramu ya bidhaa za tumbaku vilivyo kati ya asilimia 4 ikilinganishwa na wastani wa asilimia 20 katika maeneo mengine ya kanda hii.

Ni ishara ya wazi kwamba viwango rafiki vya kodi na hatua imara za udhibiti zikichukuliwa hufanikiwa kulinda biashara halali na kuiwezesha serikali kupata mapato.

Ahsanteni kwa kutuunga mkono

Imani mliyonayo kwa Bodi ya Wakurugenzi, Menejimenti na wafanyakazi wote wa TCC imetuimarisha sote katika utendaji wetu wa kila siku. Napenda niwashukuru. Niwashukuru pia wajumbe wenzangu wa Bodi kwa usimamizi wao makini na ushauri wao wa busara. Na kwa Menejimenti na wafanyakazi wa TCC, ahsanteni kwa huduma yenu ya kuigwa mfano. Bodi inaridhishwa na jinsi mnavyojitoa katika kutimiza malengo yetu ya biashara.

Niseme pia ahsante sana kwa wakala, wateja, wabia wetu wa biashara na kampuni yetu mama-JTI- kwa kuendelea kutuunga mkono katika biashara yetu.

Tutaendelea kutekeleza malengo yetu na kuweka thamani endelevu kwa wadau wetu wote katika miaka ijayo, na tutakuwa tukiwasilisha maendeleo ya utendaji wetu.

Paul Makanza
Mwenyekiti wa Bodi

MESSAGE FROM THE **CEO**

Strong performance in 2019 gives me confidence in our ability to further grow our business through strategic investments in our people, brands and capabilities, while being resilient to challenges in our operating environment.

Michal Bachan
Chief Executive Officer

CEO'S STATEMENT

Dear Shareholders,

On August 1st, 2019, I assumed the role of CEO of TCC Plc. I am delighted to be in Tanzania, I feel honored and privileged to lead this great company with remarkable history and heritage. I look forward to working with all our key stakeholders to grow TCC 's business further.

Strong performance in 2019 despite regulatory and operational challenges

As I reflect on TCC's performance in 2019, I am excited to say that our efforts to increase value for our shareholders are paying off.

Revenue increased by 5.2% compared to the previous year amounting to TZS 309.8 billion, driven by growing volume in export markets, increased profitability on sales generated in the domestic market and the government's decision not to increase excise tax in July 2019. We commend the government for this decision, especially given the substantial increase in the cost of electronic tax stamps.

EBIDTA (Earnings Before Interest, Taxes, Depreciation and Amortization) grew by 10.9% reaching TZS 93.4 billion. Net cash generated by operating activities increased by nearly 50% amounting to TZS 74.3 billion. Net Income increased by 6.9% reaching TZS 51.2 billion and all profitability ratios improved over 2018. These achievements reflect company's commitment to continuously drive optimization of costs, keeping administrative expenses low and further enhancing management of working capital, ultimately enabling to return more money to shareholders.

Operating environment remains challenging

In July 2019, we took a strategic decision to increase prices of our brands to protect profitability and shareholder value. This followed the government's decision to replace paper stamps on tobacco products with electronic tax stamps (e-stamps). Consequently, the cost of tax stamps increased significantly from US$ 4.77 in 2018 to US$ 20 in 2019 per 1,000 stamps - an increase of over 300%. This resulted in TCC having to spend over TZS 14 billion procuring the newly introduced electronic tax stamps last year. We welcome the use of e-stamps and appreciate the need to improve tax collection efficiency. However, we remain committed to engage the government and all key stakeholders involved to find a win-win solution over the prohibitive cost of e-stamps.

Investing in our people, brands and distribution for sustainable growth

Our people are at the core of our business and our success.
Highly skilled, talented, and diverse workforce is vital for our future success. TCC spent TZS 1 billion in training and development of our employees in 2019, by offering numerous learning opportunities from specialist training to global development projects. Our company continued to recognize its talents with more than 90% of management roles filled internally.
Our Young Graduate Trainee Program has also been expanded to include internship opportunities abroad. TCC received a special recognition award on supporting the National Internship Program presented to TCC by the Vice President of the United Republic of Tanzania. Moreover, our company was one of the only two employers given an opportunity to share this exemplary initiative with Senior Government officials and Labor Sector SADC Ministers.
Our innovative program for college graduates - Make It Bright - has been a huge success in identifying and recruiting talent. The program encourages college graduates in the country to show case innovative ideas for assessment, funding and implementation if successful. A number of these graduates have gone on to secure permanent employment, both within the company and externally, as part of TCC nurturing and developing young Tanzanian talents.
As part of our Diversity and Inclusion (D&I) program, we took a firm decision to drive gender parity and employment opportunities for the disabled. Going forward, I will personally drive our D&I efforts to ensure we progress on this strategic initiative.

I am very pleased that our efforts and investments in human resources have been recognized by several external institutions. For the third consecutive year, TCC was voted a Top Employer in Tanzania and Africa. Our Environmental Health and Safety Program was recognized as best in class by OSHA. These awards are a reconfirmation that TCC is an employer of choice for Tanzanians and that we are doing the right thing investing in our People and ensuring TCC's success is sustainable.

Investing in our brands is key to sustaining our market leadership

Our consumers are becoming increasingly demanding and price sensitive. To meet our adult smokers needs, we launched a new and innovative product - Embassy Click. This new offering allows consumers to enjoy up to four different flavors in one cigarette. In addition, we introduced a new tobacco category, "Gosso" a Roll-Your-Own (RYO) cigarette, aimed at the highly price sensitive adult consumers. Furthermore, we made a strategic decision to focus our efforts on Winston, JTI's leading brand globally, and in Q4 of 2019 we made it widely available across Tanzania.

In 2019 TCC also continued to invest in building the equity of our heritage brands - Embassy, Portsman and Sweet Menthol, to retain our existing adult smoker base. These initiatives were conducted strictly in accordance with the current tobacco regulations while recognizing the importance of consumers being able to make informed decisions.

Our wide distribution network is a key competitive advantage

We must protect this advantage while driving efficiencies. To widen our customer and consumer reach effectively and efficiently, we partnered with third party distributors around the country to improve distribution of our products. Going forward, we will evaluate their

performance against key performance indicators. Where necessary, we will take corrective measures to ensure we realize the benefits of the new distribution model.

Strategic business outlook

We are confident to deliver on our 2020 business objectives, subject to a conducive operating environment and barring a vast and prolonged COVID-19 virus outbreak in the country. We remain committed to growing TCC's revenues and central to our plan is a relentless focus on our customers and consumers, the quality of our products and further operational efficiency improvements. We will continue investing in our people to further increase their engagement. We will be supporting our brands and our trading partners, ensuring we have the most efficient route to market. We will upgrade our operating facilities, so we stay fit to compete and further grow our business in Tanzania as well as leveraging new business opportunities in our export markets in East and Southern Africa.

Appreciation

I wish to recognize the contribution of my predecessor, Alan Jackson, for the strong results achieved in 2019. I would also like to extend my appreciation to all our key stakeholders for their unwavering support and commitment to TCC Plc. We will continue to make decisions for the benefit and the long-term sustainability of our Company.

Thank you to our valued employees, management team and fellow Board members for your continued contributions to our business. Finally, a sincere thank you to our loyal customers and consumers.

Michal Bachan
Chief Executive Officer

UJUMBE KUTOKA KWA **OFISA MTENDAJI MKUU**

Utendaji wetu mzuri wa mwaka 2019 unanipa imani juu ya uwezo tulionao katika kukuza zaidi biashara yetu kwa kuwekeza kimkakati kupitia watu wetu, aina ya bidhaa tuliyonao na uwezo tuliona huku tukipambana bila kuchoka na changamoto zinazotukabili kwenye mazingira tuliyomo.

Michal Bachan
Afisa Mtendaji Mkuu

Wapendwa Wanahisa,

Nilianza kazi ya Ofisa Mtendaji Mkuu wa TCC Agosti mosi, 2019. Ninafurahi kuwepo nchini Tanzania, najisikia mwenye heshima na upendeleo kuongoza kampuni hii kubwa yenye historia ya kupigiwa mfano na urithi maridhawa. Natarajia kushirikiana kwa karibu na wadau wote ili kukuza zaidi biashara ya kampuni.

Utendaji mzuri wa mwaka 2019 licha ya kukumbana na changamoto za utendaji

Ninapotafakari tulipotoka na nikiangalia utendaji wa mwaka 2019 nafarijika kusema kwamba juhudi zetu za kuongeza thamani kwa wanahisa zinazaa matunda.

Mapato yaliongezeka kwa asilimia 5.2 ikilinganishwa na mwaka uliotangulia na kufikia shilingi bilioni 309.8. Ongezeko hilo lilichangiwa na kukua kwa shehena ya mzigo uliokwenda masoko ya nje ya nchi, ongezeko la faida ya mauzo katika soko la ndani ya nchi na hatua ya Serikali ya kutokuongeza ushuru iliyofikiwa Julai 2019. Tunaipongeza Serikali kwa uamuzi wake, hasa ikizingatiwa ongezeko lililokuwepo la gharama ya stempu za kieletroniki za kodi.

Mapato kabla ya riba, Kodi, Upunguzaji Thamani na Uwekaji Akiba ili Kulipa Madeni (EBIDTA) yalikua kwa asilimia 10.9 hadi kufikia shilingi bilioni 93.4. Fedha taslimu iliyozalishwa ilifikia shilingi bilioni 74.3, sawa na ongezeko la asilimia 50. Mapato yaliongezeka kwa asilimia 6.9 na kufikia shilingi bilioni 51.2 huku wastani wa faida wa jumla ukiongezeka ikilinganishwa na mwaka 2018.

Mazingira ya ufanyaji biashara bado ni changamoto

Julai 2019, tulifanya uamuzi wa kimkakati wa kuongeza bei za bidhaa zetu ili kulinda faida na thamani ya hisa za wanahisa wetu. Hatua hiyo ilitokana na uamuzi wa Serikali wa kubadilisha stempu za karatasi za kodi na kuwa stempu za kieletroiniki (e-stamps) kwa bidhaa zitokanazo na tumbaku.

Kwa hatua hiyo ya Serikali, gharama ya stampu za kodi iliongezeka kwa kiasi kikubwa kutoka dola za Marekani 4.77 mwaka 2018 hadi kufikia dola za Marekani 20 mwaka 2019 kwa kila stempu 1,000, hilo likiwa ni ongezeko la zaidi ya asilimia 300. Matokeo yake, TCC ililazimika kugharimia zaidi ya shilingi bilioni 14 kununua stempu hizo mwaka jana. Tunakubaliana na matumizi ya stempu za kieletroniki na tunaiona haja ya kuleta ufanisi katika makusanyo ya kodi. Kuhusiana na suala la gharama kubwa kwenye stempu za kieletroniki, bado tunaendelea kufanya mawasiliano na Serikali na wadau wengine muhimu ili upatikane muafaka utakaowezesha wazalishaji wasipate hasara na Serikali nayo isiathirike kwenye makusanyo ya kodi.

Uwezeshaji wafanyakazi

Wafanyakazi wetu ndiyo kiini na mafanikio ya biashara yetu. Mafanikio yetu ya siku za usoni yatategemea nguvukazi yenye ujuzi wa hali ya juu, yenye vipaji na yenye fani anuai. Mwaka 2019, TCC ilitumia shilingi bilioni moja kwa mafunzo na masuala mengine ya maendeleo ya wafanyakazi zikiwamo fursa za mafunzo maalumu na ushiriki katika miradi ya maendeleo ya kimataifa.

Kampuni imeendelea kuthamini vipaji vya waajiriwa wake kiasi kwamba asilimia 90 ya nafasi za uongozi zimejazwa na wafanyakazi waliokuzwa ndani ya kampuni. Programu yetu ya Mafunzo ya Kijana Mhitimu (Young Graduate Trainee Program) nayo imepanuliwa na sasa inahusisha pia mafunzo kivitendo yanayofanyika nje ya nchi. TCC imepokea tuzo mahsusi ya kutambuliwa kwa kuunga mkono Programu ya Kitaifa ya Mafunzo Kivitendo iliyotolewa na Makamu wa Rais wa Jamhuri ya Muungano ya Tanzania.

Zaidi ya hayo, kampuni yetu ilikuwa ni miongoni mwa waajiri wawili pekee waliopewa fursa ya kuelezea uzoefu wao katika programu hii ya mfano kwa Mawaziri wa Sekta ya Kazi na maofisa Waandamizi wa Serikali waliohudhuria kikao cha Mawaziri wa SADC.

Programu yetu ya ubunifu ya wahitimu wa vyuo (Make It Bright) imekuwa ya mafanikio makubwa katika kutambua na kuajiri vijana wenye vipaji. Programu hii inahamasisha wahitimu wa vyuo nchini wawasilishe mawazo yao ya ubunifu ambayo hufanyiwa tathmini na yale yanayokuwa yamepitishwa hufadhiliwa. Baadhi ya wahitimu hawa wameajiriwa ndani ya kampuni na wengine wamepata ajira nje kama sehemu ya malengo ya TCC ya kulea, kukuza na kuendeleza vipaji vya vijana wa Kitanzania.

Kama sehemu ya programu yetu ya kuwaleta pamoja watu wenye vipaji tofauti (Diversity and Inclusion - D&I), tulichukua uamuzi thabiti wa kusimamia fursa za ajira kwa jinsia zote na walio na ulemavu. Katika siku zijazo, nitasimamia programu hii ya kimkakati ya D&I ili kuhakikisha tunapiga hatua kubwa zaidi.

Ninapata faraja kwamba jitihada zetu za kuwekeza katika rasilmali watu zimekuwa zikitambuliwa na taasisi mbalimbali. Kwa mwaka wa tatu mfululizo, TCC imekuwa mshindi wa Tuzo ya Mwajiri Bora Tanzania na barani Afrika. Programu yetu ya Afya ya Mazingira na Usalama mahali pa kazi imetambuliwa kuwa ni bora zaidi na Wakala wa Usalama na Afya Mahali pa Kazi (OSHA). Tuzo hizi zinathibitisha kwamba TCC ni mwajiri bora kwa Watanzania na tunapoamua kuwekeza kwa watu wetu, tunafanya jambo sahihi ili kuhakikisha mafanikio ya TCC yanakuwa endelevu.

Uwekezaji umewezesha bidhaa zetu kuongoza sokoni

Watumiaji wa bidhaa zetu wamekuwa wakitamani kupatiwa bidhaa zenye ubora na zenye kulingana na thamani ya bei. Ili kukidhi mahitaji

ya wavutaji ambao ni watu wazima, tulizindua bidhaa mpya ya Embassy Click. Toleo hili jipya linawezesha mtumiaji kuburudika kwa ladha nne tofauti katika sigara moja. Kadhalika, tulianzisha aina mpya ya bidhaa ijulikanayo kama “Gosso” ambayo ni sigara ya kusokota (RYO) inayowalenga watu wazima wenye kipato cha aina fulani.

Vilevile, tuliamua kimkakati kuelekeza nguvu zetu kwenye sigara aina ya Winston ambayo inaongoza duniani. Na katika miezi minne ya mwisho wa mwaka 2019 tulihakikisha tunaisambaza kila mahali nchini Tanzania.

Mwaka 2019, TCC pia iliendelea kuwekeza kwenye bidhaa zake za asili yaani Embassy, Portsman na Sweet Menthol ili kuwapa kitu bora wavutaji wa bidhaa hizo waliopo. Jitihada hizi zilifanyika kwa kuzingatia kanuni za sasa za zao la tumbaku na kwa kutambua umuhimu kwa wateja kuchagua wakipendacho.

Mtandao wetu mpana wa usambazaji ni nguzo muhimu

Tunapokuwa tunaongeza ufanisi hatuna budi kulinda mtandao wetu wa usambazaji. Ili kupanua wigo na kuwafikia wateja wetu kwa wakati na kwa ufanisi, tuliungana na wasambazi wa nje ili kuboresha usambazaji wa bidhaa zetu nchini kote. Wakati tukiendelea na hayo, tutawatathmini kwa kutumia viashiria vya utendaji wao. Ikibidi, tutarekebisha ili kuhakikisha mfumo mpya wa usambazaji unaleta faida tarajiwa.

Mtazamo wa biashara wa kimkakati

Tunaamini kwamba tutatimiza malengo yetu ya biashara kwa mwaka 2020 endapo mazingira ya kufanya biashara yataruhusu na kama janga la ugonjwa wa COVID 19 halitasambaa sana na halitadumu kwa muda mrefu nchini. Tumedhamiria kukuza mapato ya TCC, na pia katika kutimiza azma hii tutawalenga walaji na wateja wetu, tutaweka mbele ubora wa bidhaa zetu na zaidi ya yote tutalenga kupata ufanisi katika mfumo wa uzalishaji.

Tutaendelea kuwekeza kwa watu wetu na kuboresha mahusiano. Tutazisimamia bidhaa zetu na kuwaunga mkono wabia wetu katika biashara ili kuhakikisha kwamba tuna mfumo wenye tija kwenye soko. Tutaimarisha vitendea kazi vyetu viwe imara ili tuweze kushindana vyema na kukuza zaidi biashara yetu nchini Tanzania wakati huohuo tukitafuta fursa mpya za masoko ya Afrika ya Mashariki na Kusini mwa Afrika.

Shukrani

Napenda kutambua mchango wa Alan Jackson, aliyekuwa Ofisa Mtendaji Mkuu kwa mafanikio yaliyofikiwa mwaka 2019. Napenda pia kutambua umuhimu wa wadau wetu muhimu kwa kuiunga mkono TCC bila kuyumba na dhamira yao ya dhati. Tutaendelea kufanya maamuzi yatayodumu na yatakayosaidia kampuni yetu iwe endelevu

Niwashukuru pia wafanyakazi wetu wapendwa, menejimenti na wajumbe wenzangu wa Bodi kwa michango yao maridhawa kwa biashara yetu. Mwisho kabisa, ninawashukuru kwa dhati wateja wetu waaminifu.

Michal Bachan
Ofisa Mtendaji Mkuu

DIRECTORS & MANAGEMENT TEAM

MEMBERS OF THE BOARD

Paul Makanza

Paul Makanza has over 15 years senior level experience in the tobacco industry.
He joined TCC in October 2001 as Director of Corporate Affairs & Communication until January 2017 when he was appointed a JTI Regional Director of Corporate Affairs for Sub Sahara Africa. He has served on the Board of TCC Plc since 2005 and was appointed Chairman of the Board on August 03, 2017. Paul is also a Vice Chairman of the Confederation of Tanzania Industries (CTI). Prior to joining TCC, he worked for Coopers & Lybrand and later PricewaterhouseCoopers.

Baraka Katemba

Baraka Katemba is the Finance, Investment and Planning Manager at Tanzania Standard Newspapers (TSN) since September 2017. Prior to that he has held various positions in the public and private sector including the position of the Senior Finance Management Advisor at the Office of the Treasury Registrar where he served for 8 years. Baraka has extensive knowledge and experience in Investment and Financial Management, Accountancy, Taxation and Banking. He joined the Board of Directors of TCC on April 23, 2018 representing the Government of the United Republic of Tanzania.

Bertrand Tamisier

Bertrand Tamisier is the Regional Finance Vice President of JTI Middle East, Near East, Africa, Turkey, and Worldwide Duty Free (MENEAT/WWDF) since January, 2018. He has extensive experience and expertise in finance from his various roles within JTI for the past 20 years.
Bertrand worked in various senior positions in JTI. His previous roles within JTI include Global Financial Operations VP in 2017, Strategy and Insights Lead VP from 2016 to 2017, Chief Financial Officer and VP in JTI SA and Central Europe Region from 2008 to 2011 and from 2011 to 2016 respectively, Adriatica Chief Financial Officer from 2007 to 2008, Senta Integration Director from 2006 to 2007, Research and Development / Scientific and Regulatory Affairs, Finance Director from 2005 to 2006, Chief Financial Officer and Finance Director Iran from 2002 to 2005, WWDF & MENA Finance Controller from 2000 to 2002, Baltics, Belarus and Kaliningrad CFO from 1998 to 1999, CIS Finance Manager Operations and Exports from 1997 to 1998. Bertrand was appointed to the TCC Board of Directors on January 01, 2018.

Luca Meroni

Luca Meroni is the JTI Global Transformation VP. He has a wealth of experience in finance acquired from his previous roles within JTI; Head of Internal Audit in JTI Headquarters in Geneva (2012 - 2019), Competency Centre Finance Business Lead, Director (2011 - 2012) and Director of Internal controls (2006 - 2011). Prior to joining JTI, Luca worked with Deloitte as a Senior Manager.
Luca was appointed to the TCC Board of Directors on January 01, 2018.

Michal Bachan

Michal Bachan has over 20 years international leadership experience across various markets within and outside JTI including Poland, Tanzania and Switzerland. In August 2019, Michal assumed the role of Chief Executive Officer (CEO) and General Manager at TCC Plc, after serving as JTI Regional Marketing and Sales Director for Middle East, Near East, Africa, Turkey and World-Wide Duty Free (MENEAT-WWDF) for 3 years. He brings a wealth of valuable expertise in Marketing, Sales, Planning and Development. Other previous roles held within JTI include Marketing Manager Tanzania 2004 to 2005, Director of Sales & Marketing Tanzania 2005 to 2007, Planning & Development Director Poland 2009 to 2012 and Marketing Director Poland 2012 to 2016. Prior to joining JTI, Michal was the Commercial Manager of Salem Brand Group, International based in Geneva.

MANAGEMENT TEAM

Michal Bachan
General Manager and CEO

Samwel Mandara
Manufacturing Director

Awaichi Mawalla
Marketing Director

Thomas Hadorn
Finance Director

Charles Mauya
Sales Director

Godson Killiza
Legal and Corporate Affairs Director

Angela Mangecha
People & Culture Director

BUSINESS REVIEW

FY 2019 vs FY 2018

Total Volume		2% on PY
Revenue	**309.8** Billion Tanzanian Shillings	5.20% on PY
Gross profit	**175.9** Billion Tanzanian Shillings	5.90% on PY
Operating expenses	**97.7** Billion Tanzanian Shillings	3.30% on PY
Profit before tax	**78.2** Billion Tanzanian Shillings	9.40% on PY
Net profit	**51.2** Billion Tanzanian Shillings	6.91% on PY

2019 kulinganisha na 2018

Jumla ya mauzo		2%
Mauzo halisi	**309.8** Shilingi bilioni za kitanzania	5.20%
Faida ya jumla	**175.9** Shilingi bilioni za kitanzania	5.90%
Gharama za uendeshaji	**97.7** Shilingi bilioni za kitanzania	3.30%
Faida kabla ya kodi	**78.2** Shilingi bilioni za kitanzania	9.40%
Faida halisi	**51.2** Shilingi bilioni za kitanzania	6.91%

BUSINESS REVIEW

Our key commercial objectives for 2019 continued to be: improve market share, sustain profitability and further improve operational efficiency and effectiveness. Despite a challenging operating environment, we delivered our objectives.

Improving product quality

To ensure only products that meet the Company's stringent quality standards reach our customers, we implemented several quality improvement initiatives throughout all stages of sourcing, manufacturing, storage, distribution and customer service. We invested in new machineries and continued to increase safety and quality standards in alignment with JTI Group and regulatory standards.

Volume

Total volume grew by 2.3% vs previous year driven by growth in export markets, in particular Democratic Republic of Congo.

Share of market

Our domestic market share decreased by 1.7pp compared to 2018 due to factors associated with the economy and general operating environment. To defend our market share we will deploy relevant Marketing and Sales strategies to ensure our brands are available and visible in the retail shops selling cigarettes across the country

Profitability

Profitability grew by 9.4% vs previous year mainly driven by July 2019 price increase for key brands, Winston, Embassy, SM and Crescent & Star in the domestic market.

Operational efficiency and effectiveness

The final phase of the route to market change was successfully completed in June. Rollout of our key brands aimed at expansion of the domestic consumer base in retail and wholesale trade to support our Vision 2030.

Promoting a safe environment

Effective health and safety management goes well beyond complying with legislation. The

Company's Environmental, Health and Safety (EHS) management system strategy is to be self-compliant, meeting stakeholders' growing expectations, extending beyond employees to cover contractors and visitors to the operations.The company is committed to providing and maintaining a safe workplace, develop workers' safety competency, and above all continue to develop and maintain a strong culture of safety. It is every employees' duty to take reasonable care of their own health and safety and of others and comply with the organization's management on health and safety matters to prevent injuries and ill health.

In 2019, TCC participated in the World Day for Safety and Health at Work national exhibition organized by the Occupational Safety and Health Authority (OSHA) in Mbeya, and TCC emerged the award winner in the Manufacturing sector category.

Sustainability

Community Investment (CI)
Community investment is at the heart of our values. Our flagship program, **Together Creating Change** prioritized addressing the needs of People with Disabilities (PWDs) that make up about 8% of the country's population. The PWDs reside in rural communities with limited access to adequate healthcare services and much needed assistive devices. We deployed holistic approach to develop and provide support to PWDs and their communities via the distribution of mobility aids; tricycles, wheelchairs, crutches and white canes. We facilitated their active participation in society on equal basis with able-bodied persons. Our program has reached over 1,300 of People with Disabilities in collaboration with employee volunteers, Tanzania Federation of Disabled People's Organizations (SHIVYAWATA), Tanzania Association of the Physically Handicap (CHAWATA) and Tanzania League of the Blind (TLB), Small Industries Development Organizations (SIDO) coupled with strong support from the Government of the United Republic of Tanzania.

BUSINESS REVIEW

Natural Environment
As a responsible manufacturer, we are committed to protecting the environment in our supply chain and communities for an improved impact. The introduction of 'TCC... *A plastic-free community'* saw employees dispose single-use plastics from home and workspaces for recycling. With the elimination of single-use plastics the head office is now a plastic free zone, complementing the government prohibition of plastic carrier bags. Eco-friendly reusable alternatives in place include the use of biodegradable carrier bags, cups and water bottles.

'TCC...A Green Community' is an initiative conceived inside the factory to repurpose used drums, previously containing non-tobacco materials, into waste bins to support the local municipal cleanliness campaign.

A Healthy & Safe Environment
We consistently strive to continuously improve our social and environmental impact, measuring performance against the global JTI Key Performance Indicators (KPI) achieving remarkable outcomes:

- ***Greenhouse Gas Emissions*** (GHG) - Reduced emissions from manufacturing operations by 7%, an achievement made possible through the implementation of various inhouse programs e.g. electrical consumption reduction and raising awareness of employees, all contributing to climate change by limiting global warming to 1.5° C for the benefit of our communities and natural ecosystems.

  Significant investments in renewable and sustainable resources to fully optimize sources of energy by implementing solar panels for power generation in selected areas in the factory, resulting less pollution with increase in affordability and reliability.

- ***Water reduction***
  Use of treated waste water sourced from the waste water treatment plant for gardening at the factory has improved the rate of water withdrawal by 8%.

- ***Waste recycling***
  Commitment to protecting the environment and making a positive impact in our operations footprint is supported by our recycling initiative to reduce waste landfill hence improved overall wastes recycled ratio by 3.3%.

Employee Relations

As a priority to employees to make sure we have good and sound environment for work, one of the important things is to ensure a good working relationship with our people. For the year 2019, TCC Plc had a consultative meeting between management and Tanzania Union of Industrial and Commercial Workers (TUICO) negotiating a new Collective Bargaining Agreement (CBA) that will be used for the year 2020 to the end of year 2022.The negotiations were successful and timely before the expiration of the previous CBA.

The new CBA was signed in July 2019 and witnessed by the Prime Minister's Office Minister of State for Policy, Parliament, Youth, Labour, Employment and the Disabled. The new CBA has improved employees' benefits and working environment including:

- Dental treatment cover increase from TZS 300,000/= to TZS 1,000,000/=
- Optical treatment up from TZS 300,000/= to TZS 500,000/=
- Maternity leave from 84 days to 112 days in a cycle of 36 months. For premature births, maternity leave starts after infant achieves 9 months of pregnancy (full term)
- Paternity leave extended from 3 days to 10 days
- Family education support allowance for each employee at a gross of TZS 900,000/= per annum

Confirming the company's *Top Employer status* of being a *Top Employer in Tanzania and Africa* investing heavily in people.

MAPITIO YA BIASHARA

Malengo yetu ya biashara kwa mwaka 2019 yaliendelea kuwa: kulinda nguvu yetu kwenye soko; kuendelea kutengeneza faida na kuboresha zaidi utendaji ili uwe wa hakika na wenye tija. Pamoja na changamoto kadhaa za mazingira ya kufanya biashara bado tulifanikiwa kufikia malengo yetu.

Kuongeza ubora wa bidhaa

Ili kuhakikisha kwamba ni bidhaa zile tu ambazo zinakidhi ubora wa viwango vya juu vya kampuni ndizo zinazoingizwa kwenye soko, tulitekeleza hatua tofauti za kuhakikisha ubora huo katika hatua mbalimbali tangu kwenye manunuzi, utengenezaji, uhifadhi, usambazaji na huduma kwa wateja.Tuliwekeza katika mashine mpya na tuliendelea kuongeza viwango vya usalama na ubora sambamba na mahitaji ya viwango vya udhibiti zilizowekwa na JTI na viwango vya ubora.

Ongezeko la uzalishaji

Uzalishaji wa jumla uliongezeka kwa asilimia 2.3 kulinganisha na mwaka 2018 kwa msukumo wa ukuaji wa soko la nje kama Jamhuri ya Kidemokrasia ya Kongo.

Mgawo wa Soko

Mgawo wa soko la ndani ulishuka kwa asilimia 1.7 kulinganisha na mwaka 2018 kutokana hali halisi ya uchumi na mazingira ya kufanyia biashara.

Ili kutetea soko letu, tutaongeza mbinu na mikakati ya kujitangaza tukitarajia kwamba mazingira ya kufanya biashara yanaboreshwa.

Faida

Ongezeko la faida halisi kwa asilimia 9.5 kulinganisha na mwaka uliopita ilichochewa na kupanda kwa bei za bidhaa zetu za Winston, Embassy, SM na Crescent & Star (Nyota) katika soko la ndani mwezi Julai.

Kuhimiza Mazingira Salama

Ufanisi wa afya bora na usalama kazini unakwenda juu ya viwango vilivyowekwa na sheria. Mkakati wa kampuni wa usimamizi wa mazingira, afya na usalama (EHS), ni kuzingatia, kutimiza matarajio ya wadau na

kuwahusisha pia wakandarasi na wageni wanaotembelea ofisi na kiwanda. Kampuni imedhamiria kuweka

Mwaka 2019, TCC ilishiriki maonesho ya Siku ya Usalama na Afya Mahali pa kazi Duniani yaliyoandaliwa na mamlaka ya Usalama na Afya Kazini (OSHA) Mbeya na kuibuka mshindi wa kwanza katika sekta ya uzalishaji.

Uendelevu

Uwekezaji katika jamii
Kuchangia na kuwezesha maisha ya wanajamii kuwa bora zaidi na endelevu ni msingi wa maadili yetu. Mpango wetu wa uwekezaji katika jamii wa *Tunaleta Mabadiliko Pamoja (Together Creating Change)* umejikita katika kushughulikia mahitaji ya watu wenye ulemavu wanaokadiriwa kufikia asilimia 8 ya watanzania wote. Wengi wao wanaishi vijijini ambako upatikanaji wa huduma za kutosha za afya na vifaa saidizi vya kuwawezesha kuendesha maisha yao ni adimu.

Tunaamini katika kukuza mpango wa ujumuishwaji na maendeleo wa kuwasaidia watu wenye ulemavu, na jamii wanazoishi kwa kuwapa vifaa saidizi kama baiskeli za magurudumu mitatu, viti mwendo, magongo na fimbo nyeupe ili nao washiriki katika shughuli za kijamii katika ngazi sawa na wenzao ambao si walemavu.

Nia ni kupunguza mwanya wa fursa za ajira, kuchangia kwenye kipato cha familia na hatimaye kukua kiuchumi. Kwa kushirikiana na wafanyakazi wa TCC, Shirikisho la Vyama vya Watu Wenye Ulemavu Tanzania (SHIVYAWATA); Chama cha Walemavu wa Viungo Tanzania (CHAWATA); Chama cha Wasioona (TLB) na Shirika la Viwanda Vidogo (SIDO), huku jitihada hizi zikiungwa mkono na Serikali ya Tanzania.

Mazingira ya Asili
Kama kampuni inayowajibika, tumedhamiria kulinda mazingira katika mnyororo wetu wa usambazaji, ili tuweze kuleta mabadiliko chanya kwa jamii tunazozihudumia. Kuanzishwa kwa kauli mbiu ya *TCC... A Plastic-Free Community* iliwezesha 33 wafanyakazi kurejesha mifuko ya plastiki yanayotumika mara moja

(single use plastic) waliyokuwa nayo majumbani na katika maeneo yao ya kazi kwa kutengeneza bidhaa mbadala.(recycling)

Hivi sasa Makao Makuu ni eneo lisilo na plastiki zinazotumika mara moja, ikifuata sheria ya serikali ya kupiga marufuku mifuko ya plastiki. Sasa hutumika mifuko mbadala, vikombe na chupa ambazo ni rafiki wa mazingira

TCC...A Green Community lilibuniwa kiwandani na kubadilisha matumizi ya awali ya mapipa yanayohifadhi bidhaa zisizo na tumbaku, kuwa hifadhi ya taka katika maeneo mbalimbali na kuunga mkono kampeni ya manispaa kuweka jiji safi.

Mazingira Salama na yenye Afya
Tunaendelea kuongeza jitihada kuboresha matokeo chanya kwenye jamii na ulimwenguni na kujipima kutumia viwango vya JTI (Key Performance Indicators) na kufanikiwa na matokeo yafuatayo.

- ***Hewa ya Ukaa (Greenhouse Gas Emissions*** -Kiwanda kimepunguza uzalishaji wa hewa ya ukaa kwa asilimia 7,ambayo imewezeshwa kupitia utekelezaji wa mipango ya ndani kwa mfano kupunguza matumizi ya umeme na kuelimisha wafanyakazi, yote kuchangia kupunguza mabadiliko ya tabia nchi kwa kudhibiti mfumo joto wa dunia (global warming) kubaki kuwa nyuzi joto 1.5° C kwa faida ya jamii na mfumo wa ikolojia.
  Uwekezaji katika nishati mbadala na rasilimali endelevu kutumia nguvu ya nishati kwa kufunga vifaa vya umeme jua katika baadhi ya maeneo kiwandani. Hii itapunguza uchafuzi wa mazingira na wakati huohuo upatikanaji wa umeme wa uhakika na wa gharama nafuu.

- ***Kupunguza matumizi ya maji:*** Maji kutoka mtambo wa kusafisha maji taka hutumika katika umwagiliaji wa bustani kiwandani, umewezesha kupunguza upotevu wa maji kwa asilimia 8.

- ***Urejeshwaji taka:*** Dhamiri ya kulinda mazingira na matokeo chanya katika shughuli zetu

MAPITIO YA BIASHARA

kupitia mkakati wa urejeshwaji taka kupunguza utupaji taka, hivyo kuboresha uwiano wa urejeshwaji taka kwa asilimia 3.3.

Mahusiano na Wafanyakazi

Haitoshi kwa wafanyakazi kuwa tu na mazingira mazuri ya kufanya kazi, jambo jingine la kipaumbele ni kuwapo mahusiano mazuri kati yetu na waajiriwa wetu.Mwaka 2019, TCC Plc ilifanya mkutano wa mashauriano wa uongozi na Chama cha Wafanyakazi wa Viwanda, Biashara, Taasisi za fedha, Huduma na Ushauri (TUICO) kushauriana juu ya Mkataba wa Hali Bora Kazini (Collective Bargaining Agreement-CBA) ambao utatumika kuanzia mwaka 2020 hadi mwaka 2023.

Yalikuwa mazungumzo yenye mafanikio yakikamilika kabla kwisha kwa CBA iliyotangulia. Makubaliano hayo mapya yalitiwa saini Julai 2019 na kushuhudiwa na Waziri wa Nchi katika Ofisi ya Waziri Mkuu- Sera, Uratibu, Bunge, Kazi, Ajira, Vijana na Wenye Ulemavu katika Makao Makuu ya TCC.

CBA mpya imeboresha mafao ya wafanyakazi na mazingira ya kazi kwa njia nyingi:

- Gharama za tiba ya meno kuongezwa kutoka Sh 300,000/= hadi Sh 1,000,000/=

- Gharama za tiba ya macho kuongezwa kutoka Sh 300,000/= hadi Sh 500,000/

- Likizo ya uzazi kuongezwa kutoka siku 84 hadi siku 112 katika mzunguko wa miezi 36. Kwa wanaojifungua watoto njiti, likizo ya uzazi kuanza kuhesabiwa baada ya mtoto kutimiza miezi 9, yaani pale ambapo mtoto angetakiwa kuzaliwa.
- Likizo ya uzazi kwa kina baba kuongezeka kuwa siku 10 badala ya siku 3.
- Mchango wa elimu kwa familia Sh 900,000/= kwa kila mfanyakazi kwa kila mwaka.

Haya yote yanadhihirisha kwamba kampuni kweli inastahili hadhi ya *Mwajiri Bora nchini Tanzania na Afrika* kwa kuwa inawekeza katika rasilimali watu.

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

CORPORATE INFORMATION

Directors and advisers:

Directors

Mr. Paul Makanza (Chairman)*
Mr. Alan Kilgariffe Jackson**
Mr. Joshua Folkerth***
Mr. Luca Meroni*
Mr. Bertrand Tamisier*
Mr. Baraka Katemba*
Mr. Michal Bachan

*Non-executive Directors
** Resigned
*** Retired

Principal bankers

Standard Chartered Bank Tanzania Limited.
CRDB Bank PLC.
National Microfinance Bank PLC.
Citibank Tanzania Limited.

Secretary, Registered Office and Principal place of business

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

Shareholding structure:

Shareholder	Holding**
JT International Holding B.V.	75.0%
Kingsway Fund	10.3%
General public	6.7%
Parastatal Pension Fund	3.0%
The United Republic of Tanzania	2.2%
Public Service Pension Fund	0.6%
The Local Authorities Provident Fund	0.6%
Neon Liberty Emerging Markets Fund LP	0.6%
Canvenham Public Growth	0.5%
Government Employees Provident Fund	0.5%
Total	***100%***

Shareholder classification	Holding**
Local	13.6%
Foreign	86.4%
Total	100.00%

**Based on share register as at December 31, 2019

Auditors

Deloitte & Touche
Certified Public Accountants (Tanzania)
3rd Floor, Aris House
Haile Selassie Road, Oysterbay
P.O. Box 1559
Dar es Salaam

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED DECEMBER 31, 2019

The Directors present their annual report and the audited financial statements of Tanzania Cigarette Public Limited Company (the "Company" or "TCC") for the year ended December 31, 2019, which disclose the Company's state of affairs.

Incorporation

The Company was incorporated in 1965 under the Companies Ordinance, Cap 212 which was repealed by the Companies Act, 2002 with registration number 3542 and is listed at the Dar es Salaam Stock Exchange (DSE). The registered office and principal place of business has been disclosed on page 36.

Vision, mission and values

The company's vision is to maintain the number one position by volume in Tanzania. Its mission is to grow volume and profit while defending market share by delivering quality brands and maximizing consumer and customer satisfaction through innovation, employees' engagement, integrity and excellence in execution.

Our core values are:

Winning attitude:	We are driven by success. We have a passion, commitment and drive to succeed, putting our targets front and center.
Better together:	We work as 'One Team'. We value collaborative and harmonious working that embraces diversity of thoughts, and the importance of a strong, unified team.
Commitment to quality:	We put the consumer at the heart of what we do. We're dedicated to delivering the high standards of quality that our consumers demand. We continue to create and deliver the best products for our consumer.
We do the right thing:	We act responsibly to drive sustainable success. Our decisions are made with integrity and honesty. Acting in a way that is ethical and responsible for our investors, our people, our customers and society as a whole.

Principal activities

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

Capital structure and shareholders

The Company's capital structure is as follows:

		2019	**2018**
		TZS M	**TZS M**
Authorized	125,000,000 ordinary shares of TZS 20 each	2,500	2,500
Issued and fully paid up	100,000,000 ordinary shares of TZS 20 each	2,000	2,000

The Company's shareholding structure as at December 31, 2019 is shown on page 36.

JT International Holding B.V. is the majority shareholder in the Company, owning 75% of the issued and paid up ordinary shares (75 million shares). Local institutions, the general public and other foreign investors own the remaining 25% (25 million shares).

Directors' interest in the Issued Capital

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

Stakeholders' relations

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

Corporate governance

Board of Directors

The Company is governed by a Board of Directors consisting of members with diverse international and local industry experience, functional expertise and educational background. The Board is made up of one Executive Director and four Non-Executive Directors and is headed by a Chairman. The Board is supported by a Company Secretary. The Board meets a minimum of two times a year to conduct its affairs. The Board of Directors is supported by the Audit and Nomination Committees as part of good corporate governance.

Key responsibilities of the Board include: identifying and mitigating risks; ensuring effective policies, procedures and internal controls are in place; ensuring compliance with sound corporate governance principles; approving and monitoring investment as well as other significant business decisions; and reviewing the performance of management business plans and budgets.

The Directors of the Company at the date of this report and who served since January 1, 2019, except where otherwise stated, are:

Name	Position	Qualification	Nationality	Age	Appointed/ Resigned	Date Appointed/ Resigned/Retired
Paul Makanza	Chairman (Non -executive)	B.Com, MBA	Tanzanian	52	Appointed	August 3, 2017
Luca Meroni	Director (Non-executive)	Masters of Business Economics, Certified Public Accountant	Swiss	51	Appointed	January 1, 2018
Bertrand Tamisier	Director (Non-executive)	Masters of Science in Business Administration, Certified Public Accountant	Swiss	53	Appointed	January 1, 2018
Baraka Katemba	Director (Non-executive)	Masters of Finance & Investment, Advanced Diploma in Accountancy, Certified Public Accountant	Tanzanian	36	Appointed	April 23, 2018
Alan Jackson	CEO	Masters of Management	South African	43	Resigned	August 27, 2019

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

Corporate governance (continued)

Board of Directors (continued)

Joshua Folkerth	Director (Executive)	Masters of Accounting, Certified Public Accountant.	American	41	Retired	February 22, 2019
Michal Bachan	CEO	Masters of Marketing & Management	Polish	42	Appointed	August 27, 2019

Audit Committee

The Audit Committee is tasked with liaising with internal and external auditors on accounting, internal controls and financial reporting matters. The Committee reviews effectiveness of internal control systems and risk management processes within the Company.

The Audit Committee constitutes three Non-Executive members as indicated below:

Name	Position
Luca Meroni	Committee Chairman
Baraka Katemba	Member
Bertrand Tamisier	Member

Nomination Committee

The Nomination Committee identifies individuals qualified to become members of Tanzania Cigarette Public Limited Company's Board of Directors and its committees, recommends to the Board candidates for the Board and its committees, identifies individuals qualified to become senior executives of the Company, develops and recommends to the Board a set of corporate governance principles, performs a leadership role in shaping the Company's corporate governance policies.

The Committee constitutes three non-executive members as provided below:

Name	Position
Bertrand Tamisier	Committee Chairman
Paul Makanza	Member
Luca Meroni	Member

Corporate governance (continued)

Management team

Management is responsible for day to day operations of the business under the direction and supervision of the Chief Executive Officer (CEO). The CEO is supported by a highly qualified and experienced Executive Management Team of six (6) Heads of Departments (HODs).

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

Department	Head of department	Qualification	Nationality
Chief Executive Officer	Michal Bachan	Masters of Marketing & Management	Polish
Manufacturing	Samwel Mandara	Bachelor of Engineering	Tanzanian
Finance	Thomas Hadorn	Masters of Business Administration	Swiss
People and Culture	Angela Mangecha	BA (Human Resources); MBA	Tanzanian
Legal & Corporate Affairs	Godson Killiza	LLB	Tanzanian
Sales	Charles Mauya	Masters of Business Administration	Tanzanian
Marketing	Awaichi Mawalla	BA Marketing & Economics	Tanzanian

Key policies and procedures

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

The JTI CoC sets out ethical business conduct and behaviors expected of all employees in the course of conducting business. Employees can also raise concerns on suspected violation of the CoC through their supervisors or anonymously via YOUR VOICE.

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

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

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

Corporate governance (continued)

Key policies and procedures (continued)

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

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

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

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

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

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

Risk management and internal controls

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

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

Internal audit: The Company has a fully outsourced internal audit service. The independent internal auditor is responsible for planning and delivering a risk based internal audit plan. The independent internal auditor reports to the Chairman of the Audit Committee. The Chairman approves its charter, annual audit plan, monitors execution of audits, evaluates audit findings, recommendations and implementation of recommendations by Management.

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

Risk management and internal controls (continued)

Ultimate responsibility for managing risks and ensuring appropriate and effective internal control systems are in place lies with the Board. The Board assessed the internal control systems throughout the financial year ended December 31, 2019 and is of the opinion that they met accepted criteria.

Employee welfare

Employee relations

As at December 31, 2019 the Company had 417 employees (2018: 442 employees). Female employees constituted 17.5% (2018: 18.1%) of the total workforce.

Gender	*2019*	*2018*
Male	344	362
Female	73	80
	417	*442*

In 2019 Tanzania Cigarette Public Limited Company once again confirmed its position as an employer that puts ‘people first’ by enhancing its status as a *Top Employer in Tanzania and Africa* while retained its elite status as *Top Employer* for the third consecutive year. In addition to that, the Company has been certified as the number ONE *Top Employer* in Tanzania by *Top Employer* Institute based in Holland.

Talent Management

One of the key strategic priorities of TCC Talent Management policy is to identify, attract, develop and retain the right talents who are well prepared for future challenges and exciting opportunities. Our approach to Talent Management (TM) is well structured to ensure employees get better platform to develop their career and contribute to TCC’s future. As a sign of seriousness in people development, In 2019, the Company invested TZS 987 million (an average of 2 million per employee) (2018: 817 million or 1.8 million per employee) in training and development only by offering employees numerous learning opportunities from specialist training to global development projects. Also, the Company continued to utilize well its talents where in 2019 more than 90% of management roles were filled by internal employees.

Learning & Development

TCC Free Minds Book Club and Library continues to give employees alternative and better solutions to foster personal and professional development. This initiative has encouraged number employees to try something new as a development solution to gain experience, improve performance and connect with one another. As of December 31, 2019, the Company database had 125 professional books free for all employees to borrow where in 2020 the plan is to increase the number of books to reach 200 with the intent of giving employees reasonable options of books for their development.

Compensation and benefits

A key part of the Company’s success lies in its ability to attract and retain highly motivated and productive employees. The Company’s compensation approach continues to be ‘pay for performance’. The approach ensures all employees are challenged and engaged to work smartly to support their personal and professional growth while also supporting the Company’s key business objectives in the process.

The employees continued to enjoy a number of benefits with dedicated Wellness team and improved Collective Bargaining Agreement (CBA) which has improved leave days, sick leave, retirement benefit, subsistence allowance, post exit medical benefit and introduced an education allowance to be effective in 2020.

Employee welfare (continued)

Diversity & Inclusion

The Company continued to be an equal opportunity employer and established a cross-functional Diversity & Inclusion committee in support for the company-wide initiatives of having an inclusive, multi-cultural and ideal working place. There is full adherence to the Human Rights guidelines and discrimination practices of any sort are strictly intolerable. The Diversity & Inclusion committee helps the Company to focus on provision of equal access and opportunities by embracing all employees irrespective of race, religion, gender, nationality among other action plans.

Promoting a safe environment

Effective health and safety management goes well beyond complying with legislation. The Company's Environmental, Health and Safety (EHS) management system strategy is to be self-compliant, meeting stakeholders' growing expectations for organizations, and extending beyond employees to cover contractors and visitors to the operations.

The organization is committed to providing and maintaining safe work place, develop workers' safety competency, and above all continue to develop and maintain safety culture. It is every employees' duty to take reasonable care of the health and safety of themselves and of others and cooperate with the organization's management on health and safety matters to prevent injuries and ill health.

Political and charitable donations

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

Giving back to communities

Community investment programs under the flagship of *T*ogether *C*reating *C*hange (Tunaleta Mabadiliko Pamoja) adopts a holistic and inclusive approach in the sustainable transformation of livelihoods of adult beneficiaries. The Company supports communities directly and indirectly through partnerships with social and cultural partners by supporting programs in Poverty Alleviation, People with Disabilities (PWDs), Natural Environment, Visual & Performing Arts and Older persons.

The overarching aspiration of all community investments is to contribute towards Tanzania Vision 2025 to create a strong and competitive economy characterized by a diversified and semi-industrialized economy.

Principal risks and uncertainties

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

Fraud risk
The Company could incur losses resulting from fraudulent transactions, but it has formalized Preventing Financial Crime (PFC), Know Your Customer (KYC) and Know Your Supplier (KYS) policies that are designed, implemented and strictly followed and controlled by the Chief Compliance Officer to mitigate these risk areas.

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

Principal risks and uncertainties (continued)

Financial risk
The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. More details of the financial risks facing the Company are provided in Note 29 to the financial statements.

Stock exchange information

In 2000, the Company was listed on the Dar es Salaam Stock Exchange at an initial public offering (IPO) price of TZS 410 per share. The performance of the Company's shares in the secondary market as measured by market capitalization as at December 31, 2019 was TZS 1,700 billion (2018: TZS 1,700 billion).

Related party transactions and balances

All related party transactions and balances are disclosed in Note 25 to these financial statements.

Performance for the year

The business delivered improved performance in 2019. Volume grew by 2% versus prior year and delivered a net profit of TZS 51.2 billion on net sales of TZS 309.8 billion, equivalent to a 26% return on net sales. Export volume increased significantly by 16.0% contributed by business growth in the Company's key market of the Democratic Republic of Congo (DRC) and new route to market methodology in Zambia. However, the Company is confident in the continued delivery of positive results in 2019 and beyond.

Overall, profit for the year increased from TZS 47.9 billion in 2018 to TZS 51.2 billion in 2019 (7%), driven by improved performance on the export market, strategic pricing, mix stability, consumer focused excise tax stability and significant operation cost efficiencies both factors have helped delivering short-term commitments while investing in our long-term future.

Tax compliance

The Company asserts that it was fully tax compliant in 2019. The Company understands its obligation to comply with the country's tax laws and thus always promotes high degree of tax compliance and pays all relevant taxes as specified by such tax laws to the Tanzania Revenue Authority.

Dividend

During the year, the Directors declared for 2018, a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2017: TZS 20 billion or TZS 200 per share). Later in the year, the Directors declared for 2019, an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in November 2019 (2018: TZS 20 billion or TZS 200 per share).

After year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2018: TZS 25 billion or TZS 250 per share). The final ordinary dividends are subject to adoption by shareholders at the Annual General Meeting.

The total gross dividend paid in the current year was TZS 55 billion or TZS 550 per share (2018: TZS 40 billion or TZS 400 per share).

Business environment

The business environment is constantly evolving due to changes in the economic and regulatory environments, as well as the competitive landscape. Management therefore continuously monitors and anticipates developments that affect the business in order to proactively address them; as well as complying with applicable laws and regulations. Management expects the business environment to remain challenging in 2020 but is well prepared to face the challenges ahead.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

Future development plans

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

Cash flow projection

The Company's cash projections indicate that future cash flows will mostly be generated by operations. TZS 77.3 billion is planned to be generated for the 2020 financial year. This will be used to fund capital investments as well as providing returns to shareholders.

Capital investments over the medium term of TZS 15.4 billion are planned, focused warehousing and infrastructure improvements (TZS 2.6 billion), IT related projects (TZS 1.9 billion), machinery and equipment (TZS 6.5 billion) and distribution fleet and infrastructure rejuvenation (TZS 4.5 billion).

Resources

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

Solvency

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Directors consider the Company to be solvent within the meaning ascribed by the Companies Act, 2002.

Auditors

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

Approved and authorized for issue by the Board of Directors on March 16, 2020 and signed on its behalf by:

Paul Makanza
Chairman

Michal Bachan
CEO

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The 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 Company's state of affairs and its operating results for that year. The Act also requires the Directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

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

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

Paul Makanza
Chairman

March 16, 2020

Michal Bachan
CEO

March 16, 2020

DECLARATION BY THE HEAD OF FINANCE

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with International Financial Reporting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as set out in the Statement of Directors' Responsibilities on an earlier page.

I, Thomas Hadorn, being the Finance Director of Tanzania Cigarette Public Limited Company hereby acknowledge my responsibility of ensuring that financial statements for the year ended December 31, 2019 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Mr. Thomas Hadorn
Finance Director
NBAA Membership No.: TACPA 3845
March 16, 2020

Deloitte.

Deloitte & Touche
Certified Public Accountants (Tanzania)
3rd Floor, ARIS House, Plot 152
Haile Selassie Road, Oysterbay
P.O. Box 1559
Dar es Salaam
Tanzania

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TANZANIA CIGARETTE PUBLIC LIMITED COMPANY

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tanzania Cigarette Public Limited Company (the "Company"), set out on pages 50 to 96, which comprise the statement of financial position as at December 31, 2019 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 2002.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the National Board of Accountants and Auditors Code of Ethics which is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Tanzania. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Other Information

The Directors are responsible for the other information. The other information comprises the report of Directors as required by the Companies Act, 2002. The other information does not include the financial statements and our report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal Requirements

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

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) the Company's statement of financial position (balance sheet) and the statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is E.A Harunani.

Deloitte & Touche
Certified Public Accountants (Tanzania)

28 May 2020

Signed by: E. A. Harunani
NBAA Registration No. TACPA 1065
Dar es Salaam

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	2019 TZS M	2018 TZS M
Revenue	6	309,771	294,386
Cost of sales		(133,875)	(128,278)
Gross profit	5	**175,896**	**166,108**
Marketing, selling and distribution expenses		(49,020)	(49,719)
Administration expenses		(40,447)	(40,801)
Other expenses		(11,949)	(5,506)
Other gains		1,768	768
Interest income		2,081	774
Interest expense		(145)	(144)
Profit before tax	7	**78,184**	**71,480**
Income tax expense	8(a)	(26,936)	(23,544)
Profit for the year		**51,248**	**47,936**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
- Defined benefit actuarial gain/(loss)	23	999	(910)
- Tax (expense)/credit relating to components of other comprehensive income	8(c)	(300)	273
		699	(637)
Total comprehensive income for the year		**51,947**	**47,299**
Earnings per share:			
Basic and diluted (TZS per share)	9	512	479

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Notes	2019 TZS M	2018 TZS M
Assets			
Non-current assets			
Property, plant and equipment	11	97,754	98,117
Right-of-use assets	12	70	-
Intangible assets	13	-	-
Investment in subsidiary	14	-	-
Total non-current assets		**97,824**	**98,117**
Current assets			
Inventories	15	103,610	108,221
Trade and other receivables	16	39,131	39,925
Bank balances	18	27,771	20,351
Total current assets		170,512	168,497
Non-current asset held for sale	17	291	-
Total assets		**268,627**	**266,614**
Equity and liabilities			
Capital and reserves			
Share capital	19	2,000	2,000
Defined benefit reserve		5,872	5,173
Retained earnings		179,269	183,021
Total equity		**187,141**	**190,194**
Non-current liabilities			
Deferred tax liability	20	6,577	7,357
Defined benefit obligation	23	8,076	7,577
Lease liability	24	31	-
Total non-current liabilities		**14,684**	**14,934**
Current liabilities			
Trade and other payables	21	57,147	54,922
Provisions	22	4,922	4,697
Lease liability	24	4	-
Income tax liability	8(d)	4,729	1,867
Total current liabilities		**66,802**	**61,486**
Total liabilities		**81,486**	**76,420**
Total equity and liabilities		**268,627**	**266,614**

The financial statements on pages 50 to 96 were approved and authorized for issue by the Board of Directors on March 16, 2020 and were signed on its behalf by the following Directors:

Paul Makanza
Chairman

Michal Bachan
CEO

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	Share capital TZS M	Defined benefit reserve TZS M	Retained earnings TZS M	Total TZS M
At January 01, 2018		2,000	5,810	175,085	182,895
Profit for the year		-	-	47,936	47,936
Other comprehensive loss - net of tax		-	(637)	-	(637)
Dividend paid (2017 final and 2018 interim)	10	-	-	(40,000)	(40,000)
At December 31, 2018		**2,000**	**5,173**	**183,021**	**190,194**
At January 01, 2019		2,000	5,173	183,021	190,194
Profit for the year		-	-	51,248	51,248
Other comprehensive income - net of tax		-	699	-	699
Dividend paid (2018 final and 2019 interim)	10	-	-	(55,000)	(55,000)
At December 31, 2019		**2,000**	**5,872**	**179,269**	**187,141**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	2019 TZS M	2018 TZS M
Cash flows from operating activities			
Profit before tax		78,184	71,480
Adjustments for:			
Depreciation on property, plant and equipment	7	13,496	13,101
Depreciation on right use-of-asset	7	10	-
Defined benefit expense	7	1,596	1,275
Interest expense		145	144
Interest income		(2,081)	(774)
Gain on disposal of property, plant and equipment	7	(1,616)	(536)
Operating profit before working capital changes		**89,734**	**84,690**
Working capital changes:			
Decrease in inventories		4,611	4,167
Movement in related party balances		4,027	(639)
Increase in trade and other receivables		(1,792)	(16,995)
Increase/(decrease) in trade and other payables		784	(1,790)
Increase/(decrease) in provisions		225	(277)
Net cash generated from operations		**97,589**	**69,156**
Defined benefit paid	23	(98)	(479)
Interest received		2,081	774
Interest paid		(143)	(144)
Current tax paid	8(d)	(25,154)	(19,569)
Net cash generated by operating activities		**74,275**	**49,738**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(14,098)	(14,458)
Proceeds from disposal of property, plant and equipment		2,290	541
Net cash used in investing activities		**(11,808)**	**(13,917)**
Cash flows from financing activities			
Dividends paid	10	(55,000)	(40,000)
Lease rentals paid	24	(47)	-
Net cash used in financing activities		**(55,047)**	**(40,000)**
Net increase/(decrease) in cash and cash equivalents		7,420	(4,179)
Cash and cash equivalents at the beginning of the year		20,351	24,530
Cash and cash equivalents at the end of the year	18	**27,771**	**20,351**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. General information

Tanzania Cigarette Public Limited Company ('The Company') is a limited liability public company incorporated in the United Republic of Tanzania. The address of its registered office and principal place of business is disclosed in the corporate information on page 36 of this report. The principal activities of the Company are described in the Report of the Directors.

2. Adoption of new and revised International Financial Reporting Standards

a) New standards and amendments to published standards effective for the year ended December 31, 2019

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

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

Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

(a) Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:
- Recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognizes depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

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

a) New standards and amendments to published standards effective for the year ended December 31, 2019 (continued)

(b) Impact on Lessee Accounting (continued)

(i) Former operating leases (continued)

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). This change did not have a material effect on the Company's financial statements.

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

a) New standards and amendments to published standards effective for the year ended December 31, 2019 (continued)

IFRIC 23 Uncertainty over Income Tax Treatment

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authority's examination;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effects of changes in facts and circumstance.

Annual Improvements to 2015–2017 Cycle

The annual improvements 2012-2014 cycle made amendments to the following standards:

- **IAS 12 Income Taxes** - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- **IAS 23 Borrowing Costs** -The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- **IFRS 3 Business Combinations -** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.
- **IFRS 11 Joint Arrangements -** The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

b) New and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2019

IFRS 17 Insurance Contracts	Effective for accounting periods beginning on or after January 1, 2021
Definition of a Business (Amendments to IFRS 3)	Effective for accounting periods beginning on or after January 1, 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	Effective for accounting periods beginning on or after January 1, 2020
Amendments to References to Conceptual in Framework in IFRS Standards	Effective for accounting periods beginning on or after January 1, 2020

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

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2019

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

IFRS 17 is effective for accounting periods beginning on or after January 1, 2019 and is not expected to have significant impact on the financial statements.

Definition of a Business (Amendments to IFRS 3)

The amendments in *Definition of a Business (Amendments to IFRS 3)* are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Definition of Material (Amendments to IAS 1 and IAS 8)

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Amendments to References to Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework.

Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

d) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year ended December 31, 2019.

3. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards.

For the Tanzanian Companies Act, 2002 reporting purposes, in these financial statements the balance sheet is represented by the statement of financial position and the profit and loss account is presented in the financial statements as statement of profit or loss and other comprehensive income.

Basis of preparation

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

The Company has an investment in TCC (Kenya) Limited, a wholly owned subsidiary, which is incorporated in Kenya under the Kenyan Companies Act.

The 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 Group (Tanzania Cigarette Public Limited Company) and Company numbers are the same after taking into account the investment in the dormant subsidiary.

Revenue recognition

Revenue from contracts with customers.

Revenue is recognized based on the following five-step approach.

Step 1: Identify the contract with customer;
Step 2: Identify the performance obligations in the contract;
Step 3: Determine the transaction price;
Step 4: Allocate the transaction price to the performance obligation in the contract;
Step 5: Recognize revenue when the entity satisfies a performance obligation.

The Company mainly engages in the sale of cigarettes to domestic and export customers.

Revenue is recognized upon delivery of product because the customer obtains control of the product upon delivery by which the Company evaluates that the performance obligation is satisfied. Revenue is measured at the consideration promised in a contract with customer, less discounts, rebates, amounts collected on behalf of third parties and taxes.

The excise taxes and other transaction in which the Company is involved as an agency are excluded from revenue. The amount after deducting the excise taxes and other transactions is presented as revenue in the statement of income.

Sale of cigarettes to domestic customers

Revenue for sales of goods to domestic customers is recognized when control of the goods has transferred, being at the point the customer purchases the goods. Payment of the transaction price is due immediately at the point the customer purchases the goods for cash customers and for credit customers based on the agreed credit periods with the Company as stipulated in the contracts..

Sales of cigarettes to export customers

Revenue from sales of goods to export customers is recognized when control of the goods has transferred, being when the goods have been shipped to the customer's specific delivery location.

A receivable is recognized by the Company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

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

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for actuarial gains and losses. The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using various factors as described in the Note 23 of these financial statements.

The Company and its employees also make statutory contributions to the National Social Security Fund (NSSF), Public Service Social Security Fund (PSSSF). The Company's obligations with respect to contributions are 10%, and 15% of the employees' emoluments for NSSF and PSSSF 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 is arrived at after taking into consideration relevant provisions of IAS 12 and the Income Tax Act of 2004 together with its subsequent amendments through the Finance Acts as enacted by the Parliament of United Republic of Tanzania.

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.

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

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

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

Excise duty

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

3. Significant accounting policies (continued)

Excise duty (continued)

- Cigarettes without filter tip and containing domestic tobacco exceeding 75% is TZS 12,447 per 1,000 cigarettes (2018: TZS 12,447).
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 29,425 per 1,000 cigarettes (2018: TZS 29,425).
- Other cigarettes not mentioned in first and second bullet above is TZS 55,897 per 1,000 cigarettes (2018: TZS 55,897).

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

Investment in Subsidiary Company

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

Inventories

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition.

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 is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made where necessary for the obsolete, slow moving and defective inventories.

Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise;

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

3. Significant accounting policies (continued)

Leases (continued)

The Company as lessee (continued)

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components

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 life to the estimated residual value. Useful life, 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. Capital work in progress is not depreciated. The estimated useful life of assets at time of acquisition is assumed as follows:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 recognized 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 recognized in profit or loss on a straight-line basis over the estimated useful life of the asset, from the date that it is available for use.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets

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

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

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

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase. 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.

Non-current Assets Held-for-Sale

An asset or asset group for which the value is expected to be recovered through a sales transaction rather than through continuing use is classified into a non-current asset or disposal asset held-for-sale when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Company management commits to the sale plan. In such cases, the non-current asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs of disposal.

Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared.

Financial instruments

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

Financial assets

i) Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

ii) Subsequent measurement

Financial assets are classified into the following specified categories:
- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

The Company's principal financial assets are trade and other receivables and cash and cash equivalents.

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

All financial assets are initially measured at amortised cost or fair value, depending on the classification of financials assets

iii) Amortised cost and effective interest 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Trade and other receivables

Trade and other receivables are stated at invoice amounts less provision for impairment. A provision for impairment is established using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the trade and other receivables.

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 and duly reconciled to the related items in the statement of financial position.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

iv) Impairment of Financial Assets

With respect to financial assets measured at amortized cost, the Company recognizes an allowance for doubtful accounts for expected credit losses (ECLs). The expected credit losses are calculated based on historical loss experience or future recoverable amounts.

An allowance for doubtful accounts for trade receivables is always recognized in an amount equal to the full lifetime expected credit losses. In principle, with respect to financial assets except for trade receivables, an allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit losses. However, the allowance for doubtful accounts is measured at an amount equal to the full lifetime expected credit losses if a credit risk on the financial asset has increased significantly since initial recognition.

The Company assesses whether a credit risk on a financial asset has increased significantly based on a change of the default risk considering past due information, financial difficulties of obligors or downgrades of the internal credit rating. The Company assesses a whole or part of the financial asset which is deemed extremely difficult to be collected as a default and recognizes it as a credit-impaired financial asset. If the Company reasonably determines that a whole or part of the financial asset is uncollectible, the carrying amounts of financial assets are written-off directly.

An allowance for doubtful accounts for financial assets is recognized in profit or loss. If an event which causes a reduction in the allowance for doubtful accounts occurs, a reversal of an allowance for doubtful accounts is recognized in profit or loss.

v) De-recognition of financial assets

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

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

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Financial liabilities

i) Initial Recognition and measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Company determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities. The Company's financial liabilities include trade and other payables.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities (continued)

ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the following classifications:

Financial liabilities Measured at Fair Value through Profit or Loss (FVTPL)

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition.

Financial liabilities measured subsequently at amortised cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition are recognized as profit or loss in the consolidated statement of income. After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount of an allowance for doubtful accounts calculated in accordance with “Impairment of Financial Assets” above, and
- The amount initially measured less cumulative revenue recognized in accordance with IFRS 15 “Revenue from Contracts with Customers”.

De-recognition of financial liabilities

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

Offset

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

4. Critical accounting judgements and key sources of estimation uncertainties

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

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

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

Provisions

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

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

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

Impairment provision

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for the customers. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs involves estimation. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

When measuring expected credit losses the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Provisions for pending litigations

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

Defined benefit plan

The Company operates an unfunded defined benefit retirement plan for all employees. Employees do not contribute to the plan, the Company bears all cost. A provision is made in the financial statements for the estimated cost of the future benefits. The accuracy and completeness of such provisions is confirmed periodically by an independent actuarial valuation. Refer to Note 23 of the financial statements for uncertainty and sensitivity disclosure.

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

Taxation

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

5. Operating segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The Company has two operating segments namely domestic and export markets. The domestic market has reported revenue from both external customers and intersegment sales or transfers, of 89 percent (2018: 89 percent) of the combined revenue of all operating segments, thus qualifying as reportable segment.

The chief operating decision maker monitors the operating results of business segments separately for the purpose of performance assessment and decision making on resource allocation. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

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

Export markets include Democratic Republic of Congo and Mozambique. The export brands include Camel, Winston, Monte Carlo and LD. Export markets reported revenue of 11 percent of the combined revenue (2018:11 percent).

Information about transactions with major customers

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

	2019 TZS M	2018 TZS M
Revenue from top ten customers	215,453	112,823

The reportable segment has about 500 active customers.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

5. Operating segments (continued)

Segment revenues and results

The following is an analysis of the Company's revenue inclusive of excise duty, and results from operations by reportable segment.

	Segment revenue		Segment gross profit	
	2019 TZS M	2018 TZS M	2019 TZS M	2018 TZS M
Domestic Market	262,487	248,244	174,196	162,673
Export Market	47,284	46,142	1,700	3,435
	309,771	**294,386**	**175,896**	**166,108**
Marketing, selling & distribution expenses:				
- Export market			(10,064)	(10,968)
- Domestic market			(38,956)	(38,751)
Administration expenses			(40,447)	(40,801)
Other expenses			(11,949)	(5,506)
Other gains			1,768	768
Interest income			2,081	774
Interest expense			(145)	(144)
Profit before tax			**78,184**	**71,480**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

5. Operating segments (continued)

	2019 TZS M	2018 TZS M
Segment assets		
Property, plant and equipment	97,754	98,117
Right-of-use assets	70	-
Total segment non-current assets	**97,824**	**98,117**
Inventories	103,610	108,221
Income tax asset	-	-
Trade and other receivables	39,131	39,925
Non-current asset held -for-sale	291	-
Cash and cash equivalents	27,771	20,351
Total segment current assets	**170,803**	**168,497**
Total assets	**268,627**	**266,614**
Segment liabilities		
Deferred tax liability	6,577	7,357
Defined benefit obligation	8,076	7,577
Lease liabilities	31	-
Total segment non-current liabilities	**14,684**	**14,934**
Trade and other payables	62,069	59,619
Lease liabilities	4	-
Income tax liability	4,729	1,867
Total segment current liabilities	**66,802**	**61,486**
Total liabilities	**81,486**	**76,420**

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

5. Operating segments (continued)

Other segment information

	Depreciation and amortization		Additions to non-current assets	
	2019 TZS M	**2018 TZS M**	**2019 TZS M**	**2018 TZS M**
Leasehold property	1,464	1,377	697	1,212
Plant and machinery	9,626	9,356	2,564	4,759
Other equipment	1,079	1,063	649	439
Motor vehicles	1,327	1,305	4,523	1,872
Capital work in progress	-	-	5,665	6,176
Total	**13,496**	**13,101**	**14,098**	**14,458**

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

	2019 TZS M	**2018 TZS M**
Embassy	37,614	39,626
Club	99,941	108,525
Portsman	47,036	45,218
Sweet Menthol	26,739	26,401
Safari	3,450	9,934
Others	47,707	18,540
	262,487	**248,244**

6. Revenue

Revenue from sale of cigarettes	**309,771**	**294,386**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

7. Profit before tax

Profit before tax has been arrived at after charging/(crediting) the following:

	2019	2018
	TZS M	TZS M
Key management and Directors' emoluments	4,040	5,462
Depreciation of property, plant and equipment	13,496	13,101
Depreciation of right use-of-asset	10	-
Technical and management service fees	13,394	13,480
Auditor's remuneration	299	300
Donations	325	211
Gain on disposal of property, plant and equipment	(1,616)	(536)
Foreign exchange loss	673	234
Employee benefits:		
Short term benefits:		
- Salaries	23,482	25,160
- Bonus	4,881	3,104
- Fringe benefits	5,982	7,238
- Vacation benefits	1,761	1,419
- Restructuring costs	2,121	-
- Other staff costs	1,119	737
Long term benefits:		
- Defined benefit obligation	1,596	1,275
- NSSF and PSSSF contributions	2,626	2,493
Other statutory contributions:		
- Skills and Development Levy (SDL)	1,449	1,135
- Workers Compensation Fund (WCF)	262	228
Total employee benefits	**45,279**	**42,789**

8. Income tax

(a) Tax expense

	2019	2018
Current tax - current year at 30%	25,897	21,132
- prior year under provision	2,119	1,625
	28,016	**22,757**
Deferred taxation - current year (credit)/charge	(268)	454
- prior year (over)/under provision	(812)	333
	(1,080)	**787**
	26,936	**23,544**

Tax expense represents the sum of the current tax and deferred tax.

8. Income tax (continued)

(b) Reconciliation of accounting profit to income tax expense

	2019 TZS M	2018 TZS M
Profit before tax	78,184	71,480
Tax charge at 30%	23,455	21,444
Income not subject to tax	(23)	(22)
Effect of disallowable expenditure	2,197	164
Current tax relating to prior years	2,119	1,625
Prior years (under)/over provision of deferred tax	(812)	333
Tax expense	**26,936**	**23,544**

(c) Tax expense on other comprehensive income

Deferred tax expenses / (credit)/charge - Defined benefit plan actuarial gain/ (loss)	300	(273)

(d) Current income tax liability

At beginning of the year	1,867	(1,321)
Charge for the year (Note 8(a))	28,016	22,757
Current tax paid	(25,154)	(19,569)
Balance at end of year	**4,729**	**1,867**

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.

	2019 TZS M	2018 TZS M
Profit attributable to ordinary shareholders (TZS M)	51,248	47,936
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (TZS)	512	479

There were no potential dilutive shares outstanding at December 31, 2019 and at December 31, 2018.

10. Dividends

	2019 TZS M	2018 TZS M
Prior year final dividend	30,000	20,000
Current year interim dividend	25,000	20,000
Total	**55,000**	**40,000**
Number of ordinary shares in issue (million)	100	100
Dividend per share (TZS)	550	400

During the year, the Directors declared for 2018, a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2017: TZS 20 billion or TZS 200 per share). Later in the year, the Directors declared for 2019, an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in November 2019 (2018: TZS 20 billion or TZS 200 per share).

The Directors propose a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2018: TZS 25 billion or TZS 250 per share). The final ordinary dividend is subject to adoption by shareholders at the Annual General Meeting.

The total gross dividend paid in the current year was TZS 55 billion or TZS 550 per share (2018: TZS 40 billion or TZS 400 per share).

11. Property, plant and equipment

	2019 TZS M	2018 TZS M
Cost	209,178	206,900
Accumulated depreciation	(111,424)	(108,783)
	97,754	**98,117**
Net book value		
Leasehold property	30,673	30,156
Plant and machinery	52,142	55,756
Other equipment	3,436	2,988
Motor vehicles	6,243	3,047
Capital work in progress	5,260	6,170
	97,754	**98,117**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

11. Property, plant and equipment (continued)

	Buildings 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 January 1, 2018	40,303	122,051	11,701	13,022	10,291	197,368
Additions	1,212	4,759	439	1,872	6,176	14,458
Transfers in/(out)	1,406	8,653	238	-	(10,297)	-
Disposals	-	(1,639)	(264)	(3,023)	-	(4,926)
At December 31, 2018	**42,921**	**133,824**	**12,114**	**11,871**	**6,170**	**206,900**
Additions	697	2,564	649	4,523	5,665	14,098
Transfers in/(out)	1,245	4,044	851	-	(6,575)	(435)
Eliminated on disposals	(162)	(7,475)	(149)	(3,599)	-	(11,385)
At December 31, 2019	**44,701**	**132,957**	**13,465**	**12,795**	**5,260**	**209,178**
Accumulated depreciation						
At January 1, 2018	11,388	70,351	8,322	10,542	-	100,603
Charge for the year	1,377	9,356	1,063	1,305	-	13,101
Eliminated on disposals	-	(1,639)	(259)	(3,023)	-	(4,921)
At December 31, 2018	**12,765**	**78,068**	**9,126**	**8,824**	**-**	**108,783**
Charge for the year	1,464	9,626	1,079	1,327	-	13,496
Transfers	(117)	-	(27)	-	-	(144)
Disposals	(84)	(6,879)	(149)	(3,599)	-	(10,711)
At December 31, 2019	**14,028**	**80,815**	**10,029**	**6,552**	**-**	**111,424**
Net book value						
At December 31, 2019	**30,673**	**52,142**	**3,436**	**6,243**	**5,260**	**97,754**
At December 31, 2018	**30,156**	**55,756**	**2,988**	**3,047**	**6,170**	**98,117**

Capital work in progress relates to the cost of various capital expenditure items which were under construction or were not received at year end. There were no idle assets included in property, plant and equipment.

No items of property, plant and equipment have been pledged as collateral for liabilities. Net transfer out of property, plant and equipment relates to assets classified as held for sale under Note 17.

12. Right-of-use assets

	TZS M
Cost	
At December 31, 2018 and at January 1, 2019	-
Present value of lease rentals as per IFRS 16 on initial recognition	80
At December 31 2019	80
Accumulated Depreciation	
At December 31, 2018 and at January 1, 2019	-
Charge for the year	10
At December 31, 2019	10
Net book value	
At December 31, 2019	70
At December 31, 2018	-

The Company has leasehold land from the Government of Tanzania under title number 14870 located on plot No 20 and 21, Nyerere Road, Dar es Salaam. The tenor of the land lease is for 99 years from 1962. The carrying value of the land as at reporting date was immaterial.

13. Intangible assets

	2019 TZS M	2018 TZS M
Cost	**2,646**	**2,646**
Amortization		
At beginning of the year	2,646	2,646
Charge for the year	-	-
At end of the year	**2,646**	**2,646**
Net book value	**-**	**-**

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.

14. Investment in subsidiary

	2019 TZS M	2018 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 December 31, 2002 and full impairment provision on the investment has been made in the financial statements.

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 Group (Tanzania Cigarette Public Limited Company) and Company numbers are the same after taking into account the investment in the dormant subsidiary.

15. Inventories

	2019 TZS M	2018 TZS M
Raw materials	74,103	89,332
Work in progress	442	453
Consumable stores	4,950	6,398
Goods in transit	865	280
Finished goods	24,262	12,877
	104,622	**109,340**
Allowance for obsolete inventories	(1,012)	(1,119)
	103,610	**108,221**
Inventories carried at net realizable value below cost	-	-

No inventory has been pledged as collateral for liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

16. Trade and other receivables

Trade receivables	31,294	28,722
Amounts due from related companies (Note 25 (ii))	2,546	5,132
Prepayments and other receivables	5,779	7,542
	39,619	**41,396**
Expected credit loss provision	(488)	(1,471)
	39,131	**39,925**

Movement in the expected credit loss provision:

At the beginning of the year	1,471	1,270
Amounts recovered during the year	(1,375)	(35)
Increase in allowance during the year	392	236
At the end of the year	**488**	**1,471**

17. Non-current Assets Held-for-Sale

Non-current asset held-for-sale (Note 11)	291	-

As at reporting date, the Directors resolved to dispose building located in Masaki, Dar es Salaam and negotiations with several interested parties have taken place. The building, which is expected to be sold within 12 months, has been classified as non-current asset held for sale and presented separately in the statement of financial position. The proceeds of disposal are expected to substantially exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognised on the classification of these assets as held for sale.

18. Bank balances

	2019 TZS M	2018 TZS M
Bank balances	27,771	20,351

Bank balances held were not restricted for use by the Company.

19. Share capital

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

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

19. Share capital (continued)

	2019 Ordinary Shares Million in %	2018 Ordinary Shares Million in %
Resident shareholders:		
General Public	6.7	6.4
Parastatal Pension Fund	3.0	3.0
The United Republic of Tanzania	2.2	2.2
Public Service Pension Fund	0.6	0.6
The Local Authorities Provident Fund	0.6	0.6
Government Employees Provident Fund	0.5	0.5
Trustees of the TCC Employees Share Option Scheme	-	0.3
	13.60	**13.60**
Non-resident shareholders:		
JT International Holding B.V.	75.0	75.0
Kingsway Fund	10.3	10.3
Neon Liberty Emerging Markets Fund	0.6	0.6
Cavenham Private Equity And Directs	0.5	0.5
Other non-residents	-	-
	86.40	**86.40**
Total ordinary shares in issue	**100.0**	**100.0**

20. Deferred tax liability

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

	2019 TZS M	2018 TZS M
The net deferred tax liability is attributable to the following:		
Accelerated capital allowances	12,079	11,687
Provisions	(3,080)	(2,057)
Defined benefit obligation provision	(2,422)	(2,273)
	6,577	**7,357**

The movement on the deferred tax account is as follows:

2019:	Opening balance	Recognized in P&L	Recognized in OCI	Closing balance
	TZS M	TZS M	TZS M	TZS M
Deferred tax liabilities/(assets) in relation to:				
- Property, plant and equipment	11,687	392	-	12,079
- Provisions	(2,057)	(1,023)	-	(3,080)
- Defined benefit obligation	(2,273)	(449)	300	(2,422)
	7,357	**(1,080)**	**300**	**6,577**

2018:	Opening balance	Recognized in P&L	Recognized in OCI	Closing balance
	TZS M	TZS M	TZS M	TZS M
Deferred tax liabilities/(assets) in relation to:				
- Property, plant and equipment	10,273	1,414	-	11,687
- Provisions	(1,669)	(388)	-	(2,057)
- Defined benefit obligation	(1,761)	(239)	(273)	(2,273)
	6,843	**787**	**(273)**	**7,357**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

21. Trade and other payables

	2019 TZS M	2018 TZS M
Trade payables	8,394	6,446
Amounts due to related companies (Note 25(ii))	5,051	3,610
Excise duty and VAT payable	14,715	13,074
Other duties and taxes payable*	10,929	4,727
Customer deposits*	8,957	11,529
Trade allowance payable*	1,303	2,382
Restructuring liability*	1,189	-
Dividends payable*	2,179	2,659
Other liabilities and accruals*	4,430	10,495
	57,147	**54,922**

*The marked line items were presented as single line in the prior year financial statements. These have been disaggregated for better presentation in the current year.

Provisions (Note 22) has been separately presented on the statement of financial position that was previously presented as part of trade and other payables. Comparative information on the statement of financial position has been reclassified for better presentation in the current year.

22. Provisions

Bonus provision	4,482	4,250
Provision for leave pay	440	447
	4,922	**4,697**

2019:	**Opening balance TZS M**	**Utilized/ reversed TZS M**	**Raised TZS M**	**Closing balance TZS M**
Bonus provision	4,250	(4,250)	4,482	4,482
Provision for leave pay	447	(447)	440	440
	4,697	**(4,697)**	**4,922**	**4,922**

2018:	**Opening balance TZS M**	**Utilized/ reversed TZS M**	**Raised TZS M**	**Closing balance TZS M**
Bonus provision	4,125	(4,125)	4,250	4,250
Provision for leave pay	849	(849)	447	447
	4,974	**(4,974)**	**4,697**	**4,697**

Provisions has been separately presented on the statement of financial position that was previously presented as part of trade and other payables (Note 21). Comparative information on the statement of financial position has been reclassified for better presentation in the current year.

23. Retirement benefits

Statutory retirement benefits

The Company has an obligation to make statutory contributions for retirement benefits of its employees. All eligible employees of the Company are either members of the National Social Security Fund (NSSF) or the Public Service Social Security Fund (PSSSF), which are defined contribution plans. These plans are prescribed by law. All employees must be a member of at least one of the aforementioned. The Company and employees both contribute 10% of the employees' gross salaries to the NSSF. For PSSSF, the Company and employees contribute 15% and 5% of the employees' basic salaries to the scheme respectively. The Company's contributions are charged to the profit or loss when incurred. During the year ended December 31, 2019, the Company's contributions to the funds amounted to TZS 2,626 million (2018: TZS 2,493 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 9 years.

The Company provides for retirement benefit cost based on assessments made by independent actuaries. The most recent actuarial valuation was carried out at December 31, 2019 by Towers Watson, Fellow of the Institute and Faculty of Actuaries. 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:

	2019 Percentage	**2018 Percentage**
Discount rate	14.5	14.4
Salary inflation	8.0	8.1
Cost of living increase	5.0	5.1

	2019 TZS M	**2018 TZS M**
Amount recognized in statement of profit or loss and other comprehensive income in respect of this defined benefit obligation:		
- Current service cost	448	332
- Past service cost	-	-
- Interest cost	1,148	943
- Actuarial gain/(loss) recognized in other comprehensive income	(999)	910
Net loss/(gain) for the year	**597**	**2,185**

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

	2019 TZS M	**2018 TZS M**
Opening defined benefit obligation	7,577	5,871
Current service cost	448	332
Past service cost	-	-
Interest cost	1,148	943
Actuarial gain/(loss) recognized	(999)	910
Benefits paid	(98)	(479)
Closing defined benefit obligation	**8,076**	**7,577**

23. Retirement benefits (continued)

Sensitivities

Salary rate sensitivity	Central Scenario	0.5% Increase	0.5% Decrease
	8.00%	*8.50%*	*7.50%*
	TZS M	TZS M	TZS M
Defined benefit obligation	8,076	8,449	7,739
Gross service costs excluding interest	456	486	428
Expense / net interest cost	1,186	1,245	1,133
% change in defined benefit obligation		4.62%	-4.17%
% change in gross service costs		6.45%	-6.03%
% change in expense / net interest cost		4.94%	-4.45%

Discount rate sensitivity	Central Scenario	0.5% Increase	0.5% Decrease
	14.50%	*15.00%*	*14.00%*
	TZS M	TZS M	TZS M
Defined benefit obligation	8,076	7,753	8,430
Gross service costs excluding interest	456	429	484
Expense / net interest cost	1,186	1,175	1,199
% change in defined benefit obligation		-4.00%	4.38%
% change in gross service costs		-5.86%	6.15%
% change in expense / net interest cost		-0.97%	1.06%

24. Lease liability

Liabilities arising from a lease are initially measured on a present value basis of contractual payments associated with lease contract. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

24. Lease liability (continued)

	2019 TZS M	2018 TZS M
Maturity analysis:		
Due within 1 year	5	-
Due in more than 1 year and no later than 2 years	37	-
Due in more than 2 years	-	-
	42	-
Less: Discount (unearned interest)	(7)	-
Present value of lease liability	35	-
Classification:		
Current	4	-
Non-current	31	-
	35	-
Movement:		
Present value of lease rentals as per IFRS 16 on initial recognition	80	-
Interest expense (included in finance cost)	2	-
Lease rentals paid	(47)	-
At 31 December	35	-

25. 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.

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 January 1, 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 13,394 million (2018: TZS 13,480 million).

25. Related party transactions and balances (continued)

Other transactions with related parties

i. Purchase and sales of goods and services

	2019 TZS M	2018 TZS M
Purchases from related parties		
JTI Leaf Services Limited*	15,983	12,541
JT International Holding B.V*	10,776	13,421
JT International SA*	15,243	14,554
JT International Germany GmbH*	-	744
JT International Tobacco Sdn Bhd*	-	837
JTI Tutun Urunleri Sanayi A.S. *	29	70
JTI LLC Petro*	-	4
PJSC "JT International Ukraine"*	84	243
JTI Services Switzerland SA*	4,642	4,681
JT International South Africa (Pty) Limited*	7,891	9,468
JT International Business Services*	721	1,105
JTI (Jordan) Manufacturing Ltd. Co. Limited *	22	41
JT International Manufacturing S.A. *	13	-
JTI Leaf Zambia Limited*	246	-
	55,650	57,709
Sales to related parties		
JT International SA*	2,158	3,303
JT International AD Senta*	-	49
JTI Habanera Limited*	24	11
JTI La Tabacalera S.A. *	216	-
JTI Leaf Zambia Limited*	952	622
	3,350	3,985

25. Related party transactions and balances (continued)

ii. Related party balances

	2019 TZS M	2018 TZS M
Payables to related parties (Note 21)		
JTI Leaf Services Ltd*	-	143
JT International South Africa (Pty) Limited*	1,013	854
JT International S.A*	3,358	1,378
JTI Tutun Urunleri Sanayi A.S. *	9	10
PJSC "JT International Ukraine"*	20	9
JTI Services Switzerland SA*	376	589
JTI Cigarette Khartoum Limited*	275	267
JTI LLC Petro*	-	4
JT International Business Services*	-	41
JT International Holding B.V. *	-	315
JT International AD Senta*	-	-
	5,051	3,610
Receivable from related parties (Note 16)		
JT International S.A*	1,725	3,887
JTI Cigarette & Tobacco Factory Limited*	-	805
JTI Leaf Zambia Limited*	137	270
JTI Habanera Limited*	125	117
JT International South Africa (Pty) Limited*	380	-
JT International AD Senta*	49	53
JTI Leaf Services Limited*	130	-
	2,546	5,132

*Sister companies

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 management personnel.

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

25. 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:

	2019	2018
	TZS M	TZS M
Key management remuneration	4,030	5,442
Non-executive Directors emoluments	10	20
	4,040	5,462

26. Commitments

i. Capital commitments

	2019	2018
	TZS M	TZS M
Authorized but not contracted for	14,021	11,343
Authorized and contracted for	16,706	46,490
	30,727	57,833

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

ii. Other commitments

As at December 31, 2019, the Company had a commitment for purchase of leaf tobacco totaling TZS 7,890 million (2018: TZS 1,012 million).

27. Contingent liabilities

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

28. Bank overdraft and other facilities

The Company had an overdraft facility with Standard Chartered Bank (Tanzania) Limited up to a limit of TZS 3,000,000,000 in order to meet its working capital requirements. The facility is secured by a guarantee from the ultimate parent company Japan Tobacco Inc. The effective interest rate for the facility is the 91 Days Treasury Bills plus 2.7% p.a. and is charged on daily overdrawn amount and repayable monthly (minimum price floor of 6.2%). As at December 31, 2019 and during the year, there were no drawdowns made by the Company on this facility (2018: NIL).

The Company also operates a Manufacture under Bond (MUB) facility under which export goods are produced. The facility enables the Company to import raw materials for export manufacture duty free. The facility is guaranteed by Japan Tobacco International S.A. through Standard Chartered Bank Tanzania Limited. The bond is limited to TZS 29,329,500,000 with interest charged at 0.8% p.a.

29. 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. 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 credit loss assessment model developed base on past experience and the current economic environment. The carrying amount of financial assets represents the maximum credit exposure.
The amount that best represents the Company's maximum exposure to credit risk as at December 31, 2019 without taking account of the value of any collateral obtained was:

	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				TZS M	TZS M	TZS M
Trade receivables	N/A	Performing	Lifetime ECL	31,294	488	30,806
Amounts due from related companies	N/A	Performing	Lifetime ECL	2,547	-	2,547
Bank balances	Fitch	Performing	Lifetime ECL	27,771	-	27,771
Total credit exposure				**61,612**	**488**	**61,124**

29. 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 December 31, 2018 without taking account of the value of any collateral obtained was.

	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				TZS M	TZS M	TZS M
Trade receivables	N/A	Performing	Lifetime ECL	28,722	1,471	27,251
Amounts due from related companies	N/A	Performing	Lifetime ECL	5,132	-	5,132
Bank balances	Fitch	Performing	Lifetime ECL	20,351	-	20,351
Total credit exposure				**54,205**	**1,471**	**52,734**

The Company has applied the simplified approach in IFRS 9 on receivables to measure the loss allowance at The Company has applied the simplified approach in IFRS 9 on receivables to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss and future economic conditions.

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

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Liquidity risk management

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

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

Maturity analysis for financial liabilities as at December 31, 2019 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	8,394	-	-	-	8,394
Amounts due to related companies	5,051	-	-	-	5,051
	13,445	**-**	**-**	**-**	**13,445**

29. Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

Maturity analysis for financial assets as at December 31, 2018 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	6,446	-	-	-	6,446
Amounts due to related companies	3,610	-	-	-	3,610
Total	**10,056**	**-**	**-**	**-**	**10,056**

Maturity analysis for financial assets as at December 31, 2019 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 (net)	30,806	-	-	-	30,806
Amount due from related companies	2,547	-	-	-	2,547
Cash and bank balances	27,771	-	-	-	27,771
Total	**61,124**	**-**	**-**	**-**	**61,124**

Maturity analysis for financial assets as at December 31, 2018 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 (net)	27,251	-	-	-	27,251
Amount due from related companies	5,132	-	-	-	5,132
Cash and bank balances	20,351	-	-	-	20,351
Total	**52,734**	**-**	**-**	**-**	**52,734**

Market risk management

(i) Interest rate risk

The Company is not exposed to interest rate risk because it does not have floating interest borrowing. During the year, the Company received interest income amounting to TZS 2,081 million (2018: TZS 774 million) from its short-term bank deposits.

29. Financial risk management objectives and policies (continued)

Market risk management (continued)

(ii) Foreign exchange risk

Foreign exchange risk arises on financial instrument that are denominated in a currency other than Tanzania Shillings (TZS). The Company's costs and expenses are principally incurred in Tanzanian Shillings (TZS) and US Dollars (USD). The Company did not enter into formal hedging transactions in respect of these transactions. Volatility in the exchange rate of USD against TZS would make the Company's costs and results less predictable than when exchange rates are stable.

At December 31, 2019, if the TZS had strengthened or weakened 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 313 million (2018: TZS 254 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 December 31, 2019 are as follows:

	2019	**2018**
	TZS M	**TZS M**
Cash and bank balances in USD	6,158	515
Trade and other receivables in USD	15,810	20,308
Trade and other payables in USD	(15,701)	(15,748)
Open position	**6,267**	**5,075**

29. Financial risk management objectives and policies (continued)

Financial instruments categorization

As at December 31, 2019	Financial assets carried at amortized costs TZS M	Financial liabilities carried at amortized costs TZS M	Non financial liabilities or assets or equity TZS M	Financial assets at fair value through profit or loss TZS M	Financial assets at fair value through OCI TZS M	Total TZS M
Assets						
Non-current assets						
Property, plant and equipment	-	-	97,754	-	-	97,754
Right-of-use assets	-	-	70	-	-	70
	-	-	97,824	-	-	97,824
Current assets						
Inventories	-	-	103,610	-	-	103,610
Trade and other receivables	33,352	-	5,779	-	-	39,131
Non-Current asset held -for-sale	-	-	291	-	-	291
Bank balances	27,771	-	-	-	-	27,771
Total assets	**61,123**	**-**	**207,504**	**-**	**-**	**268,627**
Equity and liabilities						
Capital and reserves						
Share capital	-	-	2,000	-	-	2000
Retained earnings	-	-	179,269	-	-	179,269
Defined benefit reserve	-	-	5,872	-	-	5,872
	-	-	187,141	-	-	187,141
Non-current liabilities						
Deferred tax liability	-	-	6,577	-	-	6,577
Defined benefit obligation	-	-	8,076	-	-	8,076
Lease liabilities	-	-	31	-	-	31
	-	-	14,584	-	-	14,584
Current liabilities						
Trade and other payables	-	13,445	43,702	-	-	57,147
Provisions	-	-	4,922	-	-	4,922
Lease liabilities	-	-	4	-	-	4
Income tax liability	-	-	4,729	-	-	4,729
	-	13,445	53,357	-	-	66,802
	-	**13,445**	**255,182**	**-**	**-**	**268,627**

29. Financial risk management objectives and policies (continued)

Financial instruments categorization (continued)

As at December 31, 2018	Financial assets carried at amortized costs	Financial liabilities carried at amortized costs	Non financial liabilities or assets or equity	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Total
	TZS M	TZS M	TZS M	TZS M	TZS M	TZS M
Assets						
Non-current assets						
Property, plant and equipment	-	-	98,117	-	-	98,117
Current assets						
Inventories	-	-	108,221	-	-	108,221
Income tax asset	-	-	-	-	-	-
Trade and other receivables	32,383	-	7,542	-	-	39,925
Bank balances	20,351	-	-	-	-	20,351
Total assets	**52,734**	**-**	**213,880**	**-**	**-**	**266,614**
Equity and liabilities						
Capital and reserves						
Share capital	-	-	2,000	-	-	2000
Retained earnings	-	-	183,021	-	-	183,021
Defined benefit reserve	-	-	5,173	-	-	5,173
	-	-	190,194	-	-	190,194
Non-current liabilities						
Deferred tax liability	-	-	7,357	-	-	7,357
Defined benefit obligation	-	-	7,577	-	-	7,577
	-	-	14,934	-	-	14,934
Current liabilities						
Trade and other payables	-	10,056	44,866	-	-	54,922
Provisions	-	-	4,697	-	-	4,697
Income tax liability	-	-	1,867	-	-	1,867
	-	**10,056**	**256,558**	**-**	**-**	**266,614**

30. 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 2019.

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

	2019 TZS M	2018 TZS M
Share capital	2,000	2,000
Defined benefit actuarial gains	5,872	5,173
Retained earnings	179,268	183,021
Equity	**187,140**	**190,194**

As at December 31, 2019 the Company was not financed by any debt (2018: NIL).

31. Fair value measurement

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

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

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

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

31. Fair value measurement (continued)

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

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

The Company had no financial assets or financial liabilities that are measured at fair value on recurring basis at December 31, 2019 (2018: none).

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

The Company's financial assets and liabilities are measured at amortised cost; their carrying amounts are reasonable approximation of their fair value.

32. Comparative figures

Where necessary comparative figures have been changed to confirm with current year presentation.

33. Events subsequent to the year end

The financial statements were prepared based on management estimates and judgement as at the reporting date. Subsequent to year-end, there has been a coronavirus outbreak in which the management have evaluated its impact on the Company performance and concluded that currently no significant impact was readily determined as of the date of signing these financials Statements.

Other than matters stated above, the Directors are not aware of any other matter or circumstance arising since the end of the financial period, not otherwise dealt with in these financial statements, which significantly affected the financial position of the Company and results of its operations at the date of signing the financial state.

34. Incorporation

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

35. 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.

36. Functional and presentation currency

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