

Tanzania Cigarette Public Limited Company
Rasilimali ya Tanzania



ANNUAL REPORT

for the year ended December 31, 2018





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FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Consolidated five year financial summary

	2014	2015	2016	2017	2018
	TZS M	TZS M	TZS M	TZS M	TZS M
For the year:					
Revenue	399,227	431,735	433,054	418,578	436,478
Excise duty	115,317	131,185	132,092	138,829	142,092
Net sales	283,910	300,550	300,962	279,749	294,386
EBITDA	109,721	112,840	108,159	76,723	84,185
Depreciation and amortization	14,955	15,710	12,890	12,007	13,101
Gross Profit	171,536	178,997	170,892	158,148	166,944
Operating income	94,765	97,130	95,269	64,716	71,084
Net Finance (income) expense	(3,495)	(2,263)	(3,365)	(1,201)	(397)
Corporate tax	29,661	31,585	29,964	20,558	23,544
Net income	68,600	65,711	68,669	45,357	47,935
At year end:					
Net Property, plant and equipment	94,884	87,474	89,353	96,765	98,117
Total assets	247,258	229,972	257,212	259,802	266,6140
Interest bearing debts	-	-	-	-	-
Total Liabilities	68,842	55,632	70,496	76,907	76,420
Total shareholders' equity	178,416	174,340	186,716	182,895	190,194
For the year:					
Net cash generated by operating activities	92,754	66,419	61,507	62,674	49,738
Net cash used in investing activities	(9,371)	(7,535)	(14,261)	(19,497)	(13,916)
Net cash used in financing activities	(70,000)	(70,000)	(60,000)	(50,000)	(40,000)
Cash Flow for the year	13,383	(11,116)	(12,754)	(6,823)	(4,178)
	2014	2015	2016	2017	2018
Dividend per share (TZS)	650	600	600	400	450
Earning per share (TZS)	686	657	687	454	479
Profitability:					
Return on equity	39%	37%	38%	25%	26%
EBITDA margin	39%	38%	36%	27%	29%
Operating income margin	33%	32%	32%	23%	24%
Total assets turnover	1.15	1.26	1.17	1.08	1.11
Stability:					
Current ratio	279%	346%	289%	254%	274%
Debt ratio (total liabilities/total assets)	28%	24%	27%	30%	29%

FINANCIAL HIGHLIGHTS

Value added

	2018 TZS M	%	2017 TZS M	%
Gross turnover	506,739		485,832	
Operating expenditures - suppliers	(168,378)		(160,426)	
Total Value added	338,361	100.0	325,406	100.0

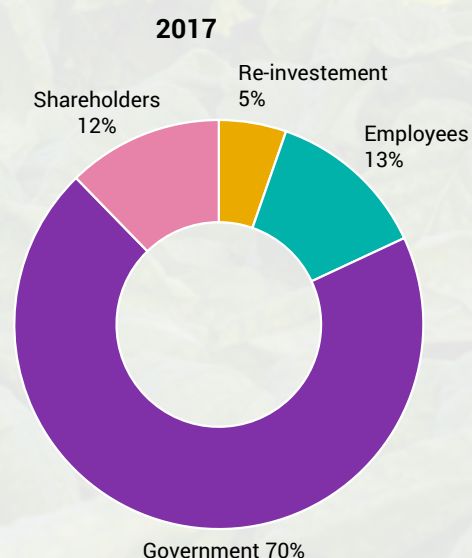
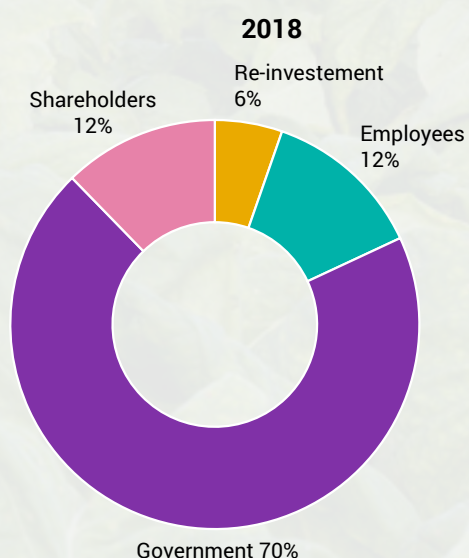
Value distributed as follows:

To Employees - remuneration	41,427	12.2	41,401	12.7
To Government - vat, excise duties	212,353	62.8	206,083	63.3
To Government - corporate tax	23,544	7.0	20,558	6.3
To shareholders - dividends	40,000	11.8	40,000	12.3

To Reinvestment:

Depreciation and amortisation	13,101	3.9	12,007	3.7
Retained income	7,936	2.3	5,357	1.6
Total distributions	338,361	100.0	325,406	100.0

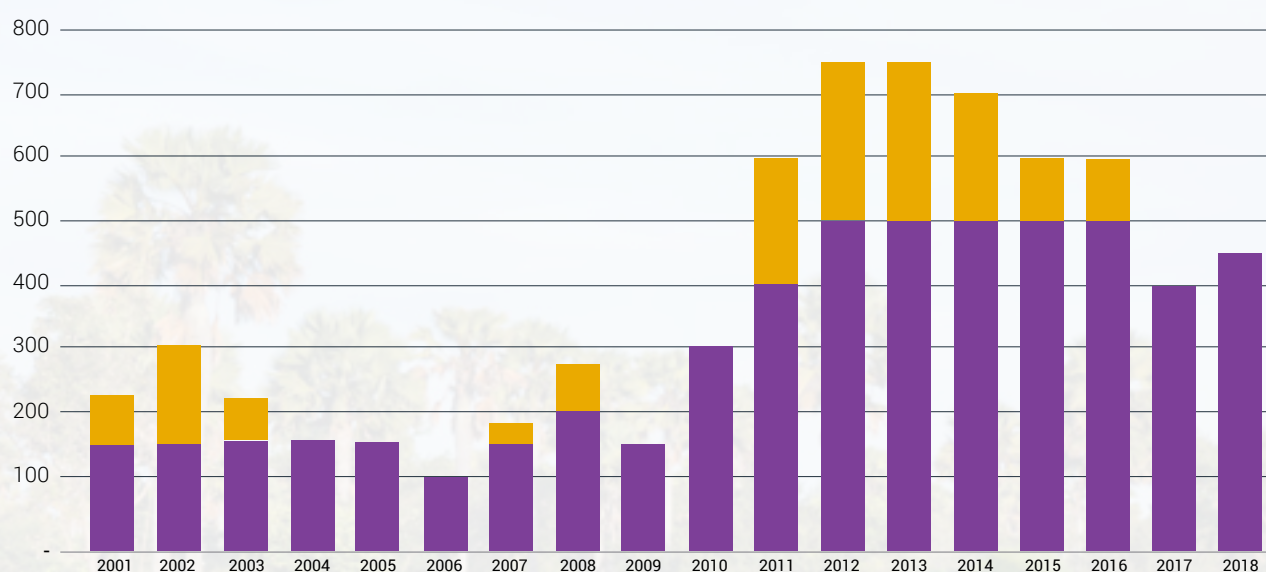
Value distributed (%)



FINANCIAL HIGHLIGHTS

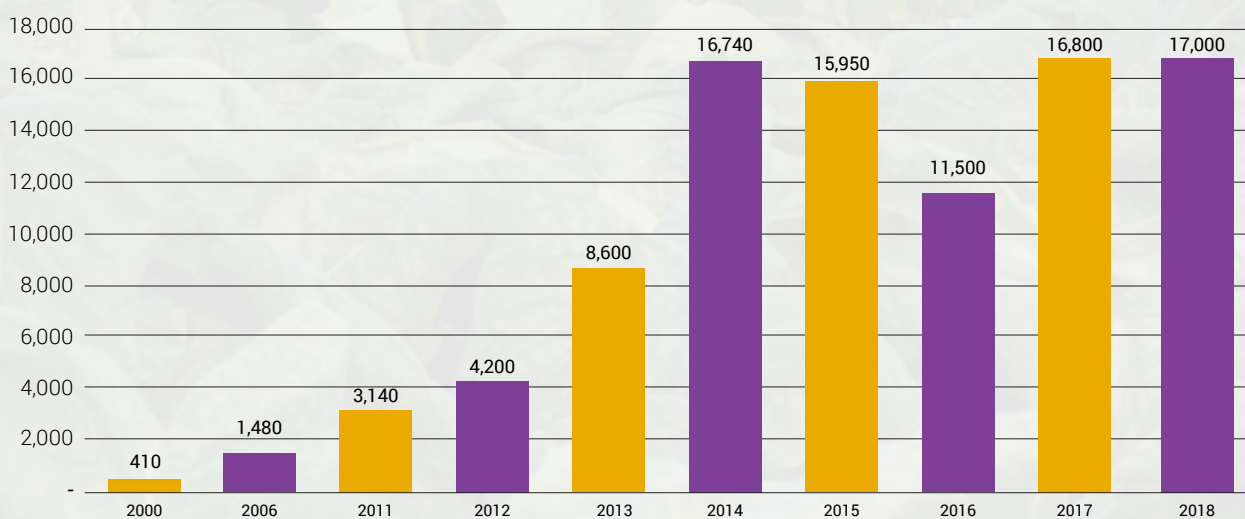
Dividend history

Dividend per share for the respective financial year (TZ/share): 2001-2018



Share price evolution

Share price evolution (TZ/share): 2000 - 2018





TCC AT A GLANCE



Our vision and mission

Our vision is to be the most successful and responsible Company in East Africa.

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

OUR VALUES



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 thought, 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 consumers.



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 whole.





TCC KWA MUHTASARI



Dira na Dhamira yetu

Dira yetu ni kuwa Kampuni yenye mafanikio zaidi na inayowajibika zaidi Afrika Mashariki.

Dhamira yetu ni kukuza wingi wa bidhaa 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.

MAADILI YETU



Mwelekeo wa ushindi

Tunasukumwa na mafanikio

Tuna shauku, dhamira na kusukumwa na mafanikio, kwa kuweka malengo yetu kwanza.



Umoja ni nguvu

Tunafanya kazi kama “Timu Moja”

Tunathamini kazi ya ushirikiano na usawa ambayo inakubali mawazo tofauti, na umuhimu wa timu imara na moja.



Wajibu katika ubora

Tutamtanguliza mtumiaji wa bidhaa zetu kwa kila tunachofanya

Tumejikita kutoa viwango vya juu vya ubora ambao watumiaji wetu wanahitaji. Tunaendelea kuzalisha na kutoa bidhaa bora kwa watumiaji wetu.



Tunafanya kwa haki na uadilifu

Tunazingatia wajibu wetu kupata mafanikio endelevu

Maamuzi yetu yanafanywa kwa uadilifu na uaminifu. Tunafanya kwa maadili na kuwajibika kwa wawekezaji wetu, watu wetu, wateja wetu na jamii kwa ujumla.





TO OUR STAKEHOLDERS





MESSAGE FROM THE CHAIRMAN

“Our results demonstrate the agility of our people to respond to challenges, the strength of our wide choice of brands and re-affirm our strategies to grow the business”

Paul Makanza
Chairman of the Board

MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

Welcome to our Annual Report for the year ended December 31, 2018. On behalf of the Board of Directors of Tanzania Cigarette Public Limited Company (TCC Plc), I am pleased to report a strong set of results for the year.

Strong performance

The business delivered a strong performance with a volume growth of 5 % and net profit growth of 6 % on prior year. This performance was driven by strong export volume, pricing in the domestic market and operational cost efficiencies. These results demonstrate the agility of our people to respond to challenges, the strength of our wide choice of brands and re-affirm our strategies to grow the business.

In view of the strong results for the year, the Board of Directors has recommended a final gross dividend of TZS 250 per share. This dividend is subject to approval by shareholders at the Annual General Meeting on April 3, 2019. The final gross dividend, including the TZS 200 interim gross dividend paid in October 2018, brings the total gross dividend for the year ended December 31, 2018 to TZS 450 per share.

A conducive business environment

We commend the government for initiating measures to improve the business environment and investor confidence.

The launch of the "Blueprint for Regulatory Reforms to Improve the Business Environment" in 2018 is a clear example. We hope the government will implement its recommendations and enhance transparency, supportive ruled based decisions, policy predictability and accountability which are essential for a conducive business climate.

Corporate governance

Good governance has always been a key priority for the company. Our obligations to comply with regulatory requirements go beyond compliance to ensuring that we

deliver results with integrity. In line with the Company's Articles of Association, the Board and its respective committees met twice during the year under review to conduct its affairs.

In 2018, key initiatives included approval of the Audit and Nomination Committee Charters, which set out roles and responsibilities of the respective committees.

New board appointments

Olivier Chimits and Andrew Bingham, both non-executive directors, retired from the Board in January 2018. We thank them for their immense participation, contribution and guidance during their tenure. We welcomed Luca Meroni and Bertrand Tamisier in January 2018 and Baraka Katemba in April 2018 as non-executive directors. Their contribution to the Board throughout 2018 has been invaluable and we look forward to their continued advice.

Fulfilling our responsibilities to key stakeholders

As a company, we always strive to fulfill our responsibilities to our key stakeholders consumers, shareholders, employees and the community we operate in. We carefully consider their respective interests and strive to exceed their expectations wherever possible.

To this end, TCC Plc continued to be a source of talent for other JTI markets around the world, a clear reflection of the importance and quality of our investment in people. Moreover, our community programs in poverty reduction, support to the disabled and arts & culture have improved the lives of over 3,000 people. In addition, our environmental protection programs continued to deliver positive results. We reduced our energy consumption by 13%. We cut carbon dioxide emissions by 14% and production waste by 11%. And improved use of recycled water by 8%. These results

reflect our desire to reduce ecological footprint in our production process and promote the use of cleaner energy.

Confidence in the future

On-going initiatives to improve the business climate and investor confidence point to a brighter future. We hope the government will implement recommendations of the "Blueprint for Regulatory Reforms" to address impediments to a more conducive business environment. We expect the government will sustain the positive macro-economic achievements of 2018.

We are encouraged by on-going significant investments in energy and transport infrastructure which will unlock further business opportunities in and outside Tanzania. We are optimistic that peace and prosperity will prevail in the DRC, a key export market, following the peaceful transition of power in early 2019.

Appreciation

As we continue with our epic journey, I would like to take this opportunity to extend my sincere gratitude to fellow Board members for their effective oversight role and wise counsel. I am also grateful to the Management and employees of TCC Plc for their hard work and unwavering commitment to consistently deliver on our business objectives. I wish to extend gratitude to business partners, our customers and consumers, and you, our esteemed shareholders for your support and trust.



Paul Makanza

Chairman of the Board

Ndugu Wanahisa, Karibuni kwenye Ripoti ya mwaka kwa mwaka ulioishia 31 Desemba, 2018. Kwa niaba ya Bodi ya Wakurugenzi ya Tanzania Cigarette Public Limited Company (TCC Plc). Nafurahi kuripoti mafanikio makubwa kwa mwaka wa taarifa hii.

Utendaji imara

Biashara imeonesha utendaji imara wenye ongezeko la uzalishaji la asilimia 5% na faida halisi ya asilimia 6% kwa mwaka uliopita. Utendaji huu ulichangiwa na ongezeko kubwa la mauzo ya nje, upangaji bei katika soko la ndani na ufanisi wa gharama za uendeshaji. Mafanikio haya yameonesha mabadiliko ya haraka ya watu wetu kukabiliana na changamoto, nguvu ya aina nyingi ya bidhaa zetu na kuthibitisha tena mikakati yetu kuongeza biashara.

Kutokana na matokeo mazuri kwa mwaka wa taarifa hii, Bodi ya Wakurugenzi imependekezwa gawio la mwisho la TZS 250 kwa hisa, kutegemea uthibitisho wa wanahisa kwenye Mkutano Mkuu wa mwaka tarehe 3 April, 2019. Gawio hili la mwisho la jumla, ikiwemo TZS 200 la awali lililolipwa Oktoba 2018 kufanya jumla ya gawio kwa mwaka ulioishia 31 Desemba 2018 kuwa TZS 450 kwa hisa.

Mazingira mazuri ya biashara

Tunaipongeza Serikali kwa kuanzisha hatua za kuboresha mazingira ya biashara na imani ya wawekezaji. Kuzinduliwa kwa Mwongozo kwa Mageuzi ya Kiudhibiti ili kuboresha mazingira ya biashara "The Blueprint for Regulatory Reforms to Improve the Business Environment" mwaka 2018 ni mfano dhahiri. Ni matarajio yetu kwamba serikali itatekeleza mapendekezo yake na kuzidisha uwazi, uamuzi saidizi unaozingatia sheria, ubashiri wa sera na uwajibikaji ambavyo ni vipengele muhimu kwa mazingira mazuri ya biashara.

Utawala wa Kampuni.

Utawala bora daima umekuwa kipaumbele muhimu cha kampuni yetu. Wajibu wetu wa kufuata masharti ya kanuni na sheria ni muhimu kuliko hata ufuasi unaohakikisha kuwa tunapata mafanikio kwa uadilifu. Kulingana na Kanuni za Msingi za Ushirikiano za Kampuni, Bodi na kamati zake husika, imekutana mara mbili katika mwaka wa taarifa hii kujadili masuala yake.

Katika mwaka 2018, jitihada zetu muhimu ni pamoja na uthibitishaji wa 'Audit and Nomination Committee Charters' inayoweka wajibu na majukumu ya kamati za Ukaguzi na Uteuzi.

Uteuzi wa Bodi Mpya

Olivier Chimits na Andrew Bingham, wote ni Wakurugenzi wasio watendaji, walistaafu ujumbe wa Bodi mwezi Januari 2018. Tunawashukuru kwa ushiriki wao mkubwa, mchango na maelekezo katika kipindi cha ujumbe wao. Tumewakaribisha Luca Meroni na Bertrand Tamisier mwezi Januari 2018 na Baraka Katemba, mwezi Aprili 2018, kama Wakurugenzi wasio Watendaji. Mchango wao kwenye Bodi kwa mwaka 2018 umekuwa wenye thamani kubwa na tunatarajia kupata maelekezo na ushauri zaidi.

Kutimiza majukumu yetu kwa Wadau muhimu

Kama kampuni, daima tumekuwa tunatekeleza majukumu yetu, kwa wadau muhimu, ambao ni watumiaji wa bidhaa zetu, wanahisa, wafanyakazi, na jamii tunakofanya shughuli zetu. Tunazingatia maslahi yao kwa makini na kujitahidi kuzidi matarajio yao kadiri inavyowezekana.

Kutokana na hali hiyo, tunaona fahari sana kuripoti kama TCC Plc imeendelea kuwa chanzo cha vipaji kwa ajili ya masoko mengine ya JTI duniani, uthibitisho dhahiri wa umuhimu na ubora wa uwekezaji wetu kwa watu. Zaidi ya hayo, programu zetu za jamii katika kupunguza umaskini, msaada kwa wenye ulemavu, na sanaa na utamaduni zimeboresha maisha ya watu zaidi ya 3,000. Vilevile, programu zetu za kulinda mazingira zimeendelea kutoa matokeo chanya. Tumepunguza matumizi ya nishati kwa 13%. Utoaji wa Hewa Ukaa kwa asilimia 14% na taka za uzalishaji kwa 11%. Pia, tumeboresha matumizi ya maji yaliyorejelezwa kwa 8%. Mafanikio haya yameonesha shauku yetu ya kupunguza uharibifu wa ekolojia katika mchakato wa uzalishaji wetu na kuhimiza matumizi ya nishati safi zaidi.

Matarajio Mema ya Baadaye

Jitihada zinazoendelea za kuboresha mazingira ya biashara na imani ya mwekezaji ni kiashirio cha mafanikio zaidi hapo baadaye. Ni matumaini yetu kwamba Serikali itatekeleza mapendekezo yaliyomo kwenye Mwongozo kwa Mageuzi ya Kiudhibiti "The Blueprint for Regulatory Reforms" kushughulikia vikwazo vya mazingira bora zaidi ya biashara. Ni

matarajio yetu kwamba Serikali itaendelea kudumisha mafanikio chanya ya uchumi mpana ya mwaka 2018. Tunatiwa moyo sana na uwekezaji mkubwa unaoendelea kwenye nishati na miundombinu ya uchukuzi ambao utafungua zaidi fursa za biashara ndani na nje ya Tanzania. Tuna matarajio makubwa kwamba amani na ustawi utakuwepo DRC, soko muhimu sana la nje, kufuatia kubadilishana madaraka kwa amani mwanzoni mwa 2019.

Shukrani

Wakati tunapoendelea kwenye safari ya matumaini, napenda nitumie fursa hii kutoa shukrani zangu za dhiti kwa Wajumbe wa Bodi wenzangu, kwa wajibu mkubwa wa kusimamia kwa ufanisi na ushauri wenye busara. Pia nashukuru Menejimenti na Wafanyakazi wa TCC Plc kwa juhudi yao na dhamira isiyotetereka katika kufikia malengo ya biashara tuliyojiwekea. Mwisho shukrani zangu ziwaendee wadau wa biashara, wateja wetu, na nyinyi pia, wanahisa wetu wa kuheshimiwa kwa msaada na kutuamini.



Paul Mkanza

Mwenyekiti wa Bodi



“Matokeo yetu yanaonyesha
uwezo wa watu wetu kukabiliana
na changamoto, nguvu ya uchaguzi
wetu mpana wa bidhaa na
kuthibitisha mikakati yetu ya
kukuza biashara”

Paul Makanza
Mwenyekiti wa Bodi

MESSAGE FROM THE CEO

“We have strengthened
our business and
provided a foundation
for future growth”

Alan Jackson

Chief Executive Officer



Performance overview

A year ago, I delivered my first statement as your new CEO. At the time I had only been in this role for a few months. I reported that 2017 had been a challenging year but Tanzania Cigarette Public Limited Company (TCC Plc) remained steadfast in our long-term ambition to continue providing significant shareholder value and to invest for the long-term success of our business.

In 2018, our business was mainly driven by three main factors:

- i. Stable excise tax
- ii. A stabilised portfolio
- iii. Strategic pricing initiatives across our portfolio

Against this backdrop, I am delighted to report another year of continued resilience in spite some of the macro-economic challenges that we all witnessed in 2018.

Two-pronged strategic approach

At the close of 2017, we made a commitment to employ a top line and bottom-line growth approach to the business in 2018. This was largely informed by lessons from the previous years' performance and market trends that we had observed would affect the future of the business. One of our key areas of focus in our two-pronged approach was to enhance operational efficiencies.

We were able to invest and resource the business in a manner that allowed us to grow against key metrics. Consolidated volume between domestic and export markets returned to growth delivering an increase of 5% versus prior year (export volume increased 17.7% versus 2017). This top line growth has translated into a 4.3% increase in revenue and a profit after tax of TZS 47.9 billion, a 5.7% increase over that reported in 2017.

We maintained our levels of investment while implementing a number of significant strategic operational efficiencies and changes across the business. These changes - strengthened our business and provided a foundation for future growth.

Tanzanian domestic volume remained unchanged versus 2017. We have however been able to leverage and stabilise our portfolio that has had a material impact on our

company's performance. As an example, for Portsman our key mid-priced, heritage brand, we were able to achieve growth in 2018 after years of consistent decline.

Operational highlights

As part of the efforts to streamline our operations, we restructured our sales force and embarked on a complete change to our route to market and field operations. This was carried out in the second half of the year. We believe that these initiatives will strengthen the Company and put it on a path for further growth. I am pleased to report that we ended 2018 with a reinvigorated, efficient and forward-looking sales organisation. In comparison, our operating expenses were manageable only recording a 2.6% increase in 2017 to 2018. In addition to this, we managed to narrow our operating cash flow by about 8%.

In 2017, we recorded a 3% decline in revenue, however in 2018 we have improved these results by posting a commendable 4.3% growth (from TZS 418.6 billion to TZS 436.5 billion) in revenues. The 2018 growth in revenue was achieved in spite of the decline in sales in two of our export markets: Zambia and Mozambique. Overall, our net sales increased by 5.2% from (TZS 279.7 billion to TZS 294.4 billion). We continue to review our operating models in both our local and export markets to sustain this growth.

Regulatory Environment

The decision by the government not to increase excise tax in June 2018, coupled with strong economic indicators – a 7% GDP growth, low inflation of under 5% and a stable Shilling - positively impacted our second half recovery.

This initiative, in addition to our strategic pricing initiatives and operational cost efficiency, helped us deliver our short-term commitments to you while investing in our long-term future.

Our People

We continue to invest in human resource as our employees provide us with the single most important competitive advantage. In 2018, we had embarked on a review of our human rights impact and how our Company's policies affected employees and suppliers. This review has helped to identify areas that need improvement and how we can

positively shape our operating environment. The review has yielded positive results specifically around the theme of diversity and inclusion and the responsibilities of our suppliers to their employees.

In 2018, the Company once again scooped two prestigious awards. The Top Employer Institute (UK) recognised TCC Plc as one of the top employers in Tanzania and Africa and the Association of Tanzania Employers awarded TCC Plc for Quality, Productivity and Innovation, Talent Management and Development and Attraction and Retention initiatives as well as rating TCC Plc 3rd Overall Best Employer in Tanzania. These achievements, amongst others, demonstrate our Company's commitment to our employees and their importance in delivering on our business objectives.

Business outlook

The year ahead is encouraging as we carry on from the foundations for growth built in 2018. Our Company remains firmly committed to The United Republic of Tanzania and we commend the Government for putting in place good policies that promote a stronger private sector and drive increased foreign direct investment.

Our strategy continues to be guided by the robust fundamentals we have put in place to ensure we put our customers first, provide quality products to the market and enhance efficiency in our operations. We will continue to rely on stable governance, economic growth and policy predictability.

Appreciation

I would like to reiterate my appreciation to you, our valued shareholders, for your support and unwavering commitment to TCC Plc. We will continue to make decisions for your benefit and the long-term sustainability of our Company. Thank you to our employees, management team and fellow Board members for your continued contributions to our business. Last but certainly not least, a heartfelt thank you to our loyal customers and consumers.



Alan Jackson
Chief Executive Officer

Mapato ya utendaji

Ujumbe kutoka kwa Afisa Mtendaji Mkuu Mwaka mmoja uliopita nilitoa waraka wangu wa kwanza kama Afisa Mtendaji Mkuu mpya. Wakati huo nilikuwa na wadhifa huu kwa miezi michache tu. Niliripoti kuwa mwaka 2017 ulikuwa mwaka wenye changamoto ingawa Tanzania Cigarette Public Limited Company (TCC Plc) iliendelea na kasi ileile ya shauku yetu ya muda mrefu ya kuendelea kutoa thamani kubwa ya mwanahisa na kuwekeza kwa ajili ya mafanikio ya muda mrefu kwenye biashara yetu.

Mwaka 2018, biashara yetu imeendelezwa zaidi na vipengele vikuu vitatu:

- Kodi ya ushuru wa bidhaa isiyobadilika
- Kudhibiti kupungua kwa aina ya bidhaa zetu
- Jitihada za upangaji bei wa kimkakati kwa bidhaa zetu

Kutokana na hali hiyo ninayo furaha kuripoti mwaka mwingine tena wa uthabiti endelevu licha ya vipengele vya msukosuko wa uchumi mpana tulivyovishuhudia sote kwa mwaka 2018.

Mbinu za kimkakati zenye ncha mbili

Mwishoni mwa mwaka 2017, tulidhamiria kutumia mbinu ya ongezeko la juu na chini kwa biashara yetu kwa mwaka 2018. Hii imetokana zaidi na kile tulichojifunza katika utendaji wa miaka iliyopita na mwenendo wa soko tulivyoona vitaathiri hatima ya biashara yetu. Miongoni mwa maeneo yetu muhimu ya kuzingatia kwenye mbinu yetu yenye ncha mbili ni kuongeza ufanisi wa uendeshaji.

Tumeweza kuwekeza na kuongeza rasilimali kwenye biashara kwa hali iliyotuwezesha kukua kwa biashara katika maeneo muhimu. Ongezeko la jumla baina ya masoko ya ndani na nje limeonesha ukuaji wa asilimia 5% ikilinganishwa na mwaka 2017 (mauzo ya nje yameongezeka kwa asilimia 17.7% kulinganishwa na mwaka 2017). Ukuaji wa biashara za kundi la kwanza umemaanisha ongezeko la asilimia 4.3% zaidi ya pato la jumla na faida baada ya kodi ya TZS 47.9 bilioni sawa na ongezeko la asilimia 5.7% ikilinganishwa na iliyoripotiwa mwaka 2017.

Tumedumisha viwango vyetu vya uwekeza-ji wakati huo huo tukatekeleza kwa ufanisi uendeshaji mkubwa wa kimkakati na mabadiliko kwenye biashara yetu. Mabadiliko haya yameimarisha biashara yetu na yameweka msingi wa ongezeko la ukuaji wa baadaye.

Uzalishaji kwa soko la ndani Tanzania umebaki bila kubadilika ikilinganishwa na mwaka 2017. Hata hivyo tumemudu kujiimarisha na kudhibiti aina za bidhaa zetu, hatua iliyoifanikisha utendaji mzuri wa kampuni. Kwa mfano, kwa Portsman, sigara yetu muhimu ya bei ya kati, bidhaa ya urithi wetu, tuliweza kupata ongezeko mwaka 2018, baada ya miaka kadhaa ya kupungua.

Muhtasari wa Uendeshaji

Kama sehemu ya jitihada za kujumuisha shughuli zetu, tuliunda upya timu ya mauzo na kufanya mabadiliko makubwa kwenye njia za masoko na shughuli za ugani. Mabadiliko haya yalifanywa katika nusu ya pili ya mwaka. Tunaamini kwamba jitihada hizi zitaimarisha kampuni na kuielekeza katika njia ya ukuaji zaidi. Ninayo furaha kuripoti kuwa tumemaliza mwaka 2018 tukiwa na muundo wa biashara wenye nguvu mpya, ufanisi na mustakabali wa mafanikio zaidi. Kwa kulinganisha, tulimudu gharama za uendeshaji kwa kuonesha ongezeko la asilimia 2.6% mwaka 2017 hadi 2018. Zaidi ya hayo tulifanikiwa kupunguza gharama za uendeshaji kwa takribani asilimia 8%.

Mwaka 2017 mapato yalipungua kwa asilimia 3%, hata hivyo mwaka 2018 tumeboresha matokeo ya uzalishaji na mauzo na kupata ongezeko la kujivunia la asilimia 4.3% (kutoka TZS 418.6 bilioni hadi TZS 436.5 bilioni). Ongezeko la mapato la mwaka 2018 lilipatikana, licha ya kupungua kwa mauzo kwenye masoko yetu mawili ya nje; Zambia na Msumbiji. Kwa jumla mauzo yetu halisi yaliongezeka kwa asilimia 5.2% (kutoka TZS 279.7 bilioni hadi TZS 294.4 bilioni). Tunaendelea kupitia uendeshaji wetu kwenye masoko ya ndani na nje ili kudumisha ukuaji huu wa bidhaa na mapato.

Mazingira ya sheria na udhibiti

Uamuzi wa serikali kutokuongezeka kodi ya ushuru wa bidhaa mwezi Juni 2018 pamoja na viashirio imara vya kiuchumi – asilimia 7% ongezeko la GDP; mfumuko mdogo wa bei chini ya asilimia 5%, na uimara wa shilingi vimesaidia sana kuongezeka kwa uzalishaji katika nusu ya pili ya mwaka.

Jitihada hii, pamoja na jitihada zetu za upangaji bei wa kimkakati na ufanisi wa gharama za uendeshaji, zimesaidia kutimiza ahadi zetu za muda mfupi kwenu, wakati huo huo kuwekeza kwenye malengo yetu ya muda mrefu.

Watu wetu

Tunaendelea kuwekeza kwenye rasilimali watu kwa sababu wafanyakazi wanatupatia manufaa muhimu sana ya ushindani. Mwaka 2018, tulifanya tathmini ya haki za binadamu na jinsi sera za kampuni zinavyoathiri wafanyakazi na waga-vi. Mapitio haya yamesaidia kubainisha maeneo yanayohitaji kuboreshwa na jinsi tunavyoweza kuboresha mazingira ya utendaji kazi wetu. Mapitio yameleta matokeo mazuri hasa kwenye maeneo ya utofauti na ujumuishaji na wajibu wa wagavi wetu kwa wafanyakazi wao.

Mwaka 2018, kampuni ilipata tena tuzo mbili za fahari. Taasisi ya Top Employer imetambua TCC Plc kama miongoni mwa waajiri bora zaidi nchini Tanzania na Afrika na Chama cha Waajiri Tanzania (ATE) kimeitunuku TCC Plc kwa ajili ya Jitihada za Ubora, Tija na Ubunifu, na Usimamizi wa Vipaji na Maendeleo, Uvutiaji na Ubakishaji, pamoja na TCC Plc kuwa Mwajiri Bora wa Jumla wa Tatu Tanzania. Mafanikio haya, miongoni mwa mengine yanadhihirisha dhamira ya kampuni kwa watumishi wetu na umuhimu wao katika kutekeleza malengo ya biashara yetu.

Matarajio ya Biashara

Mwaka ujao unatia matumaini. Kwa kuwa tunaendelea misingi ya ukuaji tuliyojenga mwaka 2018. Kampuni yetu imedhamiria kwa dhati kushirikiana na Jamhuri ya Muungano wa Tanzania na tunaipongeza Serikali kwa kutunga sera nzuri zinazohamasisha sekta binafsi imara na kuzidisha uwekezaji wa kigeni wa moja kwa moja.

Mkakati wetu unaendelea kuongozwa na misingi imara tuliyoiweka kuhakikisha tunawatanguliza wateja wetu kwanza, kuweka bidhaa bora sokoni na kuongeza ufanisi katika shughuli zetu.

Tutaendelea kutegemea utawala imara, ukuaji wa uchumi na ubashiri wa sera.

Shukrani

Napenda kurudia kusesitiza shukrani zangu kwenu, kwa wanahisa wetu, kwa msaada wenu na dhamira isiyotetereka kwa TCC Plc. Tutaendelea kufanya maamuzi kwa manufaa yenu na uendelevu wa Kampuni wa muda mrefu. Nawashukuru wafanyakazi wetu, timu ya menejimenti na wajumbe wetu wa bodi kwa michango yenu endelevu kwa biashara yetu. Mwisho, shukrani za moyoni kwa wagavi wetu, wateja na watumiaji wa bidhaa zetu waaminifu.



Alan Jackson

Afisa Mtendaji Mkuu



“Tumeimarisha biashara yetu na kuweka msingi wa ukuaji wa baadaye”

Alan Jackson
Afisa 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. 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. Prior to joining TCC, he worked for Coopers & Lybrand and later PricewaterhouseCoopers.

LUCA MERONI



Luca Meroni is the Head of Internal Audit in JTI Headquarters in Geneva since April 2012. He has a wealth of experience in finance acquired from his previous roles within JTI; 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.

BERTRAND TAMISIER



Bertrand Tamisier is the Chief Financial Officer and 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 in 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.

BARAKA KATEMBA



Baraka Jonathan 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.

ALAN JACKSON



Alan Jackson joined the TCC Board of Directors on September 01, 2017. Alan is the CEO and General Manager of TCC. Alan has 14 years tobacco industry experience with over half of that experience gained in emerging markets across Africa and the Middle East. Prior to joining TCC, Alan gained extensive experience in marketing and sales arena, working as a Marketing Director in West, East and Central Africa and more recently as the Head of Marketing and Sales in JTI Iran.

JOSHUA FOLKERTH



Joshua Folkert joined TCC on February 01, 2016 as Chief Financial Officer. He has financial expertise from working in the area for JTI the last 9+ years. Before transferring to TCC Joshua worked as CFO for Leaf Services (US) LLC in Virginia, United States. His previous positions within JTI were Leaf Finance Manager at JTI Tobacco Sdn Bhd in Kuala Lumpur, Malaysia (2011 - 2013) and Global Leaf Financial Planning and Analysis Manager at JTI HQ in Geneva, Switzerland (2009 - 2011). Prior to joining JTI he worked at PricewaterhouseCoopers in the United States and Prague, Czech Republic, reaching the level of Audit Manager. Joshua was appointed to the TCC Board of Directors on February 23, 2016.

MANAGEMENT TEAM

ALAN JACKSON
CEO and General Manager



SAMWEL MALLYA MANDARA
Director Manufacturing



MARKUS STREIT
Head Marketing and Sales



ANGELA MANGECHA
Director Human Resources



AWAICHI MAWALLA
Director Marketing



GODSON KILLIZA
Director Legal and Corporate Affairs



MOSES GUNDA
Director Sales



JOSHUA FOLKERTH
CFO and Director Finance





BUSINESS REVIEW

FY 2018 vs FY 2017

Total Volume		5% on PY
Revenue	436.5 Billion Tanzanian Shillings	4.30% on PY
Net sales	294.4 Billion Tanzanian Shillings	5.20% on PY
Gross profit	166.1 Billion Tanzanian Shillings	5.00% on PY
Operating expenses	94.6 Billion Tanzanian Shillings	2.60% on PY
Profit before tax	71.5 Billion Tanzanian Shillings	8.40% on PY
Net profit	47.9 Billion Tanzanian Shillings	5.70% on PY

BUSINESS REVIEW

Our key commercial objectives for 2018 continued to be: defend 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

Consolidated volume between domestic and export markets returned to growth delivering an increase of 5% versus prior year. This growth was brought forth by increased the level of marketing and sales activities; strengthening our brand portfolio by introducing new brands hence increasing consumers' range of choice, improved distribution, reinforced relationship with the trade.

Share of market

Our domestic market share decreased by 0.5% due to growing competition from domestic and imported tobacco products and reduced affordability due to a very tight economy. To defend our market share we will further increase marketing investment and strategies provided the business environment improves.

Profitability

The business delivered a strong performance with a volume growth of 5% and net profit growth of 6% on prior year. This performance was driven by strong export volume, pricing in the domestic market and operational cost efficiencies. These results demonstrate the agility of our people to respond to challenges, the strength of our wide choice of brands and re-affirm our strategies to grow the business.

Operational efficiency and effectiveness

As part of the efforts to streamline our operations, we restructured our sales force and embarked on a complete change to our route to market and field operations. This was carried out in the second half of the year. We believe that these initiatives will strengthen the Company and put it on a path for further growth.

Continuous investment in personnel training and production processes optimization resulted in an additional overall equipment efficiency.

BUSINESS REVIEW

Driving employees' engagement

These results could not have been achieved without our highly engaged workforce. In a global employee engagement survey (EES) conducted by our parent company in 2018, we scored 94% compared to 86% achieved in the last EES survey in 2015. 97% of our workforce participated in the survey compared to 95% in 2015, this demonstrates the strong willingness of employees to engage in the continuous improvement process of the way our company operates in helping to achieve our vision.

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

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 company 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.

Managing talent

Attracting, retaining and developing the best talents is a strategic priority for the long-term success of the Company. Performance appraisal, learning and development and succession planning are integral parts of our talent management. We recognized, developed and rewarded talents. We continued with our Long-Term Award program for managers and encouraged career growth by providing the right development opportunities. 94% open managerial positions in 2018 were filled by internal candidates, demonstrating a robust succession planning process is in place.

TCC Plc has been awarded Top Employer for Tanzania and Africa, we also were recognized as the 2nd Runners-Up Overall Winner at Employer of The Year Awards organized by Association of Tanzania Employers (ATE). This was accompanied by overall winner in the following categories; Quality, Productivity and Innovation, Talent Management and Development, Attraction and Retention.

In 2018, we invested TZS 817 million (TZS 1.8 million per employee) in various functional and competence learning and development programs inside and outside Tanzania. Potential candidates were identified internally for future vacancies as part of the succession planning process.

BUSINESS REVIEW

Employee Relations

To ensure sustainable relations with our people, consultative meeting with TUICO Union members and TCC Plc Management team was conducted as per the Voluntary Agreement (VA). The main objective was to discuss and align on implementation of the VA in 2018, employee's affairs, Labour law changes and how they impact employees.

Promoting a safe environment

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

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

In 2018, we achieved 2,664 days without a single work place related injury (lost time injuries). Having no LTIs for 7 years denote that safety culture is well entrenched at TCC Plc.

Giving back to communities

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

The programs are focused on three pillars: People - poverty alleviation, older persons, adult education, and people with disabilities; Arts and Culture - cultural heritage; visual and performing arts; and Natural environment.

The Company continued to support unique local arts and culture through Vijana Vipaji Foundation and traditional dancers in Bagamoyo College of Arts (BCA) to learn to develop and benefit from their talent. Collaborated with Tanzania Federation of Disabled People's Organizations (SHIVYAWATA) to support quality assistive devices at affordable prices for people with disabilities.





MAPITIO YA BIASHARA

2018 kulinganisha na 2017

Jumla ya mauzo

5%

Mapato	436.5 Shilingi bilioni za kitanzania	4.30%
Mauzo halisi	294.4 Shilingi bilioni za kitanzania	5.20%
Faida ya jumla	166.1 Shilingi bilioni za kitanzania	5.00%
Gharama za uendeshaji	94.6 Shilingi bilioni za kitanzania	2.60%
Faida kabla ya kodi	71.5 Shilingi bilioni za kitanzania	8.40%
Faida halisi	47.9 Shilingi bilioni za kitanzania	5.70%

MAPITIO YA BIASHARA

Malengo yetu muhimu kwa mwaka 2018 yameendelea kuwa; kutetea hisa ya soko, kudumisha upataji faida, na kuboresha zaidi ufanisi na matokeo ya uendeshaji. Licha ya mazingira ya uendeshaji shughuli yenye changamoto, tumefanikiwa kutimiza malengo yetu.

Kuongeza ubora wa bidhaa

Kuhakikisha kuwa bidhaa zinazokidhi viwango vya ubora vilivyowekwa na Kampuni tu ndizo zitakazowafikia wateja wetu, tumetekeleza jitihada nyingi za kuongeza ubora katika hatua zote za upatikanaji, utengenezaji, uzalishaji, uhifadhi, usambazaji na huduma kwa wateja.

Tumewekeza kwenye mitambo na mashine mpya na kuendelea kuongeza usalama na viwango vya ubora kulingana na viwango vya sheria na usalama vya JTI group.

Ongezeko la uzalishaji

Uzalishaji wa jumla baina ya masoko ya ndani na ya nje ya nchi umerudia kukua na kuonesha ongezeko la asilimia 5 ikilinganishwa na mwaka uliopita. Ongezeko hili limesababishwa na kuongezeka kwa kiwango cha shughuli za masoko na mauzo, kuimarisha aina za bidhaa zetu kwa kuanzisha aina ya bidhaa mpya na hivyo kuongeza aina na chaguo kwa watumiaji, usambazaji bora, uhusiano ulioimarishwa na biashara.

Mgawo wa Soko

Mgawo wetu wa soko la ndani ya nchi limepungua kwa asilimia 0.5 kutokana na ongezeko la ushindani kutoka bidhaa za tumbaku za ndani na zile zilizoingizwa kutoka nje ya nchi na kupungua kwa uwezo wa kumudu kununua kutokana na hali ya uchumi. Ili kutetea mgawo wetu wa soko tutazidisha uwekezaji katika utangazaji bidhaa na mikakati itakayosaidia kuboresha mazingira ya biashara.

Faida

Biashara imeonesha utendaji imara kwa kuwa na ongezeko la uzalishaji la asilimia 5 na ongezeko la faida halisi la asilimia 6 kulinganisha na mwaka uliopita. Utendaji huu ulichochea na ongezeko imara la mauzo ya nje ya nchi, upangaji sahihi wa bei katika soko la ndani na ufanisi wa gharama za uendeshaji. Mafanikio haya yameonesha wepesi wa watu wetu kubadilika kwa haraka kukabiliana na changamoto, nguvu ya uchaguzi mpana wa aina za bidhaa zetu na kuhakikisha tena mikakati yetu ya kuongeza biashara yetu.

Ufanisi na matokeo ya uendeshaji

Katika juhudi za kuboresha shughuli zetu, tuliunda upya mfumo katika idara yetu ya mauzo na kufanya mabadiliko makubwa kwenye mfumo wa masoko na ugavi. Haya yalifanywa katika nusu ya pili ya mwaka wa taarifa hii. Tunaamini kwamba jitihada hizi zitaimarisha Kampuni yetu na kuiweka kwenye njia ya ukuaji zaidi.

Uwekezaji endelevu katika mafunzo kwa watumishi na uboreshaji zaidi wa michakato ya uzalishaji kumesababisha ufanisi wa jumla wa vifaa.

MAPITIO YA BIASHARA

Kuongeza ushirikishaji wa Watumishi

Mafanikio haya yasingepatikana bila ya wafanyakazi walioshirikishwa kwa ukamilifu. Katika utafiti wa ushirikishaji wa watumishi wa dunia (EES) uliofanywa na Kampuni mama mwaka 2018, tulipata asilimia 94 ikilinganishwa na asilimia 86 tuliopata kwenye utafiti wa EES mwaka 2015. Asilimia 97 ya watumishi wetu walishiriki kwenye utafiti ikilinganishwa na asilimia 95 mwaka 2015, hii inadhihirisha utayari mkubwa wa wafanyakazi kushiriki katika mchakato wa uboreshaji endelevu wa jinsi Kampuni yetu inavyofanya kazi zake katika kusaidia kufikia dira yetu.

Utafiti huo ulifanywa kupitia maoni ya watumishi kuhusu mazingira wanayofanya kazi, namna tunavyofanya biashara, na kitengo cha biashara anachofanyia kazi. Matokeo ya utafiti yalitumika kufanya mabadiliko muhimu ili kuzidisha zaidi ushirikishaji wa watumishi.

Fidia na Mafao

Sehemu muhimu zaidi ya mafanikio ya Kampuni ipo kwenye uwezo wake wa kushawishi na kubakisha watumishi walio-motishwa na ufanisi zaidi. Mbinu ya fidia ya Kampuni inaendelea kuwa “malipo kwa utendaji”. Mbinu hiyo inahakikisha kuwa watumishi wote wa Kampuni wanahamasishwa na kushirikishwa kufanya kazi kwa ubora ili kusaidia ukuaji wao binafsi na taaluma zao, wakati huo huo wakisaidia malengo muhimu ya biashara ya Kampuni.

Kusimamia vipaji

Kushawishi, kubakisha na kuendeleza vipaji bora zaidi ni kipaumbele cha kimkakati kwa mafanikio ya muda mrefu ya Kampuni. Upimaji na utendaji kazi wa mtumishi, kusoma, maendeleo na upangaji kurithishana madaraka ni sehemu muhimu katika mpango wetu wa kusimamia vipaji. Tuliwatambua, kuwaendeleza na kuwatunukia wenye vipaji. Tuliendelea na programu yetu ya tuzo kwa mameneja na kuhimiza ukuaji wa kazi kwa kutoa fursa sahihi za maendeleo. Asilimia 94 ya nafasi za wazi za mameneja ziliombwa mwaka 2018 na waombaji wa ndani, ikiwa ni ushahidi wa mpango mkubwa wa kurithishana madaraka.

TCC Plc imepata tuzo ya mwajiri bora wa Tanzania na Afrika, pia tumetambuliwa kuwa Mwajiri Bora wa Jumla wa Tatu Tanzania na Chama cha Waajiri Tanzania (ATE). Hii imeambatana na ushindi wa jumla katika makundi yafuatayo; Ubora, Tija na Ubunifu, Usimamizi wa Vipaji na Maendeleo, Uvutiaji, Ushawishi na Ubakishaji.

Mwaka 2018, tuliwekeza shilingi za kitanzania 817 milioni (sawa na shilingi za kitanzania 1.8 milioni kwa kila mtumishi) katika programu mbalimbali za kazi na kujifunza umahiri na maendeleo ndani na nje ya Tanzania. Waombaji wenye uwezo walibainishwa ndani ya Kampuni kwa ajili ya nafasi za baadaye kama sehemu ya mchakato wa mpango wa kurithishana madaraka.

MAPITIO YA BIASHARA

Uhusiano na Watumishi

Ili kuhakikisha uhusiano endelevu na watu wetu, mikutano ya mashauriano baina ya Chama cha Wafanyakazi (TUICO) na Menejimenti ya TCC Plc ilifanyika kwa mujibu wa Mkataba wa Hiari. Lengo kuu lilikuwa kujadili kuhusiana na utekelezaji wa Mkataba wa Hiari mwaka 2018, masuala ya watumishi, mabadiliko ya Sheria za Kazi na jinsi yanavyoathiri Watumishi.

Kuhimiza Mazingira Salama

Tunaamini kuwa afya bora na usimamizi wa usalama kazini unakwenda juu ya viwango vilivyowekwa na sheria. Viwango vya Kampuni yetu vya Afya ya Mazingira na Usalama (EHS) mara nyingi vinazidi masharti ya Sheria na wigo wetu unajumuisha watumishi wetu na kuwahusu pia wakandarasi waliopo kwenye maeneo na wageni wanaotembelea majengo na kazini.

Watumishi wote wanapaswa kukamilisha mafunzo ya Afya na Usalama yanayotakiwa pamoja na kufuata taratibu za EHS za Kampuni na mienendo salama ya kufanyakazi. Zaidi ya hayo, wanatakiwa kutoa taarifa ya hali zisizo salama, ajali, kunusurika na tabia ya kuchukua tahadhari.

Mwaka 2018, tulifikia siku 2,664 bila ya ajali yoyote mahali pa kazi (ajali zilizopoteza muda). Kutokuwa na ajali zilizopoteza muda (LTI) kwa kipindi cha miaka 7 inadhihirisha utamaduni wa usalama umejengeka kwenye TCC Plc.

Kulipa Fadhila kwa Jamii

Tunatambua kuwa biashara itastawi tu kwenye jamii zenye uwazi na haki bila upendeleo. Ndio maana Kampuni inaendelea kuwekeza kwenye jamii kwa hiari na zaidi ya shughuli za msingi za biashara. Lengo ni kuboresha hali ya maisha kwenye jamii ambako Kampuni inaendesha shughuli zake kupitia programu za muda mrefu zenye tija.

Programu hizo zimeleaga nguzo tatu. Watu – kutokomeza umaskini, wazee, elimu ya watu wazima na watu wenye ulemavu; Sanaa na Utamaduni – urithi na utamaduni, sanaa za maonesho na za uchoraji na uchongaji; na Mazingira ya Asili.

Kampuni imeendelea kusaidia sanaa za kipekee na utamaduni nchini kupitia Vijana Vipaji Foundation na wanafunzi wa sanaa na utamaduni katika Chuo cha Sanaa Bagamoyo (BCA) kujifunza, kuendeleza na kunufaika na vipaji vyao. Tumeshirikiana na Shirikisho la Vyama vya Watu Wenye Ulemavu (SHIVYAWATA) kusaidia upatikanaji wa vifaa bora vya kusaidia watu wenye ulemavu kwa bei nafuu.





**REPORTS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

CORPORATE INFORMATION

Directors and advisers:

Directors

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

*Non-executive Directors

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

Shareholder	Holding**
JT International Holding B.V.	75.0%
Kingsway Fund	10.3%
General public	6.4%
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%
Trustees of the TCC Employees	
Share Option Scheme	0.3%
Total	100%

Shareholder classification

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

**Based on share register as at
 December 31, 2018

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, 2018 (CONTINUED)

The Directors present their annual report and the audited financial statements of Tanzania Cigarette Public Limited Company (the "Company") for the year ended December 31, 2018, 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 43.

Vision, mission and values

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

Our core values are:

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 and Crescent & Star. The Company also manufactures, distributes, markets and sells in the domestic market the international brands: Camel, Winston and LD.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Capital structure and shareholders

The Company's capital structure is as follows:

		2018 TZS M	2017 TZS M
Authorized	125,000,000 ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid up	100,000,000 ordinary shares of TZS 20 each	<u>2,000</u>	<u>2,000</u>

The Company's shareholding structure as at December 31, 2018 is shown on page 43.

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.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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 two Executive Directors 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.

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, 2018, except where otherwise stated, are:

Name	Position	Qualification	Nationality	Age	Appointed/ Resigned	Date Appointed/ Resigned
Paul Makanza	Chairman (Non-executive)	B.Com, MBA	Tanzanian	51	Appointed	August 3, 2017
Luca Meroni	Director (Non-executive)	Master of Business Economics, Certified Public Accountant	Swiss	50	Appointed	January 1, 2018
Bertrand Tamisier	Director (Non-executive)	Master of Science in Business Administration, Certified Public Accountant	Swiss	52	Appointed	January 1, 2018
Baraka Katemba Jonathan	Director (Non-executive)	Master of Finance & Investment, Advanced Diploma in Accountancy, Certified Public Accountant	Tanzania	35	Appointed	April 23, 2018
Alan Kilgariffe Jackson	Director (Executive)	Master of Management	South African	42	Appointed	September 1, 2017

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Corporate governance (continued)

Board of Directors (continued)

Name	Position	Qualification	Nationality	Age	Appointed/ Resigned	Date Appointed/ Resigned
Joshua Folkerth	Director (Executive)	Master of Accounting, Certified Public Accountant	American	40	Appointed	February 23, 2016

Audit Committee

The Board of Directors is supported by the Audit Committee as part of good corporate governance. The Audit Committee is tasked with liaising with internal and external auditors on accounting, internal controls and financial reporting matters. The Committee will review 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
Paul Makanza	Member
Bertrand Tamsier	Member

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Corporate governance (continued)

Nomination Committee

The Board of Directors is also supported by the Nomination Committee. The Committee identifies individuals qualified to become members of Tanzania Cigarette Public Limited Company 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 Tanzania Cigarette Public Limited Company, develops and recommends to the Board a set of corporate governance principles, performs a leadership role in shaping the Company corporate governance policies.

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

Name	Position
Bertrand Tamisier	Committee Chairman
Paul Makanza	Member
Luca Meroni	Member
Baraka Katemba Jonathan	Member

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 seven (7) 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	Alan Kilgariffe Jackson	Master of Management	South African
Manufacturing	Samwel Mandara	Bachelor of Engineering	Tanzanian
Marketing & Sales	Markus Streit	BA Biology; MBA	Swiss
Finance and IT	Joshua Folkerth	Master of Accounting; Certified Public Accountant	American

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Corporate governance (continued)

Management team (continued)

Human Resource	Angela Mangecha	BA (Human Resources); MBA	Tanzanian
Legal & Corporate Affairs	Godson Killiza	LLB	Tanzanian
Sales	Moses Gunda	BA Economics; MBA	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 would 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.

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.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Corporate governance (continued)

Key policies and procedures (continued)

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.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Risk management and internal controls (continued)

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.

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, 2018 and is of the opinion that they met accepted criteria.

Employee welfare

Employee relations

As at December 31, 2018 the Company had 442 employees (2017 : 442 employees). Female employees constituted 18% (2017 : 17.4%) of the total workforce.

Gender	2018	2017
Male	362	365
Female	80	77
	<u>442</u>	<u>442</u>

In 2018 Tanzania Cigarette Public Limited Company (TCC Plc) won 2nd Runners-Up Overall Winner at Employer Of The Year Awards organized by Association of Tanzania Employers (ATE). This was accompanied by overall winner in three categories; 1. Quality, Productivity and Innovation, 2. Talent Management and Development, 3. Attraction and Retention.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Employee welfare (continued)

Managing talent

Attracting, retaining and developing the best talents is a strategic priority for the long-term success of the Company. Performance appraisal, learning and development and succession planning are integral parts of our talent management.

The Company recognizes, develops and reward talents. The Company continued with its Long-Term Award program for managers and encouraged career growth by providing the right development opportunities. 94% (15 out of 16) open managerial positions in 2018 were filled by internal candidates, demonstrating a robust succession planning process is in place.

In 2018, the Company invested TZS 817 million (TZS 1.8 million per employee) (2017: 1.1 billion or TZS 2.5 million per employee) in various functional and competence learning and development programs inside and outside Tanzania. Potential candidates were identified internally for future vacancies as part of the succession planning process.

Learning & Development

The company launched the TCC Free Minds Book Club which aims at bringing together interested employees to share the learning experiences and entrench the reading culture. In promoting the reading culture, employees are also free to borrow various self-help books available in the company library. Through participation and membership to the club employees' development is highly supported through interactions with peers and opportunities for growth, learning and new knowledge acquisition.

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 Company 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 continue to enjoy a number of benefits with improved wellness program, a nursing room, improved maternity and paternity leaves, and good bonus scheme in addition to the pre-existing other benefits.

The company was finally able to dissolve the TCC Trust employee scheme which was in the form of both cash and shares. The process involved cash payments to all active employees at the time of payment. The Company has also contracted a Broker tasked with the transferring of the TCC shares to each employee based on number of years of service as the main criteria. The shares transfer exercise has started and 95% of the certificates have been handled over to the employees and the remaining 5% were returned to the broker for minor corrections.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Diversity & Inclusion

The company continued to be an equal opportunity employer and established a cross-functional Diversity & Inclusion committee in support for the companywide 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 and 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 provide and maintain 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

Businesses can only prosper within open and fair societies. The Company continuously invests into communities voluntarily and beyond the core business activities. The aim is to improve the quality of life in communities where the Company operates through long term impactful programs.

The programs are focused on three pillars: People - poverty alleviation, older persons, adult education, and people with disabilities; Arts and Culture - cultural heritage; visual and performing arts; and Environmental Protection.

Principal risks and uncertainties

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

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Fraud risk

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

Operational risk

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

Financial risk

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. More details of the financial risks facing the Company are provided in Note 28 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, 2018 was TZS 1,700 billion (2017: TZS 1,680 billion).

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

Related party transactions and balances

All related party transactions and balances are disclosed in note 22 to these financial statements.

Performance for the year

The business delivered strong improved performance in 2018. Volume grew by 5% versus prior year and delivered a net profit of TZS 47.9 billion on net sales of TZS 294.4 billion, equivalent to a 16% return on net sales. Export volume increased significantly by 17.7% contributed by business growth in the Company's key market of the Democratic Republic of Congo (DRC). However, the Company is confident in the continued delivery of positive results in 2019 and beyond.

Overall, profit for the year increased from TZS 45.4 billion in 2017 to TZS 47.9 billion in 2018 (6%), driven by improved performance on the export market, pricing in the domestic market, improved product mix and operational cost efficiencies.

Tax compliance

The Company asserts that it was fully tax compliant in 2018. 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 2017, a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2016: TZS 30 billion or TZS 300 per share). Later in the year, the Directors declared for 2018, an interim ordinary gross dividend of TZS 20 billion or TZS 200 per share, which was paid in October 2018 (2017: TZS 20 billion or TZS 200 per share).

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2017: TZS 20 billion or TZS 200 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 40 billion or TZS 400 per share (2017: TZS 40 billion or TZS 400 per share).

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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 pro-actively address them. Management expects the business environment to remain challenging in 2019 but are well-prepared to face the challenges ahead.

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 77.0 billion is planned to be generated for the 2019 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 16.8 billion are planned, focused on investments in production capacity and product quality (TZS 7.1 billion), warehousing and infrastructure improvements (TZS 1.0 billion), IT related projects (TZS 2.0 billion) and distribution fleet and infrastructure rejuvenation (TZS 6.7 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.

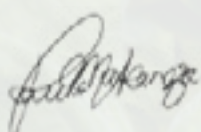
Solvency

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 12, 2019 and signed on its behalf by:



Paul Makanza
Chairman

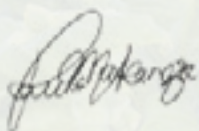
STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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.

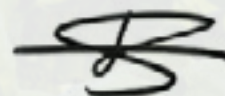
Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.



Mr. Paul Makanza

Chairman

March 12, 2019



Mr. Alan Jackson

CEO

March 12, 2019

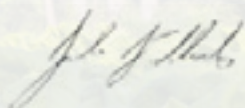
DECLARATION BY THE HEAD OF FINANCE

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, Joshua Folkerth, being the Head of Finance of Tanzania Cigarette Public Limited Company hereby acknowledge my responsibility of ensuring that financial statements for the year ended December 31, 2018 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.



Joshua Folkerth

Chief Financial Officer

NBAA Membership No.: TACPA 2867

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 financial statements of Tanzania Cigarette Public Limited Company (the "Company"), Limited, set out on pages 63 to 116, which comprise the statement of financial position as at December 31, 2018 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, 2018 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 auditor's report is E.A Harunani.

Deloitte & Touche

Certified Public Accountants (Tanzania)



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

20 March 2019

**REPORTS AND FINANCIAL
STATEMENTS FOR THE
YEAR ENDED
DECEMBER 31, 2018**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

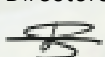
	Notes	2018 TZS M	2017 TZS M
Revenue	6	436,478	418,578
- Excise duty		(142,092)	(138,829)
Net sales		294,386	279,749
Cost of sales	7	(128,278)	(121,601)
Gross profit	5	166,108	158,148
Marketing, selling and distribution expenses		(49,719)	(48,435)
Administration expenses		(40,801)	(43,961)
Other expenses		(5,506)	(875)
Other gains		768	2
Interest income		774	1,175
Interest expense		(144)	(139)
Profit before tax	8	71,480	65,915
Income tax expense	9 (a)	(23,544)	(20,558)
Profit for the year		47,936	45,357
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
- Defined benefit actuarial (loss) / gain	26	(910)	1,175
- Tax credit / (expense) relating to components of other comprehensive income	9 (c)	273	(353)
		(637)	822
Total comprehensive income for the year		47,299	46,179
Earnings per share:			
Basic and diluted (TZS per share)	10	479	454

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

		2018 TZS M	2017 TZS M
Assets	Notes		
Non-current assets			
Property, plant and equipment	12	98,117	96,765
Intangible assets	13	-	-
Investment in subsidiary	14	-	-
Total non-current assets		98,117	96,765
Current assets			
Inventories	15	108,221	112,388
Income tax assets	9 (d)	-	1,321
Trade and other receivables	16	39,925	24,798
Bank balances	17	20,351	24,530
Total current assets		168,497	163,037
Total assets		266,614	259,802
Equity and liabilities			
Capital and reserves			
Share capital	18	2,000	2,000
Defined benefit reserve		5,173	5,810
Retained earnings		183,021	175,085
Total equity		190,194	182,895
Non-current liabilities			
Deferred tax liability	19	7,357	6,843
Defined benefit obligation	26	7,577	5,871
Total non-current liabilities		14,934	12,714
Current liabilities			
Trade and other payables	20	59,619	64,193
Income tax liability	9 (d)	1,867	-
Total current liabilities		61,486	64,193
Total liabilities		76,420	76,907
Total equity and liabilities		266,614	259,802

The financial statements on pages 63 to 116 were approved and authorized for issue by the Board of Directors on March 12, 2019 and were signed on its behalf by the following Directors:


 Paul Makanza
 Chairman


 Alan Jackson
 CEO

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	Share capital TZS M	Defined benefit reserve TZS M	Retained earnings TZS M	Total TZS M
At January 1, 2017		2,000	4,988	179,728	186,716
Profit for the year		-	-	45,357	45,357
Other comprehensive income - net of tax		-	822	-	822
Dividend paid (2016 final and 2017 interim)	11	-	-	(50,000)	(50,000)
At December 31, 2017		2,000	5,810	175,085	182,895
At January 1, 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)	11	-	-	(40,000)	(40,000)
Balance at December 31, 2018		2,000	5,173	183,021	190,194

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018 TZS M	2017 TZS M
Cash flows from operating activities			
Profit before tax		71,480	65,915
Adjustments for:			
Depreciation		13,101	12,007
Defined benefit expense		1,275	1,470
Interest expense		144	139
Interest income		(774)	(1,175)
(Gain)/Loss on disposal of property, plant and equipment		(536)	78
		84,690	78,434
Working capital changes:			
Decrease in inventories		4,167	10,787
Movement in related party balances		(639)	(1,801)
Increase in trade and other receivables		(16,995)	(9,553)
(Decrease)/Increase in trade and other payables		(2,067)	10,286
		69,156	88,153
Defined benefit paid	26	(479)	(226)
Interest received		774	1,175
Interest paid		(144)	(139)
Current tax paid	9 (d)	(19,569)	(26,289)
Net cash generated by operating activities		49,738	62,674
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(14,458)	(19,975)
Proceeds from disposal of property, plant and equipment		541	478
Net cash used in investing activities		(13,917)	(19,497)
Cash flows from financing activities			
Dividends paid	11	(40,000)	(50,000)
Net cash used in financing activities		(40,000)	(50,000)
Net decrease in cash and cash equivalents		(4,179)	(6,823)
Cash and cash equivalents at the beginning of the year		24,530	31,353
Cash and cash equivalents at the end of the year	17	20,351	24,530

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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 are disclosed in the corporate information on page 43 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, 2018

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 9 (Financial Instruments)

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

a) New standards and amendments to published standards effective for the year ended December 31, 2018 (continued)

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Company has not elected to restate comparatives in respect of the classification and measurement of financial instruments. Additionally, the Company adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for :

- i. The classification and measurement of financial assets and financial liabilities;
- ii. Impairment of financial assets; and
- iii. General hedge accounting.

Details of these new requirements as well as their impact on the financial statements are described below.

- **The classification and measurement of financial assets and financial liabilities;**

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated where appropriate.

The Directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

Financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

- **Impairment of financial assets;**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Company has elected not to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of IFRS 9 (i.e. 1 January 2018), the Directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2018.

As of 1 January 2018, the difference between the impairment provisions determined using the incurred credit losses approach in IAS 39 and the impairment provisions determined using the Expected Credit Losses (ECLs) approach in IFRS 9 was not material to the financial statements due to business model of the Company, consequently no adjusted was processed through opening retained earnings.

- **General hedge accounting**

The Company had no hedge arrangement.

The consequential amendments to IFRS 7

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Company's exposure to credit risk in the financial statements (see Note 28).

Impact on statement of cash flows

The application of IFRS 9 had no impact on the cash flows of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

a) New standards and amendments to published standards effective for the year ended December 31, 2018 (continued)

Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)

Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4: an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional, and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after January 1, 2018 and only available for three years after that date.

The above requirements had no material impact on the amounts reported in these financial statements.

IFRS 15 (Revenue from contracts with customers)

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

The five steps in the model are as follows:

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

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

Clarifications to IFRS 15 'Revenue from Contracts with Customers'

Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

a) New standards and amendments to published standards effective for the year ended December 31, 2018 (continued)

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (1 January 2018). Accordingly, the information presented for year ended 2017 has not been restated as previously reported, under IAS 18 and related interpretations.

There was no material impact on the Company's statement of financial position as at 31 December 2018 and its statement of profit or loss and OCI and statement of cash flows.

IFRIC 22 (Foreign currency transactions and advance consideration)

The interpretation addresses foreign currency transactions or parts of transactions where: There is consideration that is denominated or priced in a foreign currency; the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Given the relative simple nature of the Company's operations, no material changes in accounting were identified as in the main there were no timing differences between the point that the risk and rewards were passed to the customers and the Company performance obligation being met therefore no material changes to the timing of revenue recognition on adoption of IFRS 15.

The Company had no financial assets or financial liabilities that had previously designated as at FVTPL under IAS 39 that were subjected to reclassification upon the application of IFRS 9. On cash and cash equivalent no impact was observed as all bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

b) New and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2018

IFRS 16 Leases	Effective for accounting periods beginning on or after January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments	Effective for accounting periods beginning on or after January 1, 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	Effective for accounting periods beginning on or after January 1, 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	Effective for accounting periods beginning on or after January 1, 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	Effective for accounting periods beginning on or after January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards	Effective for accounting periods beginning on or after January 1, 2020
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
Annual Improvements to IFRS 2015 - 2017 Cycle	Effective for accounting periods beginning on or after January 1, 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2018

IFRS 16 Leases

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

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 authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

IFRIC 23 is effective for accounting periods beginning on or after January 1, 2019 and the Directors do not anticipate that its adoption will result into material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2018 (continued)

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments

Amendments to IFRS 9 are effective for accounting periods beginning on or after January 1, 2019 and is not expected to have significant impact on the financial statements.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied

Amendments to IAS 28 are effective for accounting periods beginning on or after January 1, 2019 and is not expected to have significant impact on the financial statements.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments in *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Amendments to References to the 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 IASB 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2018 (continued)

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

Annual Improvements to IFRS 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Annual Improvements include amendments to four 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 recognised 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

c) Impact of new and amended standards and interpretations in issue but not yet effective for the year ended December 31, 2018 (continued)

Annual Improvements to IFRS 2015–2017 Cycle (continued)

- **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 unrecognised 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.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

d) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year ended December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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 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.

Revenue recognition

The Company recognises revenue from the sale of cigarettes to domestic and export customers.

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of goods to a customer.

Sale of cigarettes to domestic customers

Revenue for sales of goods to domestic customers is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the branches. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Revenue recognition (continued)

Sales of cigarettes to export customers

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

A receivable is recognised 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.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements are based on sales and other measures are recognized by reference to the underlying arrangement.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Retirement benefits obligations (continued)

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 26 of these financial statements.

The Company and its employees also make statutory contributions to the National Social Security Fund (NSSF) and 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 IncomeTax 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 accounting periods (temporary differences) and items that are never taxable or deductible different (permanent differences). The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, the written down value. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available in future against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Deferred taxation (continued)

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:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Taxation (continued)

- Cigarettes without filter tip and containing domestic tobacco exceeding 75% is TZS 12,447 per 1,000 cigarettes (2017: TZS 12,447).
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 29,425 per 1,000 cigarettes (2017: TZS 29,425).
- Other cigarettes not mentioned in first and second bullet above is TZS 55,897 per 1,000 cigarettes (2017: TZS 53,235).

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Leases

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight-line basis, over the estimated useful lives to the estimated residual value. Useful lives, residual values and depreciation methods are reviewed on an annual basis with the effect of any changes in estimate accounted for on a prospective basis. Residual values are measured as the estimated amount currently receivable for an asset if the asset were already of the age and condition expected at the end of its useful life. Each significant component included in an item of property, plant and equipment is separately recorded and depreciated. Capital work in progress is not depreciated. The estimated useful life of assets at time of acquisition is assumed as follows:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Intangible assets

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

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

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 derecognised.

Impairment of tangible and intangible assets

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

Assets that are subject to 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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.

Dividends

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

Financial instruments

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

Initial recognition

Financial assets 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assests

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

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

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 recognised in profit or loss when the asset is derecognised, modified or impaired.

Interest income is recognised 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Financial instruments (continued)

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.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company applies a simplified approach in calculating ECLs for trade and other receivables. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

De-recognition of financial assets

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

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

On 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 recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

The Company's financial liabilities include trade and other payables. The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVTPL

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not contingent consideration of an acquirer in a business, held-for-trading, or designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

De-recognition of financial liabilities

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

Offset

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 recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

4. Critical accounting judgements and key sources of estimation uncertainties

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

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

Provisions

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

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

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

Impairment provision

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

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

Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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

Provisions for pending litigations

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

Defined benefit plan

The Company operates an unfunded defined benefit retirement plan for all employees. Employees do not contribute to the plan, the Company bears all cost. A provision is made in the financial statements for the estimated cost of the future benefits. The accuracy and completeness of such provisions is confirmed periodically by an independent actuarial valuation. Refer to note 26 of the financial statements for uncertainty and sensitivity disclosure.

Taxation

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

5. Operating segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The Company has two operating segments namely domestic and export markets. The domestic market has reported revenue from both external customers and intersegment sales or transfers, of 89 percent (2017: 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, Iceberg, Safari and Crescent & Star.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

5. Operating segments (continued)

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 (2017: 11 percent).

Information about transactions with major customers

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

	2018 TZS M	2017 TZS M
Revenue from top ten customers	<u>112,823</u>	<u>100,601</u>

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

Segment revenues and results

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

	<u>Segment revenue</u>		<u>Segment gross profit</u>	
	2018 TZS M	2017 TZS M	2018 TZS M	2017 TZS M
Domestic Market	390,336	373,632	162,673	150,002
Export Market	<u>46,142</u>	<u>44,946</u>	<u>3,435</u>	<u>8,146</u>
	<u>436,478</u>	<u>418,578</u>	<u>166,108</u>	<u>158,148</u>

Marketing, selling & distribution expenses:

- Export market	(10,968)	(9,365)
- Domestic market	<u>(38,751)</u>	<u>(39,070)</u>

Administration expenses	(40,801)	(43,961)
Other expenses	(5,506)	(875)
Other gains	768	2
Interest income	774	1,175
Interest expense	<u>(144)</u>	<u>(139)</u>
Profit before tax	<u>71,480</u>	<u>65,915</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

5. Operating segments (continued)

	2018 TZS M	2017 TZS M
Segment assets		
Property, plant and equipment	98,117	96,765
Inventories	108,221	112,388
Income tax asset	-	1,321
Trade and other receivables	39,925	24,798
Cash and cash equivalents	20,351	24,530
Total segment current assets	168,497	163,037
Total assets	266,614	259,802
Segment liabilities		
Deferred tax liability	7,357	6,843
Defined benefit obligation	7,577	5,871
Total segment non-current liabilities	14,934	12,714
Trade and other payables	59,619	64,193
Income tax liability	1,867	-
Total segment current liabilities	61,486	64,193
Total liabilities	76,420	76,907

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

5. Operating segments (continued)

Other segment information

	Depreciation and amortization		Additions to non- current assets	
	2018 TZS M	2017 TZS M	2018 TZS M	2017 TZS M
Leasehold property	1,377	1,312	1,212	218
Plant and machinery	9,356	7,597	4,759	5,822
Other equipment	1,063	1,447	439	719
Motor vehicles	1,305	1,651	1,872	1,430
Capital work in progress	-	-	6,176	11,786
Total	13,101	12,007	14,458	19,975

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

	2018 TZS M	2017 TZS M
Embassy	50,827	54,743
Club	197,300	130,100
Portsman	64,051	60,371
Sweet Menthol	37,385	40,811
Safari	14,395	71,614
Others	26,378	15,993
	390,336	373,632
6. Revenue		
Gross turnover	506,739	485,832
VAT	(70,261)	(67,254)
	436,478	418,578
7. Cost of sales		
Direct costs	91,365	86,287
Overheads	36,913	35,314
	128,278	121,601

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

8. Profit before tax

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

	2018 TZS M	2017 TZS M
Directors' emoluments	5,462	5,972
Depreciation	13,101	12,007
Technical and management service fees	13,480	13,224
Auditors' remuneration	300	295
Donations	211	548
(Gain)/ Loss on disposal of property, plant and equipment	(536)	78
Foreign exchange loss / (Gain)	234	(164)
Employee benefits:		
Short term benefits:		
- Salaries	25,160	23,488
- Bonus	3,104	5,698
- Fringe	7,238	5,562
- Vacation	1,419	1,696
- Other	737	1,121
Long term benefits:		
- Defined benefit obligation	1,275	1,470
- NSSF and PSSSF contributions	2,493	2,367
Other statutory contributions		
- Skills and Development Levy (SDL)	1,135	1,136
- Workers Compensation Fund (WCF)	228	213
Total employee benefits	42,789	42,751

9. Income tax

(a) Tax expense

Current tax - current year at 30%	21,132	19,347
- prior year under provision	1,625	1,418
	22,757	20,765
Deferred taxation - current year charge	454	72
- prior year under/ (over) provision	333	(279)
	787	(207)
	23,544	20,558

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

9. Income tax (continued)

(b) Reconciliation of accounting profit to income tax expense

	2018 TZS M	2017 TZS M
Profit before tax	<u>71,480</u>	<u>65,915</u>
Tax charge at 30%	21,444	19,775
Income not subject to tax	(22)	(1,046)
Effect of disallowable expenditure	164	690
Current tax relating to prior years	1,625	1,418
Prior Year under/(cover) provision of deferred tax	<u>333</u>	<u>(279)</u>
Tax expense	<u>23,544</u>	<u>20,558</u>

(c) Tax expense on other comprehensive income

Deferred tax (credit)/charge - Defined benefit plan actuarial (Loss)/gain	<u>(273)</u>	<u>353</u>
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(d) Current tax liability/(asset)

At beginning of the year	(1,321)	4,203
Charge for the year (Note 9 (a))	22,757	20,765
Current tax paid	<u>(19,569)</u>	<u>(26,289)</u>
Balance at end of year	<u>1,867</u>	<u>(1,321)</u>

10. 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.

	2018 TZS M	2017 TZS M
Profit attributable to ordinary shareholders (TZS M)	<u>47,936</u>	<u>45,357</u>
Weighted average number of ordinary shares in issue (million)	<u>100</u>	<u>100</u>
Earnings per share (TZS)	<u>479</u>	<u>454</u>

There were no potential dilutive shares outstanding at December 31, 2018 and at December 31, 2017.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

	2018 TZS M	2017 TZS M
11. Dividends		
Prior year final dividend	20,000	30,000
Current year interim dividend	20,000	20,000
Total	<u>40,000</u>	<u>50,000</u>
Number of ordinary shares in issue (million)	<u>100</u>	<u>100</u>
Dividend per share (TZS)	<u>400</u>	<u>500</u>

During the year, the Directors declared for 2017, a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2016: TZS 20 billion or TZS 200 per share) and there was no special gross dividend proposed (2016: TZS 10 or TZS 100 per share). Later in the year, the Directors declared for 2018, an interim ordinary gross dividend of TZS 20 billion or TZS 200 per share, which was paid in October 2018 (2017: TZS 20 billion or TZS 200 per share).

After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 25 billion or TZS 250 per share (2017: TZS 20 billion or TZS 200 per share). There was no special gross dividend proposed after year end). 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 40 billion or TZS 400 per share (2017: TZS 50 billion or TZS 500 per share).

	2018 TZS M	2017 TZS M
12. Property, plant and equipment		
Cost	206,900	197,368
Accumulated depreciation	(108,783)	(100,603)
Net book Value	<u>98,117</u>	<u>96,765</u>
Leasehold property	30,156	28,915
Plant and machinery	55,756	51,700
Other equipment	2,988	3,379
Motor vehicles	3,047	2,480
Capital work in progress	6,170	10,291
	<u>98,117</u>	<u>96,765</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

12. Property, plant and equipment (continued)

Cost	Leasehold property TZS M	Plant and machinery TZS M	Other equipment TZS M	Motor vehicles TZS M	Capital work in progress TZS M	Total TZS M
At 1 January 2017	38,725	111,626	11,649	14,162	9,696	185,858
Additions	218	5,822	719	1,430	11,786	19,975
Transfers in/(out)	1,366	9,822	3	-	(11,191)	-
Disposals	(6)	(5,219)	(670)	(2,570)	-	(8,465)
At December 31, 2017	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)	-
Eliminated on Disposal	-	(1,639)	(264)	(3,023)	-	(4,926)
At December 31, 2018	42,921	133,824	12,114	11,871	6,170	206,900
Accumulated depreciation						
At 1 January 2017	10,081	67,437	7,526	11,461	-	96,505
Charge for the year	1,312	7,597	1,447	1,651	-	12,007
Eliminated on disposals	(5)	(4,683)	(651)	(2,570)	-	(7,909)
At December 31, 2017	11,388	70,351	8,322	10,542	-	100,603
Charge for the year	1,377	9,356	1,063	1,305	-	13,101
Disposals	-	(1,639)	(259)	(3,023)	-	(4,921)
At December 31, 2018	12,765	78,068	9,126	8,824	-	108,783
Net book value						
At December 31, 2018	<u>30,156</u>	<u>55,756</u>	<u>2,988</u>	<u>3,047</u>	<u>6,170</u>	<u>98,117</u>
At December 31, 2017	<u>28,915</u>	<u>51,700</u>	<u>3,379</u>	<u>2,480</u>	<u>10,291</u>	<u>96,765</u>

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

Included in property, plant and equipment are assets with an original cost of TZS 5,743 million (2017: TZS 10,715 million) which are fully depreciated and whose normal depreciation charge for the year would have been TZS 693 million (2017: TZS 858 million). There were no idle assets included in property, plant and equipment.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

	2018 TZS M	2017 TZS M
13. Intangible assets		
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.

	2018 TZS M	2017 TZS M
14. Investment in subsidiary		
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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

	2018 TZS M	2017 TZS M
15. Inventories		
Raw materials	89,332	88,131
Work in progress	453	233
Consumable stores	6,398	6,237
Goods in transit	280	288
Finished goods	12,877	18,164
	109,340	113,053
Allowance for obsolete inventories	(1,119)	(665)
	108,221	112,388
Inventories carried at net realizable value below cost	-	-
No inventory has been pledged as collateral for liabilities		
16. Trade and other receivables		
Trade receivables	28,722	13,750
Amounts due from related companies (Note 22 (ii))	5,132	7,000
Prepayments and other receivables	7,542	5,318
	41,396	26,068
Allowance for doubtful receivables	(1,471)	(1,270)
	39,925	24,798
Movement in the allowance for doubtful debts:		
At the beginning of the year	1,270	1,206
Amounts recovered during the year	(35)	(44)
Increase in allowance during the year	236	108
At the end of the year	1,471	1,270

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

	2018 TZS M	2017 TZS M
17. Bank balances		
Bank balances	<u>20,351</u>	<u>24,530</u>

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

18. Share capital

Authorized:

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

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

	2018 Ordinary Shares Million in %	2017 Ordinary Shares Million in %
Resident shareholders:		
General Public	6.4	6.3
Parastatal Pension Fund	3.0	3.0
The United Republic of Tanzania	2.2	2.2
Public Service Pension Fund	0.6	1.0
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	<u>0.3</u>	<u>0.3</u>
	13.60	13.9
Non-resident shareholders:		
JT International Holding B.V.	75.0	75.0
Kingsway Fund	10.3	9.8
Neon Liberty Emerging Markets Fund	0.6	0.6
Cavenham Private Equity And Directs	0.5	0.5
Other non-residents	<u>-</u>	<u>0.2</u>
	86.40	86.1
Total ordinary shares in issue	<u>100.0</u>	<u>100.0</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

19. Deferred tax liability

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

	2018 TZS M	2017 TZS M
The net deferred tax liability is attributable to the following:		
Accelerated capital allowances	11,687	10,273
Provisions	(2,057)	(1,669)
Defined benefit obligation provision	(2,273)	(1,761)
	<u>7,357</u>	<u>6,843</u>

The movement on the deferred tax account is as follows:

2018:	Opening balance TZS M	Recognized in P&L TZS M	Recognized in OCI TZS M	Closing balance TZS M
Deferred tax liabilities/(assets) in relation to:				
- Property, plant and equipment	10,273	1,414	-	11,687
- Provisions	(1,669)	(388)	-	(2,057)
- Defined benefit obligation	(1,761)	(239)	(273)	(2,273)
	<u>6,843</u>	<u>787</u>	<u>(273)</u>	<u>7,357</u>
2017:	Opening balance TZS M	Recognized in P&L TZS M	Recognized in OCI TZS M	Closing balance TZS M
Deferred tax liabilities/(assets) in relation to:				
- Property, plant and equipment	9,650	623	-	10,273
- Provisions	(1,213)	(456)	-	(1,669)
- Defined benefit obligation	(1,740)	(374)	353	(1,761)
	<u>6,697</u>	<u>(207)</u>	<u>353</u>	<u>6,843</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

	2018 TZS M	2017 TZS M
20. Trade and other payables		
Trade payables	6,446	11,005
Amounts due to related companies (Note 22(ii))	3,610	6,117
Excise duty and VAT payable	13,074	16,419
Other liabilities and accruals	31,792	25,678
Provisions (Note 21)	4,697	4,974
	59,619	64,193

21. Provisions

Bonus provision	4,250	4,125
Provision for leave pay	447	849
	4,697	4,974

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

2017:	Opening balance TZS M	Utilized/ reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	3,187	(3,187)	4,125	4,125
Provision for leave pay	826	(826)	849	849
	4,013	(4,013)	4,974	4,974

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

22. Related party transactions and balances

Related companies

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

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

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

Contracts with related parties

The Company has agreements with JT International SA and JT International Holding B.V for provision of managerial, technical and administrative services since January 1, 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 13,480 million (2017: TZS 13,224 million).

Other transactions with related parties

i. Purchase and sales of goods and services

	2018 TZS M	2017 TZS M
Purchases from related parties		
JTI Leaf Services Limited*	12,541	25,807
JT International Holding B.V.*	13,421	10,035
JT International SA*	14,554	11,732
Others*	17,193	13,707
	<u>57,709</u>	<u>61,281</u>
Sales to related parties		
JT International SA*	3,303	3,449
Others*	682	429
	<u>3,985</u>	<u>3,878</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

22. Related party transactions and balances (continued)

ii. Related party balances

	2018 TZS M	2017 TZS M
Payables to related parties		
JTI Leaf Services Ltd*	143	3,228
JT International South Africa (Pty) Ltd*	854	754
JT International SA*	1,009	707
Others*	1,604	1,428
	<u>3,610</u>	<u>6,117</u>
Receivable from related parties		
JT International S.A.*	3,856	5,524
JTI Cigarette & Tobacco Factory Limited*	805	744
JTI Leaf Zambia Limited*	270	460
Others*	201	272
	<u>5,132</u>	<u>7,000</u>

*Sister Company(ies)

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

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

	2018 TZS M	2017 TZS M
Key management remuneration	5,442	5,971
Non-executive Directors emoluments	20	11
	<u>5,462</u>	<u>5,982</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

23. Commitments

i. Capital commitments

	2018 TZS M	2017 TZS M
Authorized but not contracted for	11,343	25,797
Authorized and contracted for	<u>46,490</u>	<u>20,622</u>
	<u>57,833</u>	<u>46,419</u>

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

ii. Other commitments

As at December 31, 2018, the Company had a commitment for purchase of leaf tobacco totaling TZS 1,012 million (2017: TZS 14,223 million).

24. Contingent liabilities

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

25. 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, 2018 and during the year, there were no drawdowns made by the Company on this facility (2017: 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. The bond is limited to TZS 20,950,000,000 with the interest charged at 0.8% p.a.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

26. Retirement benefits

Statutory retirement benefits

The Company has an obligation to make statutory contributions for retirement benefits of its employees. All eligible employees of the Company are members of the National Social Security Fund of Tanzania (NSSF) or Public Sector Social Security Fund (PSSSF), to which the Company contributes 10% and 15% and the employee contributes 10% and 5% of the gross salaries respectively every month. During the year ended December 31, 2018, the Company's contributions to the funds amounted to TZS 2,493 million (2017: TZS 2,367 million).

Defined benefit obligation

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

The Company provides for retirement benefit cost based on assessments made by independent actuaries. The most recent actuarial valuation was carried out at December 31, 2018 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:

	2018	2017
	Percentage	Percentage
Discount rate	14.4	15.9
Salary inflation	8.1	8.1
Cost of living increase	<u>5.1</u>	<u>5.1</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

26. Retirement benefits (continued)

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

	2018 TZS M	2017 TZS M
- Current service cost	332	367
- Past service cost	-	-
- Interest cost	943	1,103
- Actuarial loss/(gain) recognized in Other Comprehensive Income	910	(1,175)
Net loss/(gain) for the year	2,185	295

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

	2018 TZS M	2017 TZS M
Opening defined benefit obligation	5,871	5,802
Current service cost	332	367
Past service cost	-	-
Interest cost	943	1,103
Actuarial loss / (gain) recognized	910	(1,175)
Benefits paid	(479)	(226)
Closing defined benefit obligation	7,577	5,871

Sensitivities

Salary rate sensitivity	Central Scenario	0.5% Increase	0.5% Decrease
	8.1% TZS M	8.6% TZS M	7.6% TZS M
Defined benefit obligation	7,577	7,932	7,215
Gross service costs excluding interest	448	477	418
Expense / net interest cost	1,148	1,203	1,091
% change in defined benefit obligation		4.68%	-4.78%
% change in gross service costs		6.47%	-6.70%
% change in expense / net interest cost		4.79%	-4.97%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

26. Retirement benefits (continued)

Sensitivities (continued)

Discount rate sensitivity	Central Scenario	0.5% Increase	0.5% Decrease
	14.40% TZS M	14.90% TZS M	13.90% TZS M
Defined benefit obligation	7,577	7,242	7,905
Gross service costs excluding interest	448	421	475
Expense / net interest cost	1,148	1,134	1,157
% change in defined benefit obligation		-4.42%	4.33%
% change in gross service costs		-6.03%	6.03%
% change in expense / net interest cost		-1.22%	0.78%

27. Operating lease arrangements

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

Payments recognized as an expense are:

	2018 TZS M	2017 TZS M
Buildings	287	923
Motor vehicles	183	126
	<u>470</u>	<u>1,049</u>

28. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

28. Financial risk management objectives and policies (continued)

Credit risk management

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, and trade and other receivables. Trade receivables comprise a large and widespread customer base and the Company performs ongoing credit evaluations on the financial condition of its customers. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the companies' management based on prior experience and the current economic environment. The carrying amount of financial assets represents the maximum credit exposure.

The amount that best represents the Company's maximum exposure to credit risk as at 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 TZS M	Loss allowance TZS M	Net carrying amount TZS M
Trade receivables	N/A	Performing	Lifetime ECL	27,251	1,471	28,722
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				52,734	1,471	54,205

The amount that best represents the Company's maximum exposure to credit risk as at December 31, 2017 without taking account of the value of any collateral obtained was:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

28. Financial risk management objectives and policies (continued)

Credit risk management

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is impaired has been fully provided for. However, management is actively following up recovery of the impaired debt.

	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount TZS M	Loss allowance TZS M	Net carrying amount TZS M
Trade receivables	N/A	Performing	Lifetime ECL	12,480	1,270	13,750
Amounts due from related companies	N/A	Performing	Lifetime ECL	7,000	-	7,000
Bank balances	Fitch	Performing	Lifetime ECL	24,530	-	24,530
Total credit exposure				44,010	1,270	45,280

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

28. Financial risk management objectives and policies (continued)

Credit risk management (continued)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already recognized.

Liquidity risk management

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

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

Maturity analysis for financial liabilities as at December 31, 2018 showing the remaining contractual maturities:

	<1 month	1 - 5 months	5 -12 months	> 1 year	Total
	TZS M	TZS M	TZS M	TZS M	TZS M
Trade payables	6,446	-	-	-	6,446
Amounts due to related companies	3,610	-	-	-	3,610
	<u>10,056</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,056</u>

Maturity analysis for financial liabilities as at December 31, 2017 showing the remaining contractual maturities:

	<1 month	1 - 5 months	5 -12 months	> 1 year	Total
	TZS M	TZS M	TZS M	TZS M	TZS M
Trade payables	11,005	-	-	-	11,005
Amounts due to related companies	6,117	-	-	-	6,117
	<u>17,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,122</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

28. 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 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

Maturity analysis for financial assets as at December 31, 2017 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)	12,480	-	-	-	12,480
Amount due from related companies	7,000	-	-	-	7,000
Cash and bank balances	24,530	-	-	-	24,530
Total	44,010	-	-	-	44,010

Market risk management

(i) Interest rate risk

The Company is not exposed to interest rate risk because it does not have floating interest borrowing. The Company has received interest income amounting to TZS 774 million (2017: TZS 1,175 million) from its short-term bank deposits.

(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, 2018, 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 254 million (2017: TZS 189 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

28. Financial risk management objectives and policies (continued)

(ii) Foreign exchange risk (continued)

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, are as follows:

	2018 TZS M	2017 TZS M
Cash and bank balances in USD	515	850
Trade and other receivables in USD	20,308	8,581
Trade and other payables in USD	(15,748)	(13,217)
Open position	5,075	(3,786)

Financial instruments categorization

As at December 31, 2018	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 asset at fair value through OCI TZS M	Total 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	-	-	2,000
Retained earnings	-	-	183,021	-	-	183,021
Defined benefit reserve	-	-	5,173	-	-	5,173
Non-current liabilities						
Deferred tax liability	-	-	7,357	-	-	7,357
Defined benefit obligation	-	-	7,577	-	-	7,577
Current liabilities						
Trade and other payables	-	10,056	49,563	-	-	59,619
Income tax liability	-	-	1,867	-	-	1,867
	-	10,056	256,558	-	-	266,614

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

28. Financial risk management objectives and policies (continued)

Financial instruments categorization (continued)

As at December 31, 2017	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 asset at fair value through OCI TZS M	Total TZS M
Assets						
Non-current assets						
Property, plant and equipment	-	-	96,765	-	-	96,765
Current assets						
Inventories	-	-	112,388	-	-	112,388
Income tax asset	-	-	1,321	-	-	1,321
Trade and other receivables	19,480	-	5,318	-	-	24,798
Bank balances	24,530	-	-	-	-	24,530
Total assets	44,010	-	215,792	-	-	259,802
Equity and liabilities						
Capital and reserves						
Share capital	-	-	2,000	-	-	2,000
Retained earnings	-	-	175,085	-	-	175,085
Defined benefit reserve	-	-	5,810	-	-	5,810
Non-current liabilities						
Deferred tax liability	-	-	6,843	-	-	6,843
Defined benefit obligation	-	-	5,871	-	-	5,871
Current liabilities						
Trade and other payables	-	17,122	47,071	-	-	64,193
	-	17,122	59,785	-	-	259,802

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

29. 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 2018.

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

	2018 TZS M	2017 TZS M
Share capital	2,000	2,000
Defined benefit actuarial gains	5,173	5,810
Retained earnings	183,021	175,085
Equity	190,194	182,895

As at December 31, 2018 the Company was not financed by any debt (2017: NIL).

30. 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

30. 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, 2018 (2017: 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.

31. Comparative figures

The following reclassification on comparative information has been made on the statement of profit or loss and other comprehensive income to comply with the requirements of IFRS.

	2017 as reported TZS M	Reclassifications TZS M	2017 reclassified TZS M
Gross turnover	485,832	(67,254)	418,578
VAT	(67,254)	67,254	-
Revenue	<u>418,578</u>	<u>-</u>	<u>418,578</u>

32. Events subsequent to the year end

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

33. Incorporation

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

34. 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.

35. Functional and presentation currency

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

