Annual Report **2011**

Pakistan Tobacco Company

# Shaping the Future...

# Shaping the Future...

Using simpler methods, straightforward strokes and easy-to-use instruments and controls allow us to perfect our craftsmanship... we then add colors with all our passion, develop textures of reason and shape with precision to create a future that belongs to all of us.

Operating in a challenging environment, every time we hit to shape up things in our business - bring in superior products, craft novel strategies, revolutionise supply chain, induct innovative technologies or opt for responsible business practices - we do it with passion and we do it professionally.

Like a craftsman, here at PTC, it is an all time art!

# Contents

We have a duty of care towards all our management in order to ensure that they work to the best of their abilities in a safe environment. While our people endeavour to shape our business, a key area of focus is adherence to corporate governance procedures and principles so that business objectives are achieved in accordance with the best standards of conduct.

**Graeme Amey**
(Managing Director and CEO)

# Corporate Information


## Registered Office

Pakistan Tobacco Company Limited
Silver Square, Plot No. 15,
F-11 Markaz,
P.O. Box 2549
Islamabad-44000
Telephone: +92 (51) 2083200, 2083201
Fax: +92 (51) 2224216
Web: www.ptc.com.pk

## Company Secretary

Ms. Ayesha Rafique
E-mail: ayesha_rafique@bat.com

## Bankers

Barclays Bank PLC
Citibank N.A
Deutsche Bank
Habib Bank Limited
HSBC Bank Middle East Limited
MCB Bank Limited
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

## Auditors

A.F. Ferguson & Co.
Chartered Accountants
3rd Floor, PIA Building
49 Blue Area, P.O. Box 3021
Islamabad-44000
Telephone: +92 (51) 2273457-60
Fax: +92 (51) 2277924

## Share Registrar

FAMCO Associates (Pvt.) Ltd.
State Life Building No. 2-A, 4th Floor
Wallace Road, Off I.I.Chundrigar Road,
Karachi
Telephone: +92 (21) 2420755, 2427012


## Factories

**Akora Khattak Factory**
P.O. Akora Khattak
Tehsil and District Nowshera, N.W.F.P.
Telephone: +92 (923) 630901-11
Fax: +92 (923) 510792

**Jhelum Factory**
G.T. Road, Kala Gujran, Jhelum
Telephone: +92 (544) 646500-7
Fax: +92 (544) 646524

## Regional Sales Offices

**North Punjab and N.W.F.P.**
House # 57-A/6, Satellite Town
Rawalpindi
Telephone: +92 (51) 4582390-91
Fax: +92 (51) 4582392

**Central Punjab**
128/129-G, Commercial Area
Phase-1, Defence Housing Authority,
Lahore
Telephone: +92 (42) 5899351-4
Fax: +92 (42) 5899356

**Southern Punjab**
House No. 93, Street No. 3
Meharban Colony, MDA Chowk, Multan
Telephone: +92 (61) 4512553, 4584376
Fax: +92 (61) 4542921

**Sindh & Baluchistan**
8th Floor, N.I.C. Building
Abbasi Shaheed Road, Karachi
Telephone: +92 (21) 5635490-5
Fax: +92 (21) 5635500

# Corporate Objectives

Our vision, mission and strategic objectives define the way we live and work.

## Our Vision

First Choice for Everyone.

## Our Mission

Transform PTC to perform responsibly with the speed, flexibility and enterprising spirit of an innovative, consumer focused Company.

## Strategic Objectives

Our strategy reflects our vision of being the champions of Growth, Productivity, Responsibility and Winning Organisation.

# Our Core Values

## Consumer Led

The most successful tobacco company will be decided by the consumer. To win, we must win the consumer. We are consumer led.



## National Battlefields

Our 'battlefields' are national. This is where our consumers, trade partners, stakeholders and people are. This is where we sell cigarettes, generate cash and develop talent. This is where our brands live or die. This is PTC.

## Globally Aligned

We are a global business with a global vision. We have global strategies and hard-won global scale. We must use and leverage these in order to win against global competition. To do so, requires global cohesion and discipline. A matrix organisation is the best means to ensure this. We recognise that there is a 'tension' in a matrix organisation. This is as it should be: business needs different viewpoints to build conviction and purpose.

## Diverse Teams

We believe in the value of teams and diversity within those teams. We cherish individuality in the pursuit of the team goal. We believe individual creativity and contribution can and must flourish for us to succeed.

# Our Core Values

## Good Leaders

People remember their leaders. The ones who had time for them, listened to them, coached them, developed them, trusted them. The leaders who helped make them the success that they are. We like good leaders. They tend to be very successful themselves. Our leaders bring our beliefs to life. We must all be leaders.

## Fun and Welcoming

We like working with our colleagues and we trust them to deliver. They're smart, keen to make a good contribution and fun to be with. They are what makes PTC so special. We are a welcoming and hospitable organisation. We want people to enjoy their experience with us. People feel at home here.

## Fit to Fight

Our competitors are powerful and determined. We value our organisational intimacy and family-feel, yet recognise we must be no less determined or demanding of ourselves. To head the industry will take more than thought-leadership and scale, we must be fit for the fight ahead, we must be quick and agile. We must each take ownership for our actions.


## Consciously Responsible

We act responsibly and transparently. Not because we have to, but because we want to. We take comfort and pride in knowing that we will do the right thing and behave in the right way. We accept the costs this will incur.

# Business Principles

Our Company follows three fundamental Business Principles:

- Mutual Benefit
- Responsible Product Stewardship
- Good Corporate Conduct

## Mutual Benefit

The principle of Mutual Benefit is the basis on which we build our relationships with our stakeholders. We are primarily in business to build long term shareholder value and we believe the best way to do this is to understand and take account of the needs and desires of all our stakeholders.

### Core Beliefs

- Creating long term shareholder value
- Engaging constructively with our stakeholders
- Creating inspiring working environments for our people
- Adding value to the communities in which we operate
- Ensuring that suppliers and other business partners have the opportunity to benefit from their relationship with us

## Responsible Product Stewardship

The principle of Responsible Product Stewardship is the basis on which we meet consumer demand for a legal product that, put simply, is a cause of serious diseases. Therefore, our products and brands should be developed, manufactured and marketed in a responsible manner.

### Core Beliefs

- Provision of accurate, clear health messages about the risks of tobacco consumption
- Reduction of the health impact of tobacco consumption whilst respecting the right of informed adults to choose the products they prefer
- Continued availability of relevant and meaningful information about our products
- Underage people should not consume tobacco products
- Responsilble marketing of our brands and products directed at adult consumers.
- Appropriate taxation of tobacco products and elimination of illicit trade
- Regulation that balances the interests of all sections of society, including tobacco consumers and the tobacco industry
- Approach public smoking in a way that balances the interests of smokers and non-smokers

## Good Corporate Conduct

The principle of Good Corporate Conduct is the basis on which all our business should be managed. Business success brings with it an obligation for high standards of behaviour and integrity in everything we do and wherever we operate. These standards should not be compromised for the sake of results.

### Core Beliefs

- Our businesses uphold high standards of behaviour and integrity
- High standards of corporate social responsibility should be promoted within the tobacco industry
- Universally recognised fundamental human rights to be respected
- Tobacco industry to have a voice in the formation of government policies affecting it
- Achieving world class standards of environmental performance

# The Board of Directors

**Mueen Afzal**
*(Chairman and Non-Executive Director)*

Mueen Afzal graduated with Honours from the Punjab University before going up to Oxford to read for his M.A. in philosophy, political science and economics at Corpus Christi College. He joined the Civil Service of Pakistan in 1964 and held various appointments in the governments of Pakistan, Punjab, Balochistan and East Pakistan. His final position in government was Secretary General, Finance & Economic Affairs (1999-2002). He was awarded the Hilal-i-Imtiaz (H.I) for distinguished public service. Since retirement he has held a number of corporate and other appointments, including Chairman, Union Bank. At present he is a director on the boards of ICI, Pakistan Centre for Philanthropy, Murree Brewery Ltd., Beaconhouse National University and a member of the Board of Governors, Aitchison College.

**Nicholas Stewart Hales**
*(Managing Director and CEO – Outgoing)*

Nicholas Hales started his career in the tobacco industry as a Trainee Salesman in the United Kingdom in 1989. After a number of years in sales, he moved into general management and held numerous roles throughout the Sub-Saharan region. He also served as West and Central Africa Area Director covering 26 different markets. After four successful years in this role, in 2007 he was transferred to Bangladesh as Managing Director and Chairman. In 2008, he was appointed as the Managing Director and Chief Executive Officer of the Company.

Effective 31st January, 2012, the Board accepted the resignation of Nicholas Hales as a Director, Chief Executive Officer and Managing Director of the Company and appointed Graeme Amey in his place.

**Mobasher Raza**
*(Deputy Managing Director and Finance Director)*

Mobasher Raza has been with the Company for the last 32 years. He joined the Company as a Management Trainee and has held various key positions in the Finance function within PTC as well as with the other Group Companies. In 2006, in addition to his role as a Finance Director he was appointed as the Deputy Managing Director of the Company.

**Mustanser Muhammad Ali Khan**
*(Supply Chain Director)*

Mustanser Ali Khan joined the company in 1990 in Production Department. Having held various key roles in Production, HR and Marketing, he was seconded to BAT Indonesia in 2004 as Head of Operations. He moved into his first General Management role in 2006 as GM Solomon Islands Tobacco within Australasia cluster and was transferred to Sri Lanka in 2007 as Managing Director of Ceylon Tobacco Company. Mustanser returned to Pakistan Tobacco Company in 2011 and was appointed as Supply Chain Director.

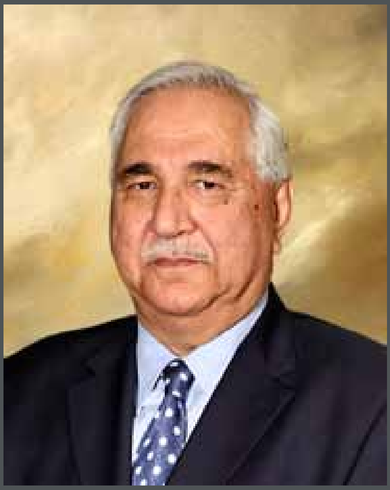
**Feroze Ahmed**
*(Strategy and Planning Director)*

Feroze Ahmed joined PTC as Head of IT in 2003 from Reckitt Benckiser plc, UK where he served as the Information Services Director for Eastern Europe, Africa & Middle East, East Asia & South Asia and as a member of the Global IT leadership team. Earlier he served as Regional Director Information Services in Africa, East and South Asia and on the Board of Directors, Reckitt & Colman, South Africa. In 2005, Feroze joined the Board of Directors. In 2007, he moved to Hong Kong as a Regional Head of IT, Asia Pacific and returned to Pakistan as Strategy and Planning Director in 2009. He is a member of the Institute of Directors (IoD), UK.

**Tajamal Shah**
*(Legal Director)*

Tajamal qualified as a UK Barrister in 1989 and then in 1999 re-qualified as a Solicitor of England and Wales. He started his professional career with a UK private company as Assistant Company Secretary, and then joined the British Civil Service, when he became a Legal Advisor to the Department of Trade and Industry. In 1992 he moved to ECGD, where he specialized in project and aircraft financing. In 1996 he decided to move to private practice when he joined a leading law firm DLA as a Senior Associate. In 1999, he joined PTC as Head of Legal/Company Secretary and moved to Pakistan. In 2009, he joined the PTC Board.

# The Board of Directors



**Lt. Gen. (Retd.) Ali Kuli Khan Khattak**
*(Non-Executive Director)*

Lt. General (Retd.) Ali Kuli Khan hails from Peshawar and belongs to a renowned industrial family. He was commissioned in the Pakistan Army in 1964. General Ali and his late father are the only examples in the Pakistan Army where both father and son have risen to the rank of Lieutenant Generals. Important assignments during his brilliant career were Commandant Staff College in Quetta, Chief of General Staff and Director General Military Intelligence. He sits on the Board of various renowned establishments.

**Abid Niaz Hasan**
*(Non-Executive Director)*

Mr. Hasan has over 31 years of global experience in Economic Development, having worked for the World Bank from 1975-2006.

Mr. Hasan has worked extensively with countries in South and West Asia and the Asian Tiger economies. He has advised numerous Governments on economic management and structural reforms, and managed various World Bank supported development programs in several sectors. During his career with the Bank, he also represented International Finance Corporation (IFC) on the boards of several companies that were financed by it.

**Syed Asif Shah**
*(Non-Executive Director)*

Asif Shah graduated from London School of Economics in 1971 and joined the Pakistan Civil Services in 1973 as an Officer of District Management Group. During his career as a government servant he has served on numerous key provincial and federal positions, including as federal secretary of commerce. After retiring from the Civil Services in 2008, he was appointed as Member of the Federal Public Service Commission, Pakistan. He joined the PTC Board in 2009.

**Graeme Amey**
*(Managing Director and CEO – Incoming)*

Graeme has been with the group for 30 years, he commenced his career in 1979 at Virginia Park, Melbourne for WD & HO Wills. Graeme worked at the Melbourne site in the GLT/Leaf department for 10 years. In 1989, he moved to take up the role of Assistant Leaf Blender and co ordinated the GLT processing. In 1991, Graeme took up the position of General Manager, Solomon Islands. On returning to Australia in 1996, Graeme joined the Australian Marketing Team and held a numbers of positions at state and national level in key accounts. Following the merger with Rothmans, Graeme was appointed as National Account Manager Wholesale. In 2001, Graeme was appointed as Project Manager, Supply Chain and led the integration of the two supply chains post merger. In 2002, Graeme was appointed as Marketing Manager, South Pacific a position he held for 2 years. In 2004, Graeme was appointed as General Manager, Papua New Guinea, a position he held until September 2007. He held the position of Manufacturing Manager for Australia also. In November 2008, he was appointed General Manager, New Zealand and South Pacific. Graeme was a Trustee Director of the Wills Superannuation plan from 1998 - 2001 and was a Regional Safety Auditor for BAT from 1994 - 1998.

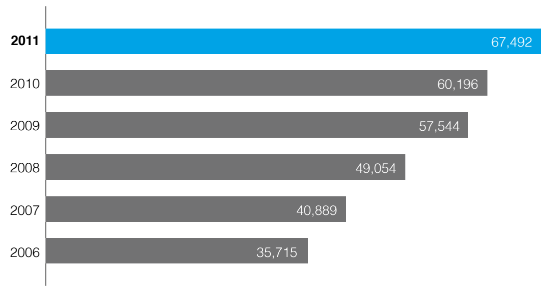
In 2012, he has been appointed as the Managing Director and Chief Executive Officer of the Company after Nicholas Hales.

# Financial Highlights

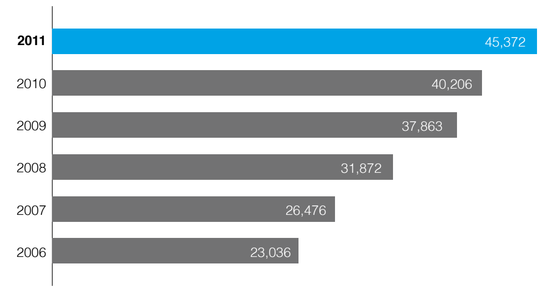
| | | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|
| **Profit and Loss** | | | | | | | |
| Volume | Million Sticks | 39,795 | 36,831 | 41,183 | 41,469 | 37,188 | 34,549 |
| Gross Turnover | Rs million | 67,492 | 60,196 | 57,544 | 49,054 | 40,889 | 35,715 |
| Excise & Sales Tax | Rs million | 44,542 | 39,243 | 35,878 | 30,181 | 24,846 | 21,824 |
| Net Turnover | Rs million | 22,950 | 20,953 | 21,667 | 18,872 | 16,043 | 13,891 |
| Gross Profit | Rs million | 6,241 | 6,205 | 8,224 | 7,277 | 6,516 | 5,534 |
| Operating Profit | Rs million | 661 | 1,531 | 4,589 | 3,860 | 3,720 | 2,841 |
| Profit Before Tax | Rs million | 559 | 1,418 | 4,648 | 3,894 | 3,725 | 2,861 |
| Profit After Tax | Rs million | 364 | 925 | 3,022 | 2,532 | 2,420 | 1,905 |
| EBITDA | Rs million | 1,435 | 2,276 | 5,246 | 4,455 | 4,257 | 3,323 |
| Dividends | Rs million | 537 | 1,533 | 2,440 | 2,466 | 2,529 | 1,405 |
| **Balance Sheet** | | | | | | | |
| Paid up Capital | Rs million | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 |
| Reserves | Rs million | 779 | 1,047 | 1,705 | 1,053 | 1,150 | 1,584 |
| Shareholders' Funds | Rs million | 3,334 | 3,602 | 4,260 | 3,608 | 3,705 | 4,139 |
| Property, Plant & Equipment | Rs million | 6,092 | 5,824 | 5,952 | 5,600 | 5,154 | 4,529 |
| Net Current Assets /(Liabilities) | Rs million | (1,705) | (1,108) | (614) | (471) | (182) | 423 |
| Capital Employed | Rs million | 4,416 | 4,740 | 5,370 | 5,184 | 5,003 | 4,984 |
| Capital Expenditure during the year | Rs million | 1,167 | 646 | 1,045 | 1,073 | 1,191 | 1,238 |
| Long Term / Deferred Liabilities | Rs million | 1,082 | 1,138 | 1,110 | 1,576 | 1,299 | 845 |
| **Investor Information** | | | | | | | |
| Return on Assets | % | 2.84 | 7.52 | 26.72 | 25.05 | 26.08 | 22.81 |
| Return on Equity | % | 10.91 | 25.68 | 70.94 | 70.18 | 65.33 | 46.02 |
| Return on Capital Employed | % | 8.24 | 19.52 | 56.28 | 48.84 | 48.37 | 38.22 |
| Earnings per share After Tax | Rs | 1.42 | 3.62 | 11.83 | 9.91 | 9.47 | 7.46 |
| Price-Earning ratio | Rs | 38.98 | 30.44 | 8.88 | 10.73 | 16.42 | 9.66 |
| Dividend yield ratio | % | 3.79 | 5.44 | 9.10 | 9.08 | 6.37 | 7.64 |
| Dividend payout ratio | % | 147.61 | 165.71 | 80.73 | 97.38 | 104.50 | 73.75 |
| Break-up value per share | Rs | 13.05 | 14.10 | 16.67 | 14.12 | 14.50 | 16.20 |
| Market value per share at year end | Rs | 55.5 | 110.23 | 105 | 106.30 | 155.50 | 72.00 |
| Highest Market value per share during the year | Rs | 116.0 | 119.9 | 117 | 161.00 | 198.30 | 80.00 |
| Lowest Market value per share during the year | Rs | 55.5 | 100.58 | 52.9 | 106.30 | 74.50 | 60.45 |
| Gross Profit ratio | % | 9.2 | 10.31 | 14.29 | 14.83 | 15.93 | 15.49 |
| EBITDA Margin | % | 2.13 | 3.78 | 9.12 | 9.08 | 10.41 | 9.30 |
| Net Profit Margin | % | 0.54 | 1.54 | 5.25 | 5.16 | 5.92 | 5.33 |
| Inventory Turnover ratio | | 2.59 | 2.46 | 2.33 | 2.86 | 2.38 | 2.20 |
| Creditor Turnover | | 4.65 | 8.42 | 8.03 | 7.83 | 7.98 | 8.39 |
| Operating Cycle | | 141 | 149 | 157 | 128 | 153 | 166 |
| Total Assets Turnover ratio | | 5.10 | 4.87 | 4.71 | 4.72 | 4.16 | 4.09 |
| Fixed Assets Turnover ratio | | 11.08 | 10.34 | 9.67 | 8.76 | 7.93 | 7.89 |
| Current ratio | | 0.81 | 0.85 | 0.91 | 0.91 | 0.96 | 1.11 |
| Quick / Acid Test ratio | | 0.05 | 0.04 | 0.04 | 0.09 | 0.10 | 0.06 |
| Dividend Per Share | Rs | 2.10 | 6.00 | 9.55 | 9.65 | 9.90 | 5.50 |
| Dividend Cover ratio | | 0.68 | 0.60 | 1.24 | 1.03 | 0.96 | 1.36 |
| Debt to Equity ratio | | 0.53 | 0.63 | 0.31 | 0.16 | 0.28 | 0.31 |
| Interest Cover ratio | | 4.70 | 10.23 | 104.78 | 148.39 | 143.46 | 102.11 |
| Govt Levies as a percentage of Turnover | % | 67.23 | 66.79 | 65.80 | 64.97 | 64.75 | 64.50 |
| **Government Levies** | | | | | | | |
| Customs, Excise Duties & Sales Tax | Rs million | 45,036 | 39,652 | 36,367 | 30,525 | 25,213 | 22,069 |
| Local Taxes and Other Duties | Rs million | 137 | 116 | 105 | 101 | 94 | 87 |
| Income Tax | Rs million | 199 | 438 | 1,391 | 1,246 | 1,169 | 880 |

# Graphs

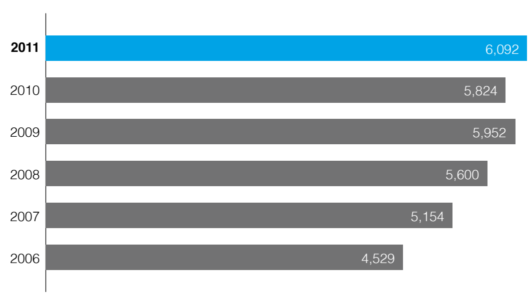
## Gross Turnover
Rs (million)




## Government Levies
Rs (million)

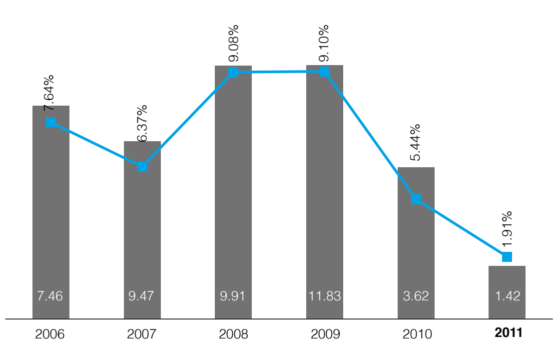



## Property, Plant & Equipment
Rs (million)

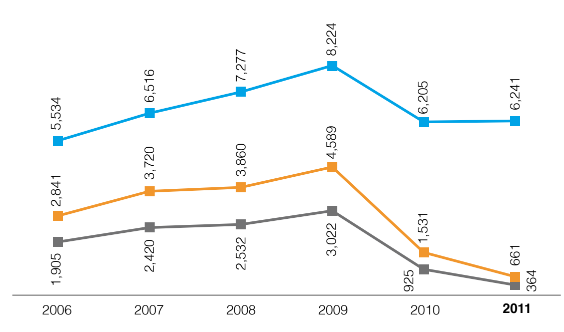



## Volume
Sticks (billion)


## Earnings Per Share and Dividend Yield




## Gross, Operating and Profit after Tax
Rs (million)



# Horizontal & Vertical Analysis

| | Source Data | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| | (Rs. '000) | | | | | |
| **Balance Sheet** | | | | | | |
| **Non Current Assets** | | | | | | |
| Property, Plant and Equipment | 4,529,366 | 5,154,326 | 5,599,758 | 5,952,108 | 5,823,688 | 6,092,284 |
| Investment in Subsidiary Company at Cost | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Long Term Loans | 18,660 | 12,513 | 9,244 | 7,310 | 3,417 | 1,260 |
| Long Term Deposits and Prepayments | 8,424 | 13,025 | 41,172 | 19,915 | 15,375 | 22,640 |
| | 4,561,450 | 5,184,864 | 5,655,174 | 5,984,333 | 5,847,480 | 6,121,184 |
| **Current Assets** | | | | | | |
| Stock-in-Trade | 3,790,853 | 3,998,181 | 4,059,063 | 5,765,367 | 6,002,824 | 6,462,330 |
| Stores and Spares | 140,008 | 140,777 | 190,646 | 218,375 | 199,208 | 190,110 |
| Trade Debts | 2,406 | 2,386 | 2,666 | 1,684 | 1,597 | 1,202 |
| Loans and Advances | 12,205 | 38,580 | 65,917 | 48,598 | 48,267 | 64,310 |
| Short Term Prepayments | 72,235 | 64,887 | 105,728 | 72,483 | 118,329 | 94,052 |
| Other Receivables | 92,360 | 229,891 | 246,675 | 88,147 | 93,546 | 196,249 |
| Cash and Bank Balances | 62,883 | 166,666 | 69,172 | 47,874 | 51,945 | 109,631 |
| | 4,172,950 | 4,641,368 | 4,739,867 | 6,242,528 | 6,515,716 | 7,117,884 |
| | 8,734,400 | 9,826,232 | 10,395,041 | 12,226,861 | 12,363,196 | 13,239,068 |
| **Share Capital & Reserves** | | | | | | |
| Share Capital | 2,554,938 | 2,554,938 | 2,554,938 | 2,554,938 | 2,554,938 | 2,554,938 |
| Revenue Reserves | 1,584,249 | 1,149,742 | 1,053,393 | 1,705,296 | 1,047,151 | 778,997 |
| | 4,139,187 | 3,704,680 | 3,608,331 | 4,260,234 | 3,602,089 | 3,333,935 |
| **Non Current Liabilities** | | | | | | |
| Retirement Benefits | - | 489,503 | 739,133 | - | - | - |
| Deferred Taxation | 845,004 | 809,109 | 836,939 | 1,109,847 | 1,137,581 | 1,082,038 |
| | 845,004 | 1,298,612 | 1,576,072 | 1,109,847 | 1,137,581 | 1,082,038 |
| **Current Liabilities** | | | | | | |
| Trade and Other Payables | 2,212,241 | 3,548,237 | 4,324,704 | 5,037,469 | 5,339,725 | 7,067,704 |
| Accrued Interest / Mark-up Accrued | 11,115 | 8,401 | 10,354 | 27,659 | 46,789 | 51,187 |
| Short Term Finances | 1,293,141 | 1,038,550 | 572,397 | 1,300,837 | 2,252,218 | 1,783,623 |
| Income Tax Payable | 233,712 | 227,752 | 303,183 | 490,815 | (15,206) | (79,419) |
| | 3,750,209 | 4,822,940 | 5,210,638 | 6,856,780 | 7,623,526 | 8,823,095 |
| | 8,734,400 | 9,826,232 | 10,395,041 | 12,226,861 | 12,363,196 | 13,239,068 |
| **Profit & Loss Account** | | | | | | |
| Gross Turnover | 35,715,451 | 40,889,275 | 49,053,928 | 57,544,309 | 60,195,535 | 67,491,816 |
| Excise Duties | 16,991,172 | 19,311,946 | 23,351,734 | 27,654,345 | 30,476,421 | 34,719,661 |
| Sales Tax | 4,833,285 | 5,534,452 | 6,829,699 | 8,223,439 | 8,766,485 | 9,822,181 |
| **Net Turnover** | 13,890,994 | 16,042,877 | 18,872,495 | 21,666,525 | 20,952,629 | 22,949,974 |
| Cost of Sales | 8,357,474 | 9,527,306 | 11,595,736 | 13,442,066 | 14,747,717 | 16,709,273 |
| **Gross Profit** | 5,533,520 | 6,515,571 | 7,276,759 | 8,224,459 | 6,204,912 | 6,240,701 |
| Selling and Distribution Expenses | 1,816,198 | 1,795,793 | 1,933,364 | 2,246,014 | 3,279,390 | 3,129,938 |
| Administration Expenses | 644,981 | 736,147 | 928,358 | 1,100,814 | 1,233,165 | 1,321,713 |
| Other Operating Income | 20,686 | 71,756 | 60,551 | 226,499 | 46,610 | 53,967 |
| Other Operating Expenses | 251,932 | 335,763 | 615,458 | 514,665 | 208,211 | 1,182,363 |
| **Operating Profit** | 2,841,095 | 3,719,624 | 3,860,130 | 4,589,465 | 1,530,756 | 660,654 |
| Finance Income | 47,402 | 30,878 | 59,600 | 102,826 | 36,933 | 39,160 |
| Finance Cost | 27,824 | 25,928 | 26,013 | 43,802 | 149,680 | 140,539 |
| **Profit before Taxation** | 2,860,673 | 3,724,574 | 3,893,717 | 4,648,489 | 1,418,009 | 559,275 |
| Taxation | 955,685 | 1,304,367 | 1,361,422 | 1,626,083 | 492,909 | 195,490 |
| **Profit for the Year** | 1,904,988 | 2,420,207 | 2,532,295 | 3,022,406 | 925,100 | 363,785 |
| **Earnings per Share - Basic and Diluted (Rupees)** | 7.46 | 9.47 | 9.91 | 11.83 | 3.62 | 1.42 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Horizontal Analysis | | | | | | Vertical Analysis | | | | | |
| 2006 | 07 Vs 06 | 08 Vs 07 | 09 Vs 08 | 10 Vs 09 | 11 Vs 10 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Variance (%) | | | | | | Percentage | | | | | |
| 100.00 | 13.80 | 8.64 | 6.29 | (2.16) | 4.61 | 51.86 | 52.45 | 53.87 | 48.68 | 47.11 | 46.02 |
| 100.00 | - | - | - | - | - | 0.06 | 0.05 | 0.05 | 0.04 | 0.04 | 0.04 |
| 100.00 | (32.94) | (26.12) | (20.92) | (53.26) | (63.13) | 0.21 | 0.13 | 0.09 | 0.06 | 0.03 | 0.01 |
| 100.00 | 54.62 | 216.10 | (51.63) | (22.80) | 47.25 | 0.10 | 0.13 | 0.40 | 0.16 | 0.12 | 0.17 |
| 100.00 | 13.67 | 9.07 | 5.82 | (2.29) | 4.68 | 52.22 | 52.77 | 54.40 | 48.94 | 47.30 | 46.24 |
| 100.00 | 5.47 | 1.52 | 42.04 | 4.12 | 7.65 | 43.40 | 40.69 | 39.05 | 47.15 | 48.55 | 48.81 |
| 100.00 | 0.55 | 35.42 | 14.54 | (8.78) | (4.57) | 1.60 | 1.43 | 1.83 | 1.79 | 1.61 | 1.44 |
| 100.00 | (0.83) | 11.74 | (36.83) | (5.17) | (24.73) | 0.03 | 0.02 | 0.03 | 0.01 | 0.01 | 0.01 |
| 100.00 | 216.10 | 70.86 | (26.27) | (0.68) | 33.24 | 0.14 | 0.39 | 0.63 | 0.40 | 0.39 | 0.49 |
| 100.00 | (10.17) | 62.94 | (31.44) | 63.25 | (20.52) | 0.83 | 0.66 | 1.02 | 0.59 | 0.96 | 0.71 |
| 100.00 | 148.91 | 7.30 | (64.27) | 6.12 | 109.79 | 1.06 | 2.34 | 2.37 | 0.72 | 0.76 | 1.48 |
| 100.00 | 165.04 | (58.50) | (30.79) | 8.50 | 111.05 | 0.72 | 1.70 | 0.67 | 0.39 | 0.42 | 0.83 |
| 100.00 | 11.23 | 2.12 | 31.70 | 4.38 | 9.24 | 47.78 | 47.23 | 45.60 | 51.06 | 52.70 | 53.76 |
| 100.00 | 12.50 | 5.79 | 17.62 | 1.12 | 7.08 | 100 | 100 | 100 | 100 | 100 | 100 |
| 100.00 | - | - | - | - | - | 29.25 | 26.00 | 24.58 | 20.90 | 20.67 | 19.30 |
| 100.00 | (27.43) | (8.38) | 61.89 | (38.59) | (25.61) | 18.14 | 11.70 | 10.13 | 13.95 | 8.47 | 5.88 |
| 100.00 | (10.50) | (2.60) | 18.07 | (15.45) | (7.44) | 47.39 | 37.70 | 34.71 | 34.84 | 29.14 | 25.18 |
| 100.00 | 100 | 51.00 | (100) | - | - | - | 4.98 | 7.11 | 0.00 | 0.00 | 0.00 |
| 100.00 | (4.25) | 3.44 | 32.61 | 2.50 | (4.88) | 9.67 | 8.23 | 8.05 | 9.08 | 9.20 | 8.17 |
| 100.00 | 53.68 | 21.37 | (29.58) | 2.50 | (4.88) | 9.67 | 13.22 | 15.16 | 9.08 | 9.20 | 8.17 |
| 100.00 | 60.39 | 21.88 | 16.48 | 6.00 | 32.36 | 25.33 | 36.11 | 41.60 | 41.20 | 43.19 | 53.39 |
| 100.00 | (24.42) | 23.25 | 167.13 | 69.16 | 9.40 | 0.13 | 0.09 | 0.10 | 0.23 | 0.38 | 0.39 |
| 100.00 | (19.69) | (44.88) | 127.26 | 73.14 | (20.81) | 14.81 | 10.57 | 5.51 | 10.64 | 18.22 | 13.47 |
| 100.00 | (2.55) | 33.12 | 61.89 | (103.10) | 422.29 | 2.68 | 2.32 | 2.92 | 4.01 | (0.12) | (0.60) |
| 100.00 | 28.60 | 8.04 | 31.59 | 11.18 | 15.74 | 42.94 | 49.08 | 50.13 | 56.08 | 61.66 | 66.64 |
| 100.00 | 12.50 | 5.79 | 17.62 | 1.12 | 7.08 | 100 | 100 | 100 | 100 | 100 | 100 |
| 100.00 | 14.49 | 19.97 | 17.31 | 4.61 | 12.12 | | | | | | |
| 100.00 | 13.66 | 20.92 | 18.43 | 10.20 | 13.92 | | | | | | |
| 100.00 | 14.51 | 23.40 | 20.41 | 6.60 | 12.04 | | | | | | |
| 100.00 | 15.49 | 17.64 | 14.80 | (3.29) | 9.53 | 100 | 100 | 100 | 100 | 100 | 100 |
| 100.00 | 14.00 | 21.71 | 15.92 | 9.71 | 13.30 | 60.16 | 59.39 | 61.44 | 62.04 | 70.39 | 72.81 |
| 100.00 | 17.75 | 11.68 | 13.02 | (24.56) | 0.58 | 39.84 | 40.61 | 38.56 | 37.96 | 29.61 | 27.19 |
| 100.00 | (1.12) | 7.66 | 16.17 | 46.01 | (4.56) | 13.07 | 11.19 | 10.24 | 10.37 | 15.65 | 13.64 |
| 100.00 | 14.13 | 26.11 | 18.58 | 12.02 | 7.18 | 4.64 | 4.59 | 4.92 | 5.08 | 5.89 | 5.76 |
| 100.00 | 246.88 | (15.62) | 274.06 | (79.42) | 15.78 | 0.15 | 0.45 | 0.32 | 1.05 | 0.22 | 0.24 |
| 100.00 | 33.28 | 83.30 | (16.38) | (59.54) | 467.87 | 1.81 | 2.09 | 3.26 | 2.38 | 0.99 | 5.15 |
| 100.00 | 30.92 | 3.78 | 18.89 | (66.65) | (56.84) | 20.45 | 23.19 | 20.45 | 21.18 | 7.31 | 2.88 |
| 100.00 | (34.86) | 93.02 | 72.53 | (64.08) | 6.03 | 0.34 | 0.19 | 0.32 | 0.47 | 0.18 | 0.17 |
| 100.00 | (6.81) | 0.33 | 68.39 | 241.72 | (6.11) | 0.20 | 0.16 | 0.14 | 0.20 | 0.71 | 0.61 |
| 100.00 | 30.20 | 4.54 | 19.38 | (69.50) | (60.56) | 20.59 | 23.22 | 20.63 | 21.45 | 6.77 | 2.44 |
| 100.00 | 36.49 | 4.37 | 19.44 | (69.69) | (60.34) | 6.88 | 8.13 | 7.21 | 7.51 | 2.35 | 0.85 |
| 100.00 | 27.05 | 4.63 | 19.35 | (69.39) | (60.68) | 13.71 | 15.09 | 13.42 | 13.95 | 4.42 | 1.59 |
| 100.00 | 26.94 | 4.65 | 19.37 | (69.39) | (60.78) | | | | | | |

# Summary of Cash Flows

| (Rs in million) | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Cash Flows from Operating Activities | 2,158 | 1,149 | 2,545 | 4,316 | 3,546 | 1,711 |
| Cash Flows from Investing Activities | (1,096) | (565) | (860) | (978) | (1,151) | (1,201) |
| Cash Flows from Financing Activities | (536) | (1,531) | (2,435) | (2,969) | (2,036) | (1,398) |
| Net Change in Cash and Cash Equivalents | 526 | (947) | (750) | 369 | 358 | (887) |
| Beginning Cash and Cash Equivalents | (2,200) | (1,253) | (503) | (872) | (1,230) | (343) |
| Ending Cash and Cash Equivalents | (1,674) | (2,200) | (1,253) | (503) | (872) | (1,230) |
| Cash and Cash Equivalents comprise | | | | | | |
| Cash and Bank Balances | 110 | 52 | 48 | 69 | 167 | 63 |
| Short Term Borrowings | (1,784) | (2,252) | (1,301) | (572) | (1,039) | (1,293) |
| | (1,674) | (2,200) | (1,253) | (503) | (872) | (1,230) |

# Financial Calendar

| 2011 | |
|---|---|
| 1st Quarter Results issued on | April 21, 2011 |
| 2nd Quarter Results issued on | August 15, 2011 |
| 3rd Quarter Results issued on | October 20, 2011 |
| Recommendation of Annual Results by the BOD | March 19, 2012 |
| 65th Annual General Meeting scheduled for | April 24, 2012 |

| 2010 | |
|---|---|
| 1st Quarter Results issued on | April 19, 2010 |
| 2nd Quarter Results issued on | August 9, 2010 |
| 3rd Quarter Results issued on | October 18, 2010 |
| Recommendation of Annual Results by the BOD | March 16, 2011 |
| 64th Annual General Meeting held on | April 22, 2011 |

# Analysis of Quarterly Results

| | 2010 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| **(Rs in million)** | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **3Q** | **4Q** |
| **Balance Sheet** | | | | | | | | |
| **Non Current Assets** | | | | | | | | |
| Property, Plant and Equipment | 5,799 | 5,738 | 5,680 | 5,824 | 5,657 | 5,592 | 5,616 | 6,093 |
| Investment in Subsidiary Company | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Long Term Loans | 6 | 5 | 4 | 3 | 2 | 2 | 2 | 1 |
| Long Term Deposits and Prepayments | 19 | 46 | 30 | 15 | 16 | 20 | 19 | 23 |
| **Current Assets** | | | | | | | | |
| Stock-in-Trade | 4,959 | 3,724 | 7,255 | 6,003 | 5,004 | 4,007 | 7,385 | 6,462 |
| Stores and Spares | 223 | 235 | 250 | 199 | 216 | 255 | 241 | 190 |
| Trade Debts | 3 | 3 | 2 | 2 | 1 | 2 | 2 | 1 |
| Loans, Advances, Short Term Prepayments and Other Receivables | 274 | 255 | 329 | 260 | 270 | 255 | 216 | 355 |
| Short Term Deposits | 810 | - | - | - | - | - | - | - |
| Cash and Bank Balances | 101 | 58 | 59 | 52 | 59 | 73 | 112 | 110 |
| | 6,370 | 4,275 | 7,895 | 6,516 | 5,549 | 4,592 | 7,956 | 7,118 |
| **Current Liabilities** | | | | | | | | |
| Trade and Other Payables | 5,637 | 2,355 | 5,816 | 5,340 | 5,973 | 3,500 | 6,536 | 7,068 |
| Accrued Interest / Mark-up | 33 | 13 | 54 | 47 | 43 | 17 | 29 | 51 |
| Short Term Running Finance | 1 | 2,318 | 2,561 | 2,252 | 29 | 1,768 | 1,526 | 1,784 |
| Income Tax Payable | 501 | 332 | 199 | (15) | 138 | 210 | 387 | (79) |
| | 6,172 | 5,018 | 8,630 | 7,624 | 6,183 | 5,495 | 8,478 | 8,824 |
| **Net Current Assets / (Liabilites)** | 198 | (743) | (735) | (1,108) | (634) | (903) | (522) | (1,706) |
| **Non Current Liabilites** | | | | | | | | |
| Retirement Benefits | - | - | - | - | - | - | - | - |
| Deferred Taxation | 1,085 | 1,127 | 1,114 | 1,137 | 1,101 | 1,072 | 1,043 | 1,082 |
| | 1,085 | 1,127 | 1,114 | 1,137 | 1,101 | 1,072 | 1,043 | 1,082 |
| **Net Assets** | 4,942 | 3,924 | 3,870 | 3,602 | 3,946 | 3,644 | 4,076 | 3,334 |
| **Share Capital & Reserves** | | | | | | | | |
| Share Capital | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 |
| Revenue Reserves | 2,387 | 1,369 | 1,314 | 1,047 | 1,391 | 1,089 | 1,521 | 779 |
| | 4,942 | 3,924 | 3,869 | 3,602 | 3,946 | 3,644 | 4,076 | 3,334 |
| **Profit & Loss Account** | | | | | | | | |
| Gross Turnover | 15,753 | 15,832 | 12,873 | 15,738 | 16,455 | 17,384 | 16,107 | 17,546 |
| Excise Duties | 7,760 | 7,884 | 6,702 | 8,130 | 8,487 | 9,013 | 8,270 | 8,950 |
| Sales Tax | 2,233 | 2,254 | 1,927 | 2,352 | 2,457 | 2,590 | 2,289 | 2,486 |
| **Net Turnover** | 5,759 | 5,693 | 4,244 | 5,257 | 5,511 | 5,781 | 5,548 | 6,110 |
| Cost of Sales | 3,746 | 3,887 | 3,156 | 3,959 | 4,092 | 4,329 | 3,874 | 4,414 |
| **Gross Profit** | 2,014 | 1,806 | 1,088 | 1,297 | 1,419 | 1,452 | 1,673 | 1,697 |
| Selling and Distribution Expenses | 560 | 669 | 779 | 1,271 | 505 | 707 | 612 | 1,306 |
| Administration Expenses | 296 | 319 | 328 | 290 | 304 | 381 | 312 | 325 |
| Other Operating Expenses | 89 | 66 | 3 | 50 | 45 | 38 | 70 | 1,029 |
| Other Operating Income | 5 | 18 | 2 | 22 | 1 | 17 | 3 | 33 |
| | 940 | 1,036 | 1,108 | 1,589 | 853 | 1,109 | 991 | 2,627 |
| **Operating profit** | 1,074 | 770 | (21) | (292) | 566 | 343 | 682 | (930) |
| Finance Income | 3 | 31 | 1 | 2 | 2 | 30 | 5 | 2 |
| Finance Cost | 34 | 13 | 55 | 48 | 44 | 17 | 28 | 52 |
| Net Finance Income / (Cost) | (31) | 18 | (54) | (46) | (42) | 13 | (23) | (50) |
| **Profit before Income Tax** | 1,043 | 788 | (74) | (339) | 524 | 356 | 659 | (980) |
| Income Tax Expense | 361 | 273 | (19) | (122) | 180 | 121 | 227 | (333) |
| **Profit for the Year** | 682 | 515 | (55) | 217 | 344 | 235 | 432 | (647) |

# Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty Fifth Annual General Meeting ("the Meeting") of Pakistan Tobacco Company Limited ("the Company") will be held at Silver Square, Plot No.15, F-11 Markaz, Islamabad on Tuesday 24th April, 2012 at 10.30 a.m. to transact the following business: -

## A. Ordinary Business:

1. To receive, consider and adopt the audited Accounts for the year ended 31st December, 2011, and the Report of the Directors and Auditors thereon.

2. To approve the Final Dividend as recommended by the Board.

3. To appoint Auditors and to fix their remuneration.

By order of the Board

Islamabad:
1st April, 2012

Ayesha Rafique
Company Secretary

## Notes:

1. The Share Transfer Books of the Company will be closed from 18th April, 2012 to 24th April, 2012 both days inclusive. Transfers received in order at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.1-A, 1st Floor, I. I. Chundrigar Road, Karachi, at the close of business on 17th April, 2012, will be in time to be entitled to vote and for the entitlement of dividend.

2. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy and such proxy will have the right to attend, speak and vote in place of that member. Forms of proxy must be deposited at the office of the Company's Share Registrar not less than 48 hours before the time appointed for the Meeting and in default, forms of proxy will not be treated as valid.

3. Attendance of members who have deposited their shares into Central Depository Company of Pakistan Limited shall be in accordance with the following:-

**a) In Person:**

i) Individuals must bring their participant's ID number and account/sub-account number along with original Computerized National Identity Card (CNIC) or original Passport at the time of attending the Meeting

ii) In the case of a corporate entity, presentation of a Board of Directors' Resolution/Power of Attorney with specimen signatures of the nominee at the time of the Meeting.

**b) By Proxy:**

i) In case of individuals, the submission of the proxy form as per the requirement notified in Note 2 above.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be stated on the form.

iii) Attested copies of CNIC or the passport of the beneficial owners and proxy shall be furnished with the proxy form.

iv) The proxy shall produce his original CNIC or original passport at the time of the Meeting.

v) In case of a corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signatures shall be submitted with the proxy form to the Company.

4. Members are requested to notify the Company's Share Registrar promptly of changes in their address, and the Members who have not yet submitted a photocopy of their valid computerized National Identity Cards to the Company are requested to send the same at the earliest directly to our Share Registrar.

# Chairman's Message

Pakistan Tobacco Company Limited faced immense challenges during 2011. A slowing economy, inflationary pressures, weakened purchasing power and rising illicit trade all added complexity to the business environment. It is a testament to PTC's resilience that despite these challenges the company performed well, growing in terms of share and sales volume. It is satisfying to note that key business decisions by the management have contributed to these results. As a consequence of bold and timely decisions, the company has further strengthened its market leadership during 2011.

2011 was another year of constrained economic growth and strong inflationary pressures. Disposable incomes continued to remain under pressure forcing consumers to down-trade. Enforcement lapses by government enabled widespread availability of cheap tax evaded brands in the market. Smuggled brands that do not comply with the recently enacted Pictorial Health Warnings (PHW) are gaining share each day. The Illicit sector, therefore, continued to show an alarming rate of growth, increasing its share from 18.9% to 19.2% of the domestic market in 2011. The availability of cheap, tax evaded brands continues to deprive the tax paying industry players of their right to a level playing field besides denying the Government its due share of revenue from the cigarette sector. The growth of the Illicit segment is the biggest threat to long term sustainability and viability of the tobacco industry in Pakistan as well as the largest hindrance to growth of Government revenues from this industry. The Government is requested to take immediate and concrete steps for stricter enforcement of the robust regulatory framework already in place.

PTC, true to its commitment to a long term focus, continued to invest heavily to augment its key strengths: its brands and its people. The 2010 decision to launch Capstan by Pall Mall Original (CbPMO) was a daring initiative. This has put the company back on track for volume growth and also strengthened its market leadership. Within 18 months of its launch, the brand has gained 14.4% share of the market. During 2011 it has become the key driver behind the company's exceptional performance in terms of market share and sales growth. It is a pleasure to note that the company's market share has grown from 47.8 % to 48.6 % during 2011 with sales growing by 3 billion sticks to 39.8 billion during the year. I offer my felicitations to PTC's management and staff for achieving this stellar performance in very difficult circumstances.

I am pleased to note that even in times of constrained profitability the management has not shied away from making difficult decisions for the long term good of the business. The company continues to compensate its people in line with best market practices and makes the required investments for their training and development. Being part of a larger global concern, most of its valued talent is also able to further hone their skills through international roles and assignments. The company continues to invest in its plant and equipment as part of its drive to stay at par with international standards in terms of manufacturing efficiency and product quality. In order to further secure its leaf supply, the company has made good progress in its efforts to develop leaf growing areas. The management's decisions to make these investments today for a better tomorrow are a testament to its clarity of vision and commitment to a healthier future for the business.

Despite tough financial circumstances, the company has continued to make meaningful investments in pursuance of its corporate responsibility agenda. Its Afforestation Program, Mobile Doctor Units and its collaboration with developmental NGOs continue to favorably impact the communities that it operates in and strengthen its bond with them.

The business today faces the formidable task of surviving in a very risky and unpredictable environment. PTC has always fared well in the face of challenges. I am fully confident that it shall continue to strive relentlessly in pursuance of its goal of delivering long term sustainable business growth and maintaining strong responsibility credentials.

**Mueen Afzal**
Chairman

# Managing Director's Review

I am pleased to share company's results with you for the year 2011. This year our business faced immense challenges including sluggish economy, high inflationary pressure leading to consumers' down-trading and imposition of new regulations that banned manufacture of packs with less than 20 sticks. All these factors gave a boost to illicit trade which increased its share of the market. The continued precarious security situation further added to the complexities of the business environment.

Despite all the aforesaid challenges, our company has outperformed the competition and strengthened its market leadership. Our sales have grown by 3 billion versus SPLY, reaching 39.8 billion sticks and our market share has increased from 47.8% in 2010 to 48.6% in 2011. This growth has been led by an unprecedented performance by Capstan by Pall Mall Original (CbPMO), launched in July 2010. This brand has now grown to 14.4% of the market.

Persistent inflation and a weak local currency continued to increase our cost base. The impact of these was, however, mitigated to some extent through smart cost management and various productivity initiatives. Despite tough financial circumstances, we have continued to invest in all those areas of the business which are of vital strategic importance to us, i.e., people, brands, technology and process. We not only further strengthened our portfolio through brand line extensions which gave our consumers more choice but we re-structured our trade and distribution network in order to make it more efficient. Our strengthened market position is a testament to the success of these initiatives.

During 2011 we contributed over Rs. 45 billion to Government Revenues, in lieu of Excise, Sales Tax, Income Tax and Custom duties which was 12.8% higher than 2010. The Cigarette Industry remains a significant source of revenue for the Government, however, a large portion of this revenue is lost due to the presence of a large Duty Not Paid segment. Alarmingly, this segment has seen new growth momentum during the last few years while the legal industry's volume and profit has been under pressure. This segment not only denies the legitimate players of their right to a level playing field but also causes a huge loss of revenue to the national exchequer. We therefore urge the authorities for strict enforcement of the robust regulatory framework already in place and reiterate that we will continue to support the Government's efforts in this area.

## Our Brands

PTC's brands have once again demonstrated their strength, capturing market share in the face of stiff competition. In a year when inflation remained in double digits, security situation remained volatile and when the legitimate tobacco market in fact suffered an overall decline, the company managed to grow its sales volume by 8% vs. SPLY. Our premium portfolio has performed well with **Dunhill** growing steadily this year on the back of enhanced distribution and brand equity building initiatives.


**Benson & Hedges** also performed with new strength in 2011. The two brands together have helped us maintain our strong presence in the premium segment.

**John Player Gold Leaf (JPGL)** continues to retain its superior position in the high segment delivering unparalleled value to its loyal consumers. The brand continued its strong momentum in 2011 through the innovations introduced and brand support initiatives that enhanced its equity even further.

**Capstan by Pall Mall Original (CbPMO)** has been an astounding success. Trade support has helped give the brand the necessary muscle. The brand doubled its franchise volume in 2011.

**Gold Flake** supported the low medium portfolio by holding onto a major portion of its consumer base establishing PTC's overall superior position in the low medium segment.

# Managing Director's Review

## Our People

At PTC, we value our people as one of our most vital assets. Attracting and retaining high quality talent becomes increasingly difficult as companies aggressively hunt for a limited pool of top talent. Despite difficult financial circumstances over the years, we have managed to maintain an attractive reward proposition of market driven salaries, prospects of a truly international career with fast paced growth, and world class training and development opportunities. PTC has, therefore, maintained its position as one of the top employers for the leading professionals of the country. As a result of our strategies and investment in people, PTC talent is recognized as world class by its parent Group. We are a net exporter of talent and 23 of our employees are currently working on various international assignments across the BAT world. The international exposure will help our people to enhance their skill set and will help them take up more responsible positions within PTC upon their return.

## Business Process Re-engineering

In 2011, PTC conducted a series of sessions to re-evaluate its strategic business priorities. These sessions were aimed at re-considering the current course of action and select the best possible alternative to stretch the organization and achieve stronger business performance. As an outcome significant change initiatives were undertaken to re-engineer the current business operations e.g. the Tele-presence collaboration tool was deployed that invoked virtual working to accelerate decision making, improve work-life balance, and reduce traveling to save management time and costs. The new law to ban manufacture of packs with less than 20 sticks has critical implications for our manufacturing operations. We have, therefore, embarked upon a plan to re-align our manufacturing footprint and processes with the new market realities. Adjusting our manufacturing machinery and processes is a huge challenge with significant resource implications. But as always PTC has ensured strict compliance with law.


## Environment, Health & Safety

Pakistan Tobacco Company has always been on the forefront to bring about continuous improvements in the field of Environment, Health & Safety (EH&S). Today companies across Pakistan look upto PTC as a benchmark for EH&S initiatives, standards and best practices. Moreover, we have also been invited to various national forums to share our knowledge and experience to establish an environment friendly business operation. At PTC, environmental considerations are a vital part of our business decisions. The initiatives taken under the umbrella of EH&S in general, and Energy Conservation and Water use & Discharge Management in particular have set an example for others to follow. In recognition of our high EH&S standards, our parent group BAT in its recent EH&S review, rated our Leaf Area and manufacturing facilities amongst the highest of all BAT World. Moreover, in 2011 our Akora Khattak Factory received a letter of commendation for efficient use of natural resources, water conservation and 100% reuse of treated water which reduced its water intake by 39%. Similarly, our Jehlum Factory after achieving 100% recycling of waste water has gone a step ahead in preserving and reusing storm water. This initiative received nationwide appreciation of the news media and was praised at multiple EH&S forums.

# Managing Director’s Review

## Corporate Social Responsibility

Conducting our business responsibly is one of the fundamental principles on which the company operates. As a responsible corporate citizen, we have and will continue to strive to contribute to our communities through our Corporate Social Responsibility (CSR) activities. We continued to invest heavily in our CSR initiatives during 2011. We continued to operate our Mobile Doctor Units (MDUs) for the provision of healthcare facilities in the underprivileged and remote areas of the country. Over 70,000 patients were treated as part of our MDU program in Punjab and KPK Province. PTC is recognized for its Afforestation program which has helped it make significant contributions towards a greener environment. The program was initiated in 1981 through which we have distributed over 57million saplings for plantation around the country. During 2011, we distributed 3 million new samplings and continued to work on plantation on M-1 Motorway from Peshawar to Islamabad in collaboration with Government of Pakistan. Despite a difficult year with huge challenges for our business as well as our people on the security front, we have stayed committed to the responsibility agenda and


continued to run our CSR programs for the greater good of our communities. I appreciate the great work our team has put in to further our responsibility credentials and I am sure that despite the challenges ahead, we shall continue to progress with our CSR initiatives to strengthen our responsibility credentials even further.

## Illicit Sector

With the legitimate tobacco sector having to increase prices heavily due to rising excise duties in the recent years, the illicit sector has flourished and as of 2011 it occupies 19.2% of the tobacco market. Consumers have increasingly down traded in favor of many of the ultra low priced tax evaded brands which sell well below the minimum allowable price limit. Smuggled brands without the mandatory pictorial health warnings and sometimes without any health warning at all have seen alarming growth with an estimated increase of 65% in sales. Pine is one such brand which is priced at parity with low segment brands e.g., Gold Flake. The brand does not carry any health warnings and has grown from an estimated 536 Mn sticks in 2010 to 1,016 Mn in 2011, a YoY increase of 90%.

Illicit sector is the biggest threat to the commercial viability of the legitimate players and sustainability of Government revenues. We strongly urge the authorities to take immediate steps to enforce existing regulations and create a level playing field for all industry players.

## Business Outlook

Our business continues to face challenges on multiple fronts including the illicit trade, rising costs, increasing taxes, down-trading, regulations, stiff competition and a volatile security situation. The business decisions of 2011 and 2012 are aimed at reducing our cost base in the long run, strengthening brand portfolio and modernizing factories for greater efficiency. Growing share of the illicit remains the biggest threat to the legitimate industry and sustainability of Government revenues. We will continue to support sensible regulation and enforcement drive of the Government to curb this menace of illicit trade. We value the strong bond we have with our consumers, employees and business partners and remain committed to take it even further as we work together for the growth of our company. With strong business fundamentals and a highly committed and motivated team, I am confident that we will strengthen the business in our quest to deliver greater shareholder value.

**Graeme Amey**
Managing Director and CEO

# Director’s Review

The Directors present the 65th Annual Report along with the audited financial statements of the Company for the year ended December 31, 2011.

It was another challenging year in a weak macroeconomic environment. The business confronted multiple issues including consumers’ down-trading fueled by the presence of a largely unchecked illicit sector, inflation, increased tobacco control regulations and intensifying competition. In-spite of these challenges we managed to improve our market share.

## Business Performance

Given below are the key financial highlights for 2011 versus last year.

(Rs in million)

| | 2011 | 2010 | Change |
|---|---|---|---|
| Gross Turnover | 67,492 | 60,196 | 12% |
| Net Turnover | 22,950 | 20,953 | 10% |
| Gross Profit | 6,241 | 6,205 | 1% |
| Operating Profit | 661 | 1,531 | -57% |
| Profit before Tax | 559 | 1,418 | -61% |
| Profit after Tax | 364 | 925 | -61% |
| Earnings per Share - EPS (Rs) | 1.42 | 3.62 | -61% |

Our sales, at 39.8 bn sticks were higher vs. SPLY by 3 bn sticks and consequently our turnover has grown vs. last year. The imposition of the ban on manufacture of cigarette packs with less than 20 sticks requires us to make changes to our production processes. We have allocated a significant amount to achieve that objective. This combined with inflationary driven cost increases have impacted our financials and despite strict cost control our profits have declined by 61% vs. last year. However, we are pleased to note that despite a difficult financial situation we have not compromised on any of our long term priorities. We have continued to invest in our people, our brands, the distribution infrastructure, machinery footprint as well as taking on initiatives with sizeable potential future business benefit.

## Sales Performance

In a declining market, we faced numerous challenges during the year. Persistent down-trading accelerated by strained disposable incomes and the presence of cheap Duty Not Paid brands of the illicit sector continued to threaten our volumes. Conditions were made worse by the precarious law and order situation, intense competition, increasing regulations and easy availability of the illicit brands which do not comply with Government regulations. However PTC, its brands and its people, once again proved resilient in the face of massive difficulties. Giving a stellar performance and riding on the phenomenal success of CbPMO which was launched in July 2010, we sold 3 bn more sticks than 2010 and grew market share to 48.6% vs. 47.8% in SPLY.

Our premium portfolio enjoyed a good year with the help of consistent distribution expansion and trade development activities. Dunhill has established itself as the innovative brand of choice for the premium market. Moreover, B&H has performed strongly, growing sales by 23% vs. SPLY and it has been able to withstand aggressive competitive activities to steadily grow PTC's market share in the premium segment.

Our flagship brand, John Player Gold Leaf continues to grow in-spite of adverse economic conditions, squeezing disposable incomes and successive price increases in the recent years. The brand was supported by equity building campaigns to ensure that it continues to deliver great value year on year for the consumers and the company. Riding on its inherent strength and supported by the right marketing interventions, the brand increased its volume base to close the year at 9.7% market share with sales for the year higher vs. last year by 2%.

CbPMO has proved to be an unprecedented success in the domestic tobacco industry. Crossing the 1bn per month sales mark within 9 months of its launch, the brand became the fastest growing brand in the market. Capturing a further 9.9 % of the market CbPMO's market share for the year was 14.4% in 2011. The brand grew sales by an astounding 211.9% during the year to firmly establish itself as one of the leading brands of the domestic tobacco market.

# Director's Review

Gold Flake (GF) backed by consistent distribution focus and brand building activities ended the year with a strong market share of 20.3%. The GF pack change has been well executed in the market and the brand is looking good to give us steady volume base by cashing onto the improved pack appeal cues in the low medium segment.

## Contribution to the National Exchequer

Despite an extraordinarily challenging macroeconomic environment and constrained profitability, our contribution to the Government continued to grow. We contributed over Rs. 45 bn to the Government in respect of Excise, Sales Tax, Income Tax and custom duties which is 12.8% higher vs. SPLY. Tobacco industry is a large contributor to Government Revenue which has shown healthy growth in the past. This however is under threat as Excise driven price increases accelerated consumers' down trading to the ultra low priced brands of the tax evaded sector.

## Cost of Sales

Our input costs were higher on account of inflation, rupee devaluation and higher sales volumes. Energy costs were high as more expensive alternative sources of energy had to be used in the wake of acute electricity shortages. Due to the prevailing volatile security situation in the country, we also had to incur high security expenses to ensure safety of our people and our assets. We managed to mitigate these cost escalations through strict cost controls and by promoting a culture of spend efficacy throughout our operations but increase in the cost base was unavoidable due to the overriding factors stated above.

## Appropriation of Profits

The profit for the year, along with distributable profit at year end, has been appropriated as follows:

**(Rs in million)**

| | 2011 | 2010 |
|---|---|---|
| Operating Profit | 661 | 1,531 |
| Profit After Tax | 364 | 925 |
| Accumulated Profit brought forward | 1,047 | 1,705 |
| Actuarial (Losses) / Gains taken to Equity (net of tax) | (95) | (50) |
| Profit available for appropriation | 1,316 | 2,580 |
| Appropriations: | | |
| Final dividend 2010 @ 21 % (2009:47.5%) | 537 | 1,214 |
| 1st interim dividend 2010 @ 12.5% | - | 319 |
| Unappropriated Profit carried forward | 779 | 1,047 |

## Operating and Other Costs

While we strengthened our brand portfolio and extended our market reach, our marketing spend was 5% lower than SPLY which is on account of spend efficacy and strict cost control.

We realize that our people are one of the key fundamental strengths of our business. In pursuance of our efforts to attract and retain top quality talent, the company continued to make meaningful investments for further strengthening of this aspect of the business. In order to maintain an attractive Employee Value Proposition, we incurred higher expenses to offer market driven remuneration packages, fast paced growth and world class training and development opportunities.

Government's decision to ban below 20s packaging of cigarettes has major implications for our machinery footprint and the workforce. This means realignment of our manufacturing facilities and processes with significant cost implications for 2011 as well as 2012.

## Cash Flows

Our gross turnover has increased during the year driven by higher sales volume. Machinery modernization and re-configuration post imposition of ban on below 20s cigarette packaging resulted in higher capital expense vs. last year. However, the company did not declare any interim dividends for year 2011. No interim dividend and low corporate tax due to low profits resulted in an increase in our cash & cash equivalents which were higher vs. SPLY by Rs 526 Mn.


## Plant Modernization

PTC Supply Chain modernized its capability to support market share growth and fully comply with emerging regulatory landscape while achieving global quality and productivity benchmarks.

The company invested Rs. 1,167 Mn in property, plant and equipment during 2011. Major part of these expenses were on machinery up gradation and modernization as well as reconfiguration of our production facilities post imposition of ban on below 20's cigarette packs. We also inducted a new plant to reduce product waste, a new tobacco curing facility to ensure superior quality and sustainability of leaf supply and modern cigarette packing machines for improved product quality and process productivity.

## Dividend

In light of the company financials and ground realities we have decided to declare a dividend of Rs. 1 for the year ended December 31, 2011 (2010: Rs. 3.35 per share).

This shall be subject to the approval of shareholders in their meeting scheduled for April 24, 2012.

## Good Corporate Governance

The Directors confirm compliance with the Corporate and Financial Reporting Framework of the SECP's Code of Corporate Governance for the following:

**a)** The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

**b)** Proper books of accounts of the Company have been maintained.

**c)** Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

**d)** International Accounting Standards, as applicable in Pakistan, have been followed in preparation of all financial statements.

**e)** The system of internal control, which is sound in design has been effectively implemented and is being continuously reviewed.

**f)** There are no doubts about the Company's ability to continue as a going concern.

**g)** There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

**h)** All major Government levies in the normal course of business, payable as at December 31, 2011 have been cleared subsequent to the year-end.

**i)** Key operating and financial data for last six years in summarized form is annexed.

**j)** Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2010 are as follows:

| | **(Rs. in million)** |
|---|---|
| Staff Pension Funds | 2400 |
| Employees' Gratuity Fund | 684 |
| Management Provident Fund | 500 |
| Pakistan Tobacco Company Limited Provident Fund | 599 |
| Staff Defined Contribution Pension Fund | 13 |

# Director's Review

## Board of Directors Meetings

During the year 2011, five meetings of the Board of Directors were held on 21st January, 16th March, 21st April, 15th August, and 20th October. Attendances are detailed below:

| | Name of Director | No. of meetings attended |
|---|---|---|
| 1. | Mr. Mueen Afzal<br>*Chairman and Non-Executive Director* | 05 |
| 2. | Mr. Nicholas Stewart Hales<br>*Managing Director & Chief Executive* | 05 |
| 3. | Mr. Mobasher Raza<br>*Deputy Managing Director and Finance Director* | 05 |
| 4. | Mustanser Muhammad Ali Khan<br>*Supply Chain Director* | 01 |
| 5. | Mr. Feroze Ahmed<br>*Strategy & Planning Director* | 04 |
| 6. | Mr. Tajamal Shah<br>*Legal Director* | 05 |
| 7. | Lt. Gen. (Retd.) Ali Kuli Khan Khattak<br>*(Non-Executive Director)* | 05 |
| 8. | Mr. Abid Niaz Hasan<br>*(Non-Executive Director)* | 04 |
| 9. | Syed Asif Shah<br>*(Non-Executive Director)* | 05 |

## The Board

The Board comprises 4 non-executive directors and 5 executive directors. The positions of Chairman and CEO are kept separate in line with good governance practices.

## Changes in the Board

The Directors wish to report the following changes in the Board of Directors:

Ahmed Zeb resigned from the Board of the Company effective 23rd April 2011. The casual vacancy created by his resignation was filled in by Mustanser Muhammad Ali Khan effective 23rd April, 2011.

## Board Committees

The Board has a number of committees, which assist the Board in the performance of its functions. A list of committees is annexed.

## Audit Committee

The Audit Committee is a committee of the Board of Directors that assists the Board in the manner provided in the Code of Corporate Governance issued by the SECP and forming part of the Listing Regulations of the Stock Exchanges in Pakistan. The audit committee of Pakistan Tobacco Company comprises of the following four Non-Executive Directors:

Mr. Abid Niaz Hasan (Chairman)
Lt. Gen. (Retd.) Ali Kuli Khan Khattak
Mr. Syed Asif Shah
Mr. Mueen Afzal

The Managing Director and the Finance Director attend meetings of the Committee on standing invitation. The Head of Internal Audit is the secretary of the Committee and reports directly to the Chairman of the Audit Committee.

The Committee held four meetings during the year in which the External Auditors were present to assist the committee on matters relating to financial accounts and reporting.

The quarterly, half-yearly and annual accounts of the Company along with any public announcements relating to them were reviewed and recommended by the Committee before the Board's approval. Such reviews extend to major areas of judgment reflected in the accounts, significant adjustments resulting from the audit of accounts, the going concern assumption, and changes in accounting policies and practices, compliance with applicable accounting standards, compliance with listing regulations and other statutory and regulatory requirements.

The Audit Committee functions within the scope of the Terms of Reference approved by the Board which determine the roles and responsibilities of the Committee and reflect the requirements of the Code of Corporate Governance. The role and responsibilities of the Audit Committee include determining appropriate measures to safeguard the Company's assets, reviewing quarterly, half-yearly and annual financial statements of the Company and preliminary announcements of results before approval by the Board and publication, reviewing the Company's statement on internal control systems prior to their approval by the Board, reviewing the external auditors letter to the management and its response thereto, ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective, considering major findings of internal audit and management's responses thereto, monitoring compliance with the best practices of corporate governance and instituting special projects and investigations on any matter deemed appropriate by the Committee or desired by the Board. The Audit Committee assists the Board of Directors in monitoring the framework of managing business risks and internal controls. The Committee seeks assurance on the measures taken by the management in identification, evaluation and mitigation of relevant business risks. It also monitors the performance of the Internal Audit Department which adopts a risk based approach for planning and conducting business process audits consistently with the Company's established work practices. The scope and extent of internal audit, including the annual Internal Audit Plan, are reviewed and approved by the Committee which also regularly monitors the progress. While the External Auditors independently determine their plan of audit, the Committee is informed of their progress and especially in regard to issues stated in their letters to management and responses received. Without interfering with the independence of the External and Internal Auditors, the Committee encourages coordination between them in the discharge of their respective functions. The Committee recommends to the Board the appointment of the External Auditors and their engagement terms based on the Committee's review of their performance and value provided to the Company.

## Auditors

Statutory Audit for the Company for the financial year ended December 31, 2011 has been concluded and the Auditors have issued their Audit Reports on the Company financial statements, consolidated financial statements and the "Statement of Compliance with the Code of Corporate Governance".

The Auditors Messrs A. F. Ferguson & Co. shall retire at the conclusion of annual general meeting, and they have indicated their willingness to continue as Auditors. They have confirmed achieving satisfactory rating by the Institute of Chartered Accountants of Pakistan (ICAP) and compliance with the Guidelines on the Code of Ethics of the International Federation of Accountants (IFAC) as adopted by ICAP. The Board proposes their reappointment as Auditors for the financial year ending December 31, 2012 on the recommendation of the Audit Committee.

## Shareholding

The pattern of shareholding as at December 31, 2011 alongside the disclosure as required under

# Director's Review

Code of Corporate Governance is annexed within this report. The Directors, CEO, Chief Financial Officer, Company Secretary and their spouses and minors have reportedly not performed any trading in the shares of the Company.

## Holding Company

British American Tobacco (Investments) Limited incorporated in the United Kingdom holds 94.34% of the shares of the Company.

## Consolidated Financial Statements

Consolidated Financial Statements of the Company and its wholly owned subsidiary, Phoenix (Pvt.) Ltd., are submitted herewith.

## Environment, Health and Safety

Pakistan Tobacco Company has always tried to excel in its efforts to comply with world class Environment, Health and Safety standards and to conduct its business with responsibility. PTC is widely regarded in Pakistan as a benchmark for EH&S initiatives, standards and best practices. Our efforts in the field of EH&S have also been well recognized by our parent company, British American Tobacco (BAT). Our Leaf Area and the two manufacturing facilities are among the highest rated units in terms of EH&S in the BAT World which was acknowledged in the recent International Review organized by the Group. In 2011, as part of the BAT EH&S Excellence Award, the Akora Khattak Factory received a letter of commendation for efficient use of natural resources. In addition, PTC has embarked upon various initiatives in the fields of renewable energy and energy conservation. The latest being to preserve the storm water using it to replenish the natural water table. This unique initiative has been highly applauded by the news media and has received all round appreciation at various EHS forums.

## Corporate Social Responsibility

Living up to the expectation of its stakeholders PTC, in spite of difficult circumstances, remained active on the CSR front in 2011 as well. The focus of our CSR drive is sustainable development and healthcare provision to the deprived in the rural areas. PTC has an on-going extensive Afforestation drive, while we run Mobile Doctor Units (MDUs) in many underprivileged areas of the country.

As part of the ongoing afforestation program, we distributed 3 million saplings for plantation across the country during 2011. This takes the total number of plants distributed since the inception of this program to 57 million which indeed is a


great service to the society and a big step for environmental conservation.

Our Mobile Doctor Units operate in many impoverished areas of Punjab and KPK providing free medical facilities to many deserving patients. We extended medical facilities to over 70,000 patients during the year through the MDU program.

We are very proud of our CSR team which has braved a precarious security situation to extend our company's vision and commitment to favorably impact the communities it operates in.


## Business Challenges and Future Outlook

The business faces immense challenges including cost pressures, rising taxes, increasing regulations, stiff competition and the illicit trade which continues to grow in the wake of weak enforcement. The Government needs to take urgent steps to rectify the situation and curb this menace which causes an annual loss of over Rs. 10 bn to the exchequer while denying the legitimate players their due right to a level playing field. We remain fully committed to Government's efforts in this regard and will continue to support it in all possible ways to reign in the activities of illicit trade.

The Directors are pleased to note that the company's business is based on sound fundamentals. Emerging from a difficult competitive environment, the company has taken some bold decisions and made the right strategic choices to put itself back on track for long term growth.

We are greatly appreciative of the innovative spirit, hard work and dedication of our people including PTC's employees, its valued business partners and loyal consumers. We derive immense strength from their resilience and commitment and will continue to build upon it in our endeavor to take this business on to the path of sustained growth and progress.

We believe that our strategy is correct and we have the right ingredients to achieve our vision of long term and sustainable value for the shareholders.

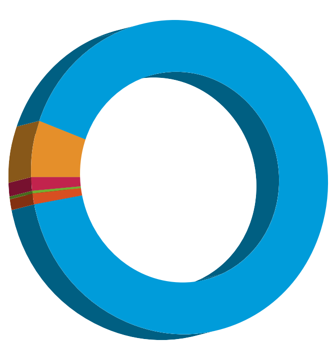
**Mueen Afzal**
Chairman

**Graeme Amey**
Managing Director & CEO

# Statement of Value Generated and Distributed

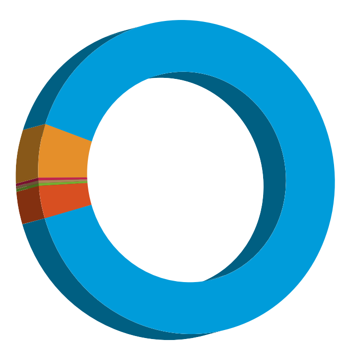
| | (Rs in million) 2011 | % | (Rs in million) 2010 | % |
|---|---|---|---|---|
| **Value Generation** | | | | |
| Gross Revenues | 67,585 | | 60,279 | |
| Material, Services and Other Costs | 17,894 | | 15,610 | |
| Value Added | 49,691 | | 44,669 | |
| **Value Distribution** | | | | |
| Employee Renumeration | 3,022 | 6.08 | 2,606 | 5.83 |
| Government Levies | 45,372 | 91.31 | 40,205 | 90.01 |
| Dividends | 537 | 1.08 | 1,533 | 3.43 |
| Finance Cost | 141 | 0.28 | 150 | 0.34 |
| Corporate Social Responsibility | 22 | 0.04 | 88 | 0.20 |
| Retained within Business | 597 | 1.20 | 87 | 0.19 |
| | 49,691 | 100.00 | 44,669 | 100.00 |

## Value Distribution
2011



| | |
|---|---|
| Employee Renumeration | 6.08% |
| Government Levies | 91.31% |
| Dividends | 1.08% |
| Finance Cost | 0.28% |
| Corporate Social Responsibility | 0.04% |
| Retained within Business | 1.20% |

## Value Distribution
2010



| | |
|---|---|
| Employee Renumeration | 5.83% |
| Government Levies | 90.01% |
| Dividends | 3.43% |
| Finance Cost | 0.34% |
| Corporate Social Responsibility | 0.20% |
| Retained within Business | 0.19% |

# Board Committees

The Board has a number of committees, which assist the Board in the performance of its functions. A list of committees is annexed.

## Executive Committee of the Board (ExCo):

1. Mr. Nicholas Stewart Hales (Member & Chairman)
2. Mr. Mobasher Raza
3. Mr. Mustanser Ali Khan
4. Mr. Asim Imdad
5. Mr. Tajamal Shah
6. Mr. Feroze Ahmed
7. Mr. Murali Thanabalan
8. Mr. Shehzad Munim
9. Ms. Ayesha Rafique (Secretary)

The Executive Committee of the Board (ExCo) is the central working nucleus of the organization. Comprising of Executive Directors and Head of the Departments of the Company, the ExCo drives to achieve the strategic targets set by the Board of Directors.

## Board Compensation Committee:

1. Mr. Mueen Afzal (Member & Chairman)
2. Mr. Nicholas Stewart Hales (Member)
3. Lt. Gen. (Retd.) Ali Kuli Khan Khattak (Member)
4. Mr. Murali Thanabalan (Secretary)

The Committee is responsible to  recommend to the Board the remuneration and benefits of Managing Director, Executives & Non Executive Directors, Head of all Functions, Chief Financial Officer, Company Secretary and Head of Internal Audit.

## Audit Committee:

1. Mr. Abid Niaz Hasan (Member & Chairman)
2. Mr. Mueen Afzal (Member)
3. Lt. Gen. (Retd.) Ali Kuli Khan Khattak (Member)
4. Syed Asif Shah (Member)
5. Mr. Imad Rahman (Secretary)

The Audit Committee assists the Board of Directors in management of business risks, internal controls and the conduct of the business in economically sound and ethical manner in line with the code of Corporate Governance principles.

## Shares Transfer Committee:

1. Mr. Nicholas Stewart Hales (Member & Chairman)
2. Mr. Mobasher Raza (Member)
3. Mr. Tajamal Shah (Member)
4. Ms. Ayesha Rafique (Secretary)

The Committee is Responsible for dealing with the day to day matters relating to the shares of the Company.

# Pattern of Shareholding
## As at December 31, 2011

| No. of Shareholders | Categories | | | | Total Shares |
|---|---|---|---|---|---|
| 1,462 | From | 1 | To | 100 | 49,746 |
| 1,285 | From | 101 | To | 500 | 377,006 |
| 453 | From | 501 | To | 1,000 | 327,758 |
| 392 | From | 1,001 | To | 5,000 | 864,442 |
| 45 | From | 5,001 | To | 10,000 | 315,208 |
| 9 | From | 10,001 | To | 15,000 | 109,745 |
| 11 | From | 15,001 | To | 20,000 | 191,538 |
| 12 | From | 20,001 | To | 25,000 | 283,156 |
| 1 | From | 25,001 | To | 30,000 | 29,600 |
| 2 | From | 35,001 | To | 40,000 | 73,081 |
| 1 | From | 40,001 | To | 45,000 | 42,500 |
| 4 | From | 45,001 | To | 50,000 | 196,345 |
| 2 | From | 55,001 | To | 60,000 | 113,900 |
| 2 | From | 60,001 | To | 65,000 | 124,918 |
| 2 | From | 70,001 | To | 75,000 | 142,091 |
| 1 | From | 75,001 | To | 80,000 | 75,870 |
| 1 | From | 95,001 | To | 100,000 | 98,316 |
| 2 | From | 140,001 | To | 145,000 | 286,531 |
| 1 | From | 155,001 | To | 160,000 | 156,700 |
| 1 | From | 165,001 | To | 170,000 | 167,633 |
| 1 | From | 175,001 | To | 180,000 | 175,184 |
| 1 | From | 230,001 | To | 235,000 | 234,909 |
| 1 | From | 290,001 | To | 295,000 | 291,000 |
| 1 | From | 295,001 | To | 300,000 | 296,900 |
| 1 | From | 360,001 | To | 365,000 | 364,600 |
| 1 | From | 400,001 | To | 405,000 | 401,800 |
| 1 | From | 505,001 | To | 510,000 | 507,000 |
| 1 | From | 700,001 | To | 705,000 | 700,911 |
| 1 | From | 795,001 | To | 800,000 | 798,282 |
| 1 | From | 1,835,001 | To | 1,840,000 | 1,835,243 |
| 1 | From | 1,965,001 | To | 1,970,000 | 1,967,935 |
| 1 | From | 2,845,001 | To | 2,850,000 | 2,848,803 |
| 1 | From | 241,045,001 | To | 241,050,000 | 241,045,141 |
| 3,702 | | | | | 255,493,792 |

| | No. of Shares |
|---|---|
| Associated Companies, Undertakings and Related Parties | 241,843,423 |
| NIT and ICP | 1,835,758 |
| Directors, CEO and their spouse and minor children | 12,274 |
| Executives | 34 |
| Public Sector Companies and Corporations | 700,911 |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modaraba and Mutual Funds | 1,520,168 |
| Others | 5,764,851 |
| Individuals | 3,816,373 |
| | 255,493,792 |

| Categories of Shareholders | Number | Shares Held | % |
|---|---|---|---|
| Directors, CEO and their spouse and minor children | 8 | 12,274 | 0.0 |
| Executives | 3 | 34 | 0.0 |
| Associated Companies, Undertakings and Related Parties | 2 | 241,843,423 | 94.7 |
| Investment Companies | 2 | 1,835,758 | 0.7 |
| Modarabas & Mutual Funds | 3 | 33,464 | 0.0 |
| Insurance Companies | 9 | 1,065,596 | 0.4 |
| Public Sector Companies and Corporations | 1 | 700,911 | 0.3 |
| Financial Institutions | 13 | 421,108 | 0.2 |
| Individuals | 3,598 | 3,816,373 | 1.5 |
| Others | 63 | 5,764,851 | 2.3 |
| Total | 3,702 | 255,493,792 | 100.0 |

| | No. of Shares |
|---|---|
| **Associated Companies, Undertakings and Related Parties** | |
| British American Tobacco (Investments) Limited | 241,045,141 |
| Rothmans International | 798,282 |
| **NIT and ICP (name wise details)** | |
| National Bank of Pakistan, Trustee Deptt. | 1,835,243 |
| National Bank of Pakistan | 515 |
| **Directors, CEO and their spouse and minor children (name wise details)** | |
| Mueen Afzal | 2,124 |
| Nicholas Stewart Hales | 2,500 |
| Mobasher Raza | 2,500 |
| Feroze Ahmed | 2,000 |
| Tajamal Shah | 2,500 |
| Syed Asif Shah | 500 |
| Ali Kuli Khan Khattak | 100 |
| Abid Niaz Hasan | 50 |
| **Executives** | |
| Awais Hussain Kazi | 15 |
| Mirza Zubair Ahmed | 10 |
| Shahid Yamin | 9 |
| **Shareholders holding 10% or more voting interest** | |
| British American Tobacco (Investments) Limited | 241,045,141 |

# Statement of Compliance
## with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (Code) as per the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four independent Non-Executive Directors to protect the interests of the minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Company has prepared a 'Standards of Business Conduct', which has been signed by all the directors, management and Business Support Officers of the Company.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
7. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
8. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
9. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
10. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
11. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
12. The Company has complied with all the corporate and financial reporting requirements of the Code.
13. The Board has formed an audit committee. It comprises of four members, of whom all are non-executive directors including the chairman of the committee.
14. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
15. The Board has set-up an effective internal audit function manned by suitable qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full time basis.
16. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. The related party transactions have been placed before the audit committee and approved by the Board of Directors to comply with the requirements of listing regulations of the Karachi Stock Exchange (Guarantee) Limited.
19. We confirm that all other material principles contained in the Code have been complied with.

**Graeme Amey**
Managing Director and CEO

# Review Report to the Members
## on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pakistan Tobacco Company Limited to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub - Regulation (xiii a) of Listing Regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2011.

**Chartered Accountants**
Islamabad
Date: March 19, 2012

Engagement partner: Sohail M Khan

# Statement of Compliance
## with the Best Practices on Transfer Pricing for the year ended December 31, 2011

The Company has fully complied with the Best Practices on Transfer Pricing as contained in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges.

**Graeme Amey**
Managing Director and CEO

# DISCOVERING SUCCESS

For DUNHILL, 2011 was a year of expansion. With a clear focus on reaching out to more consumers, distribution width was almost doubled from 4.4% in 2010 to 7.1% in 2011. A strategic price communication campaign was used to create recall amongst premium smokers. Research studies were also carried out, which provided deep insight into the evolving mind set of consumers. Apart from this, key metro retail outlets were converted into flagship outlets. These efforts helped create greater visibility and consumer awareness for the brand.

The good response from these activities and encouraging results from research have provided the groundwork for 2012. By translating our learnings from the activities carried out in the last year, 2012 will undoubtedly be a big year for DUNHILL.


خبردار: تمباکو نوشی کینسر اور دل کی
بیماریوں کا باعث ہے - وزارتِ صحت

# The Innovation Trailblazer

John Player Gold Leaf (JPGL) has dominated the Premium price segment since its introduction into the market, the sheer segment dominance bears witness to JPGL being a quality product that has been able to satisfy its consumers. One of the main reasons for this has always been JPGL's strong taste credentials and its unparalleled expertise in bringing fresh and innovative offers to the Pakistani market.

In 2011 this expertise was evident with the launch of the limited edition Side Opening pack, which helped drive regular purchase.

JPGL also introduced two exciting menthol flavours through the Taste campaign. This campaign gave smokers the chance to experience Flavoured filter threads – a first in Pakistan. Apart from this JPGL reignited its Special variant and was able to fight off increased competition.

With 7.1bn sticks, JPGL is the 3rd biggest brand in Pakistan Tobacco Company's portfolio. For the future JPGL is looking to strengthen itself further and continue on its path of innovation.


KNOW WHAT MATTERS | A TASTE APART

خبردار: تمباکونوشی کینسر اور دل کی
بیماریوں کا باعث ہے۔ وزارتِ صحت

# CAPSTAN *by* PALL MALL ORIGINAL

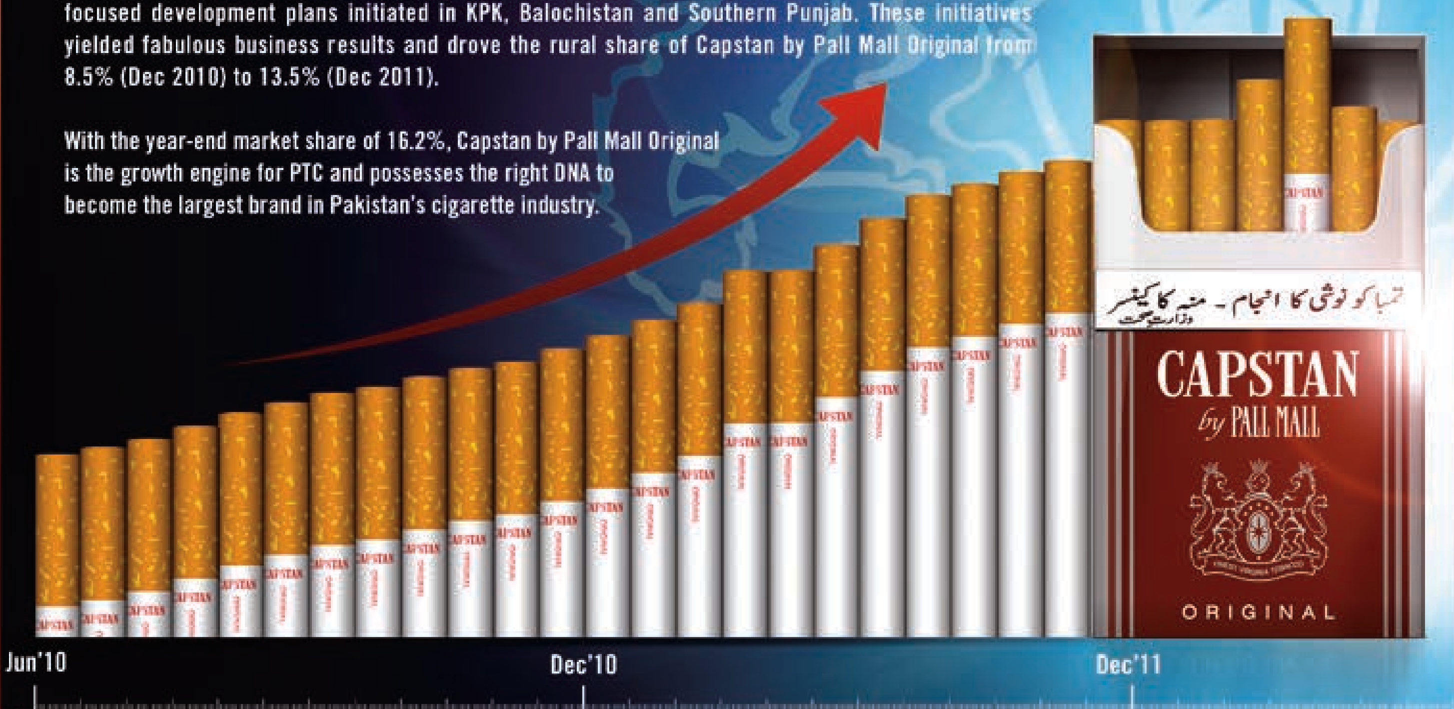
In the Pakistani tobacco world, only one brand can claim to have stolen the limelight and reserve the top honours for itself in 2011, that brand is Capstan by Pall Mall Original. The brand grew in volume by a whopping 212%, adding 9.4 billion sticks to the brand volume over 2010. This translated into an exemplary 4.4% points growth in volume share (Dec'11 vs. Dec'10).

While spring was getting into its full bloom in March 2011, Capstan by Pall Mall Original was rising to the occasion, communicating consumer relevant cues of "Superior Quality" and "Amazing Value", thereby gaining the smokers' "Trust". The use of innovative touch points in the campaign struck a chord with the consumers and augmented brand growth.

## PHENOMENAL GROWTH EXTRAORDINARY POTENTIAL

Capstan by Pall Mall Original played a key role in cementing market leadership for PTC, through focused development plans initiated in KPK, Balochistan and Southern Punjab. These initiatives yielded fabulous business results and drove the rural share of Capstan by Pall Mall Original from 8.5% (Dec 2010) to 13.5% (Dec 2011).

With the year-end market share of 16.2%, Capstan by Pall Mall Original is the growth engine for PTC and possesses the right DNA to become the largest brand in Pakistan's cigarette industry.

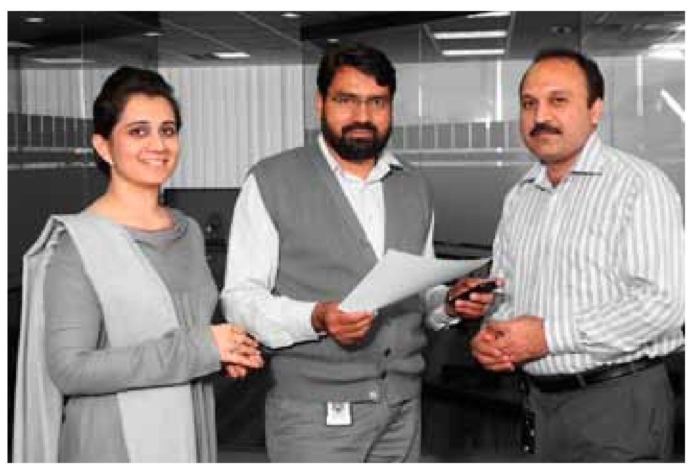



TRUSTED QUALITY ALWAYS

خبردار: تمباکونوشی کینسر اور دل کی
بیماریوں کا باعث ہے۔ وزارتِ صحت


خبردار: تمباکو نوشی کینسر اور دل کی
بیماریوں کا باعث ہے۔ وزارتِ صحت

# Our People, Our Future

Pakistan Tobacco Company Limited

# Financial Statements

for the year ended December 31, 2011

# Auditor's Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that 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.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2011 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**Chartered Accountants**
Islamabad
Date: March 19, 2012

Engagement partner: Sohail M Khan

# Profit & Loss Account

**for the year ended December 31, 2011**

| | Note | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| Gross turnover | | 67,491,816 | 60,195,535 |
| Excise duties | | (34,719,661) | (30,476,421) |
| Sales tax | | (9,822,181) | (8,766,485) |
| **Net turnover** | | 22,949,974 | 20,952,629 |
| Cost of sales | 7 | (16,709,273) | (14,747,717) |
| **Gross profit** | | 6,240,701 | 6,204,912 |
| Selling and distribution expenses | 8 | (3,129,938) | (3,279,390) |
| Administrative expenses | 9 | (1,321,713) | (1,233,165) |
| Other operating expenses | 10 | (1,182,363) | (208,211) |
| Other operating income | 11 | 53,967 | 46,610 |
| | | (5,580,047) | (4,674,156) |
| **Operating profit** | | 660,654 | 1,530,756 |
| Finance income | | 39,160 | 36,933 |
| Finance cost | | (140,539) | (149,680) |
| Net finance cost | | (101,379) | (112,747) |
| **Profit before income tax** | | 559,275 | 1,418,009 |
| Income tax expense | 12 | (195,490) | (492,909) |
| **Profit for the year** | | 363,785 | 925,100 |
| **Earnings per share - (Rupees)** | 13 | 1.42 | 3.62 |

The annexed notes 1 to 34 form an integral part of these financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Statement of Comprehensive Income

**for the year ended December 31, 2011**

| | Note | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|---|
| **Profit for the year** | | 363,785 | 925,100 |
| **Other comprehensive loss for the year:** | | | |
| Actuarial losses on defined benefit pension and gratuity plans | 27 | (146,770) | (77,360) |
| Tax credit related to actuarial losses on defined benefit pension and gratuity plans | 12 | 51,370 | 27,076 |
| Other comprehensive loss for the year - net of tax | | (95,400) | (50,284) |
| **Total comprehensive income for the year** | | 268,385 | 874,816 |

The annexed notes 1 to 34 form an integral part of these financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Balance Sheet

**as at December 31, 2011**

| | Note | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| **Non current assets** | | | |
| Property, plant and equipment | 15 | 6,092,284 | 5,823,688 |
| Long term investment in subsidiary company | 16 | 5,000 | 5,000 |
| Long term loans | 17 | 1,260 | 3,417 |
| Long term deposits and prepayments | 18 | 22,640 | 15,375 |
| **Current assets** | | | |
| Stock-in-trade | 19 | 6,462,330 | 6,002,823 |
| Stores and spares | 20 | 190,110 | 199,207 |
| Trade debts | 21 | 1,202 | 1,597 |
| Loans and advances | 22 | 64,310 | 48,267 |
| Short term prepayments | | 94,052 | 118,329 |
| Other receivables | 23 | 196,249 | 93,546 |
| Income tax paid in advance | | 79,419 | 15,206 |
| Cash and bank balances | 24 | 109,631 | 51,945 |
| | | 7,197,303 | 6,530,920 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | 7,067,704 | 5,339,725 |
| Accrued interest / mark-up | | 51,187 | 46,789 |
| Short term running finance | 26 | 1,783,623 | 2,252,218 |
| | | 8,902,514 | 7,638,732 |
| **Net current liabilities** | | (1,705,211) | (1,107,812) |
| **Non current liabilities** | | | |
| Deferred income tax liability | 28 | (1,082,038) | (1,137,581) |
| **Net assets** | | 3,333,935 | 3,602,087 |
| **Share capital and reserves** | | | |
| Share capital | 29 | 2,554,938 | 2,554,938 |
| Revenue reserves | | 778,997 | 1,047,149 |
| | | 3,333,935 | 3,602,087 |
| **Contingencies and commitments** | 30 | | |

The annexed notes 1 to 34 form an integral part of these financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Cash Flow Statement

**for the year ended December 31, 2011**

| | Note | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 67,422,034 | 60,262,561 |
| Cash paid to Government for Federal excise duty, Sales tax and other levies | | (45,211,155) | (39,535,501) |
| Cash paid to suppliers | | (16,525,288) | (15,256,590) |
| Finance cost paid | | (136,141) | (130,550) |
| Cash paid as royalty | | (352,169) | (342,276) |
| Cash paid to employees and retirement funds | | (2,711,246) | (2,743,686) |
| Income tax paid | | (263,876) | (944,120) |
| Other cash payments | | (64,245) | (160,938) |
| | | 2,157,914 | 1,148,900 |
| **Cash flows from investing activities** | | | |
| Additions in property, plant and equipment | | (1,167,254) | (645,833) |
| Proceeds from disposal of property, plant and equipment | | 32,073 | 43,952 |
| Finance income received | | 39,160 | 36,933 |
| | | (1,096,021) | (564,948) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (535,612) | (1,531,262) |
| **Increase / (Decrease) in cash and cash equivalents** | | 526,281 | (947,310) |
| Cash and cash equivalents at beginning of year | | (2,200,273) | (1,252,963) |
| **Cash and cash equivalents at end of year** | | (1,673,992) | (2,200,273) |
| **Cash and cash equivalents comprise:** | | | |
| Cash and bank balances | | 109,631 | 51,945 |
| Short term running finance | | (1,783,623) | (2,252,218) |
| | | (1,673,992) | (2,200,273) |

The annexed notes 1 to 34 form an integral part of these financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Statement of Changes in Equity

**for the year ended December 31, 2011**

| | Share capital Rs '000 | Revenue reserves Rs '000 | Total Rs '000 |
|---|---|---|---|
| **Balance at January 1, 2010** | 2,554,938 | 1,705,296 | 4,260,234 |
| **Comprehensive income:** | | | |
| Profit for the year | - | 925,100 | 925,100 |
| Other comprehensive loss for the year | - | (50,284) | (50,284) |
| **Total Comprehensive income for the year** | - | 874,816 | 874,816 |
| **Transactions with owners:** | | | |
| Final dividend of Rs 4.75 per share relating to the year ended December 31, 2009 | - | (1,213,596) | (1,213,596) |
| 1st Interim dividend of Rs 1.25 per share relating to the year ended December 31, 2010 | - | (319,367) | (319,367) |
| **Total transactions with owners** | - | (1,532,963) | (1,532,963) |
| **Balance at December 31, 2010** | 2,554,938 | 1,047,149 | 3,602,087 |
| **Balance at January 1, 2011** | 2,554,938 | 1,047,149 | 3,602,087 |
| **Comprehensive income:** | | | |
| Profit for the year | - | 363,785 | 363,785 |
| Other comprehensive loss for the year | - | (95,400) | (95,400) |
| **Total Comprehensive income for the year** | - | 268,385 | 268,385 |
| **Transactions with owners:** | | | |
| Final dividend of Rs 2.10 per share relating to the year ended December 31, 2010 | - | (536,537) | (536,537) |
| **Total transactions with owners** | - | (536,537) | (536,537) |
| **Balance at December 31, 2011** | 2,554,938 | 778,997 | 3,333,935 |

The annexed notes 1 to 34 form an integral part of these financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Notes to the Financial Statements
**for the year ended December 31, 2011**

## 1. The Company and its operations

Pakistan Tobacco Company Limited (the Company) is a public listed company incorporated in Pakistan on November 18,1947 under the Companies Act, 1913 (now the Companies Ordinance, 1984) and its shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The Company is a subsidiary of British American Tobacco (Investments) Limited, United Kingdom, whereas its ultimate parent company is British American Tobacco p.l.c, United Kingdom. The registered office of the Company is situated at Silver Square, Plot No.15, F-11 Markaz, Islamabad. The Company is engaged in the manufacture and sale of cigarettes.

## 2. Statement of compliance

These are separate financial statements of the Company. These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984 (the Ordinance), and provisions of and directives issued under the Ordinance. In case requirements differ, the provisions or directives of the Ordinance shall prevail.

The preparation of financial statements in conformity with IFRS 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 in note 6.

## 3. New and amended standards and interpretations

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 10, Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 is effective for the accounting period beginning on or after January 1, 2012.

# Notes to the Financial Statements
**for the year ended December 31, 2011**

The Management anticipates that adoption of above standards, amendments and interpretations in future periods will have no material impact on the Company's financial statements.

## 4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 4.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except as otherwise stated in the respective accounting policies notes.

### 4.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of the board of directors that makes strategic decisions.

### 4.3 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is the Pakistan rupee (Rs).

### 4.4 Foreign currency transactions and translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognized in the profit and loss account.

### 4.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred or to be incurred, can be measured reliably and when specific criteria have been met for each of the Company's activities as described below.

### (a) Sale of goods

The Company manufactures and sells cigarettes to its appointed distributors. Sales of goods are recognized when the Company has delivered products to the distributor and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributor, and either the distributor has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. Where goods are sold together with a customer loyalty incentive, the arrangement is a multiple element arrangement and the consideration from the customer is allocated between the components of the arrangement and related revenue is deferred until such time as the award credits are redeemed.

# Notes to the Financial Statements
**for the year ended December 31, 2011**

**(b) Income on bank deposits**

Income on bank deposits is accounted for on the time proportion basis using the applicable rate of return.

**(c) Others**

Scrap sales and miscellaneous receipts are recognized on realized amounts. All other income is recognized on accrual basis.

**4.6 Current and deferred income tax**

The tax expense for the year comprises current and deferred income tax, and is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in the equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

**(a) Current**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(b) Deferred**

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

**4.7 Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount could be reliably estimated. Provisions are not recognized for future operating losses.

All provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

**4.8 Contingent assets**

Contingent assets are disclosed when the Company has a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are not recognized until their realization becomes virtually certain.

**4.9 Contingent liabilities**

Contingent liability is disclosed when the Company has a possible obligation as a result of past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

# Notes to the Financial Statements

**for the year ended December 31, 2011**

**4.10 Employee benefits**

**(a) Retirement benefit plans**

The Company operates various retirement benefit schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations or upto the limit allowed in terms of the Income Tax Ordinance, 2001. The Company has both defined contribution and defined benefit plans.

A defined contribution plan is a plan under which the Company pays fixed contributions into a separate fund. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a plan that is not a defined contribution plan. Typically defined benefit plans define an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Company operates:

**(i)** Defined benefit, approved funded pension scheme for management and certain grades of business support officers and approved gratuity scheme for all employees. Employees also contribute to the approved pension scheme. The liability recognized in the balance sheet in respect of pension and gratuity plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in Pakistan rupee and have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

**(ii)** Approved contributory provident fund for all employees administered by trustees and approved contributory pension fund for the new joiners. The contributions of the Company are recognized as employee benefit expense when they are due. Prepaid contributions, if any, are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(b) Termination benefits**

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

**(c) Medical benefits**

The Company maintains a health insurance policy for its entitled employees and pensioners and their respective spouses. The Company contributes premium to the policy annually. Such premium is recognised as an expense in the profit and loss account.

# Notes to the Financial Statements
**for the year ended December 31, 2011**

**(d) Bonus plans**

**(i)** The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments and performance targets. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(ii)** The Company also operates a deferred bonus plan for certain eligible management staff members. These benefits are usually paid after 3 years from the date of grant of such an award unless otherwise authorized by the Compensation Committee of the Board of Directors. The obligation for these payments is recognised in the profit and loss account on a straight line basis to allocate the expected award amount over the term of the award.

**4.11 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit and loss account on a straight-line basis over the period of the lease.

**4.12 Property, plant and equipment**

These are stated at cost less accumulated depreciation and impairment, if any, except freehold land and capital work in progress which are stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit and loss account during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives at the following annual rates:

| | |
|---|---|
| Buildings on free-hold land, buildings on leasehold land and private railway sidings | 3% |
| Plant and machinery | 7% |
| Air conditioners included in plant and machinery | 25% |
| Office and household equipment | 20% to 25% |
| Furniture and fittings | 10% to 20% |
| Vehicles | 25% |

Depreciation on additions and deletions during the year is charged on a pro rata basis from the month when asset is put into use or up to the month when asset is disposed/written off.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of operating fixed assets are recognized in profit and loss account.

**4.13 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount for which asset's carrying

# Notes to the Financial Statements
**for the year ended December 31, 2011**

amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversal of the impairment loss is restricted to the original cost of the asset. An impairment loss or reversal of impairment loss is recognised in the profit and loss account.

**4.14 Long term investment in subsidiary company**

The investment in subsidiary company is carried at cost less impairment losses. The profit and loss of the subsidiary company is carried in the financial statements of the subsidiary company and is not dealt with for the purpose of the separate financial statements of the Company except to the extent of dividend declared (if any) by the subsidiary company.

**4.15 Stock-in-trade**

Stock-in-trade is stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less cost of completion and costs necessary to be incurred to make the sale.

**4.16 Stores and spares**

Stores and spares are stated at lower of cost and net realizable value. Cost is determined using weighted average method. Items in transit are valued at cost comprising invoice value and other related charges incurred upto the balance sheet date.

**4.17 Financial assets**

**4.17.1 Classification**

The Company classifies its financial assets in four categories: held to maturity, loans and receivables, at fair value through profit or loss and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**i) Held to maturity**

A financial asset is classified in this category if acquired by the Company with the intention and ability to hold them upto maturity

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Company's loans and receivables comprise trade debts, loans and advances, other receivables, security deposits and cash and bank balances.

**(iii) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

# Notes to the Financial Statements

**for the year ended December 31, 2011**

**(iv) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

**4.17.2 Recognition and measurement**

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the Company's right to receive payment is established.

**4.17.3 Impairment**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**4.18 Trade debts**

Trade debts are recognised initially at fair value and subsequently measured at cost less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the trade debts. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade debt is doubtful. The provision is recognised in the profit and loss account. When a trade debt is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account.

**4.19 Trade and other payables**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**4.20 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs)

# Notes to the Financial Statements
**for the year ended December 31, 2011**

and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs are charged to profit and loss account.

### 4.21 Dividend distribution

Final dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividend is approved by the Company's shareholders at the Annual General Meeting, while interim dividend distributions are recognised in the period in which the dividends are declared by the Board of Directors.

### 4.22 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### 4.23 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## 5. Financial risk management

### 5.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Treasury Sub Committee (the Committee) under policies approved by the board of directors (the Board). The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of these policies.

#### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Great Britain Pound Sterling (GBP) and the Euro. Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/payable from/to the foreign entities and outstanding letters of credit.

Financial assets include Rs 187,601 thousand (2010: 61,018 thousand) and financial liabilities include Rs 460,393 thousand (2010: 159,402 thousand) which were subject to foreign exchange risk.

# Notes to the Financial Statements
**for the year ended December 31, 2011**

At December 31 2011, if the functional currency had weakened/strengthened by 10% against foreign currencies, with all other variables held constant, the profit after taxation for the year would have been lower/higher by Rs 17.73 million (2010: Rs 6.41 million).

**(ii) Price risk**

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is not exposed to equity price risk since there are no investments in equity securities. The Company is also not exposed to commodity price risk.

**(iii) Cash flow and fair value interest rate risk**

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to fair value interest rate risk as it does not hold any fixed rate instruments.

The Company has no significant long-term interest-bearing assets or liabilities whose fair value or future cash flows will fluctuate because of changes in market interest rates.

Financial liabilities include balances of Rs 1,783,623 thousand (2010: Rs 2,252,218 thousand) which are subject to interest rate risk. Applicable interest rates for financial liabilities have been indicated in respective notes.

At balance sheet date, if interest rates had been 1% higher/lower, with all other variables held constant, profit after taxation for the year would have been Rs 11.59 million (2010: Rs 14.64 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

**(b) Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from trade debts, loans and advances, other receivables and deposits with banks. The table below shows bank balances held with counterparties at the balance sheet date.

| | Rating | | Rating | Rs (million) | |
|---|---|---|---|---|---|
| **Counterparty** | **Short term** | **Long term** | **Agency** | **2011** | **2010** |
| MCB Bank Limited | A1+ | AA+ | PACRA | 25.08 | 16.32 |
| Citibank N.A. | P-1 | A1 | Moody's | 35.94 | 20.02 |
| Deutsche Bank AG | P-1 | Aa3 | Moody's | 45.97 | 11.12 |
| Barclays Bank p.l.c | P-1 | Aa3 | Moody's | 0.48 | 1.10 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | - | 1.99 |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS | - | 0.63 |
| | | | | 107.47 | 51.18 |

Trade debts, loans and advances and other receivables amounting to Rs 280.02 million (2010: Rs 157.37 million) do not include any amounts which are past due or impaired.

# Notes to the Financial Statements
**for the year ended December 31, 2011**

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2011, the Company had Rs 3,566 million unutilised borrowing facilities from financial institutions and Rs 110 million cash and bank balances. Further, the Company also has strong financial support from its holding company. Based on the above, in spite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low.

### 5.2 Capital management

The Company's objectives when managing capital risks are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

### 5.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

## 6. Critical accounting estimates and judgements

**(a) Income taxes**

The Company recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (note 4.6) is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

**(b) Employee benefits**

Retirement benefit plans (note 4.10 a)
Employees' termination benefits (note 4.10b)
Bonus plans (note 4.10d)

**(c) Property, plant and equipment**

The Company reviews useful life and residual value of property, plant and equipment (note 4.12) on regular basis. Any change in estimates may affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge.

# Notes to the Financial Statements

**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **7. Cost of sales** | | |
| Raw material consumed | | |
| Opening stock of raw materials and work in process | 5,318,558 | 4,915,788 |
| Raw material purchases and expenses - note 7.1 | 13,121,930 | 11,436,719 |
| Closing stock of raw materials and work in process | (5,376,669) | (5,318,558) |
| | 13,063,819 | 11,033,949 |
| Government taxes and levies | | |
| Customs duty and surcharges | 458,482 | 374,090 |
| Provincial and municipal taxes and other duties | 137,349 | 115,502 |
| Excise duty on royalty | 35,842 | 34,534 |
| | 631,673 | 524,126 |
| | 13,695,492 | 11,558,075 |
| Royalty | 358,468 | 345,340 |
| Production overheads | | |
| Salaries, wages and benefits | 1,366,513 | 1,206,280 |
| Stores, spares and machine repairs | 443,334 | 351,581 |
| Fuel and power | 362,813 | 312,685 |
| Insurance | 32,498 | 25,445 |
| Repairs and maintenance | 127,490 | 120,481 |
| Postage, telephone and stationery | 10,753 | 12,152 |
| Information technology | 74,156 | 73,277 |
| Depreciation | 525,199 | 498,768 |
| Stock written off | 6,960 | 18,176 |
| Stores and spares written off | 24,953 | 9,578 |
| Sundries | 82,040 | 50,565 |
| | 3,056,709 | 2,678,988 |
| Cost of goods manufactured | 17,110,669 | 14,582,403 |
| Cost of finished goods | | |
| Opening stock | 684,265 | 849,579 |
| Closing stock | (1,085,661) | (684,265) |
| | (401,396) | 165,314 |
| Cost of sales | 16,709,273 | 14,747,717 |

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **7.1 Raw material purchases and expenses** | | |
| Materials | 12,059,600 | 10,525,185 |
| Salaries, wages and benefits | 490,922 | 421,119 |
| Stores, spares and machine repairs | 206,531 | 175,538 |
| Fuel and power | 136,222 | 100,181 |
| Property rentals | 44,607 | 39,827 |
| Insurance | 5,714 | 2,231 |
| Repairs and maintenance | 17,898 | 9,675 |
| Postage, telephone and stationery | 6,328 | 4,791 |
| Depreciation | 100,627 | 103,297 |
| Sundries | 53,481 | 54,875 |
| | 13,121,930 | 11,436,719 |

# Notes to the Financial Statements
**for the year ended December 31, 2011**

| | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| **8.** | **Selling and distribution expenses** | | |
| | Salaries, wages and benefits | 460,357 | 363,931 |
| | Selling expenses | 2,151,830 | 2,473,812 |
| | Freight | 282,209 | 235,187 |
| | Repairs and maintenance | 103,323 | 88,974 |
| | Postage, telephone and stationery | 7,044 | 7,937 |
| | Travelling | 46,770 | 46,520 |
| | Property rentals | 8,445 | 7,180 |
| | Insurance | 7,549 | 7,960 |
| | Stock written off | 4,413 | 2,318 |
| | Depreciation | 57,998 | 45,571 |
| | | 3,129,938 | 3,279,390 |
| **9.** | **Administrative expenses** | | |
| | Salaries, wages and benefits | 703,725 | 614,252 |
| | Fuel and power | 30,722 | 20,651 |
| | Property rentals | 84,409 | 79,334 |
| | Insurance | 4,514 | 5,261 |
| | Repairs and maintenance | 44,075 | 51,916 |
| | Postage, telephone and stationery | 15,359 | 17,340 |
| | Legal and professional charges | 26,776 | 19,179 |
| | Donations - note 9.1 | 1,770 | 42,614 |
| | Information technology | 220,200 | 152,210 |
| | Travelling | 63,313 | 83,131 |
| | Depreciation | 90,319 | 97,208 |
| | Auditor's remuneration and expenses - note 9.2 | 7,490 | 7,969 |
| | Sundries | 29,041 | 42,100 |
| | | 1,321,713 | 1,233,165 |

**9.1** This includes an amount of Rs 1,600 thousand (2010: 42,164 thousand) paid to Gottfried Thoma - PTC Employees Benevolent Trust. A director of the Company is also trustee of this Trust.

| | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| **9.2** | Auditor's remuneration and expenses include: | | |
| | – Statutory audit fee | 1,295 | 1,177 |
| | – Group reporting, review of half yearly accounts, audit of consolidated accounts, special certifications and staff retirement benefit funds | 2,831 | 2,580 |
| | – Tax services | 2,969 | 3,886 |
| | – Out-of-pocket expenses | 395 | 326 |
| | | 7,490 | 7,969 |

# Notes to the Financial Statements

**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **10. Other operating expenses** | | |
| Employees' termination benefits | 994,630 | 4,332 |
| Workers' Profit Participation Fund | 30,126 | 76,125 |
| Workers' Welfare Fund | 13,127 | 28,360 |
| Bank charges and fees | 32,037 | 38,800 |
| Operating fixed assets written off | 104,208 | - |
| Other receivables written off | 8,235 | 1,193 |
| Security deposits written off | - | 4,020 |
| Provision for potential contractual obligation | - | 53,000 |
| Foreign exchange loss | - | 2,215 |
| Interest on Workers' Profit Participation Fund | - | 166 |
| | 1,182,363 | 208,211 |
| **11. Other operating income** | | |
| Income from associated company | 28,144 | 22,536 |
| Gain on disposal of operating fixed assets | 19,361 | 14,543 |
| Foreign exchange gain | 1,895 | - |
| Miscellaneous | 4,567 | 9,531 |
| | 53,967 | 46,610 |
| **12. Income tax expense** | | |
| Current | 235,348 | 465,175 |
| Deferred | (39,858) | 27,734 |
| | 195,490 | 492,909 |

**12.1 Effective tax rate reconciliation:**

Numerical reconciliation between the average effective income tax rate and applicable income tax rate is as follows:

| | 2011 (%) | 2010 (%) |
|---|---|---|
| Applicable tax rate | 35.00 | 35.00 |
| Tax effect of: | | |
| Inadmissible expenses | 0.12 | 0.17 |
| Income taxed at different rate | (0.09) | (0.37) |
| Others | (0.08) | (0.04) |
| Average effective tax rate | 34.95 | 34.76 |

# Notes to the Financial Statements
## for the year ended December 31, 2011

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **12.2 Tax on items directly credited to statement of comprehensive income** | | |
| Current tax credit on defined benefit plans | (35,685) | (27,076) |
| Deferred tax credit on defined benefit plans | (15,685) | - |
| | (51,370) | (27,076) |

| | 2011 | 2010 |
|---|---|---|
| **13. Earnings per share** | | |
| Profit after tax (Rs '000) | 363,785 | 925,100 |
| Number of fully paid weighted average ordinary shares ('000) | 255,494 | 255,494 |
| Earnings per share - Basic (Rs) | 1.42 | 3.62 |

There is no dilutive effect on the basic earnings per share of the Company.

## 14. Remuneration of Chief Executive, Directors and Executives

The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to Chief Executive, Executive Directors and executives are as follows:-

| | Chief Executive | | Executive Directors | | Executives | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Key management personnel | | Other executives | | | |
| | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 |
| Managerial remuneration | 56,315 | 55,817 | 47,673 | 58,966 | 188,608 | 170,207 | 456,932 | 379,637 | 749,528 | 664,627 |
| Corporate bonus | 19,983 | 8,142 | 91,079 | 70,529 | 148,839 | 72,760 | 167,811 | 58,082 | 427,712 | 209,513 |
| Leave fare assistance | 2,355 | 3,073 | 3,044 | 3,937 | 5,578 | 4,251 | 3,376 | 3,739 | 14,353 | 15,000 |
| Housing and utilities | 9,584 | 7,773 | 15,002 | 13,454 | 46,274 | 43,321 | 194,382 | 163,442 | 265,242 | 227,990 |
| Medical expenses | 42 | 3 | 2,080 | 1,191 | 5,806 | 7,888 | 31,268 | 19,343 | 39,196 | 28,425 |
| Post employment benefits | 11,247 | 9,194 | 8,206 | 7,168 | 27,811 | 31,064 | 103,973 | 79,599 | 151,237 | 127,025 |
| | 99,526 | 84,002 | 167,084 | 155,245 | 422,916 | 329,491 | 957,742 | 703,842 | 1,647,268 | 1,272,580 |
| Number of persons | 1 | 1 | 4 | 5 | 28 | 32 | 333 | 286 | 366 | 324 |

**14.1** The Company, in certain cases, also provides individuals with the use of company accommodation, cars and household items, in accordance with their entitlements.

**14.2** The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to four (2010: six) non-executive directors of the Company amounted to Rs 3,916 thousand (2010: Rs 4,935 thousand).

# Notes to the Financial Statements
## for the year ended December 31, 2011

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **15. Property, plant and equipment** | | |
| Operating assets - note 15.1 | 5,423,123 | 5,621,915 |
| Capital work in progress - note 15.2 | 669,161 | 201,773 |
| | 6,092,284 | 5,823,688 |

### 15.1 Operating assets

| | Free-hold land Rs '000 | Buildings on free-hold land Rs '000 | Buildings on leasehold land Rs '000 | Private railway sidings Rs '000 | Plant and machinery Rs '000 | Office and household equipment Rs '000 | Furniture and fittings Rs '000 | Vehicles Rs '000 | Total Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2010** | | | | | | | | | |
| Cost | 6,834 | 522,297 | 25,712 | 349 | 7,751,713 | 451,141 | 83,377 | 613,930 | 9,455,353 |
| Accumulated depreciation | - | (144,119) | (14,474) | (323) | (3,244,088) | (226,296) | (10,380) | (332,635) | (3,972,315) |
| Net book amount at January 1, 2010 | 6,834 | 378,178 | 11,238 | 26 | 4,507,625 | 224,845 | 72,997 | 281,295 | 5,483,038 |
| **Year ended December 31, 2010** | | | | | | | | | |
| Net book amount at January 1, 2010 | 6,834 | 378,178 | 11,238 | 26 | 4,507,625 | 224,845 | 72,997 | 281,295 | 5,483,038 |
| Additions | - | 38,330 | - | - | 562,349 | 113,747 | 11,885 | 186,819 | 913,130 |
| Disposals | - | - | - | - | (8,031) | (5,689) | (4) | (15,685) | (29,409) |
| Depreciation charge | - | (15,330) | (435) | - | (534,902) | (64,703) | (11,830) | (117,644) | (744,844) |
| Net book amount at December 31, 2010 | 6,834 | 401,178 | 10,803 | 26 | 4,527,041 | 268,200 | 73,048 | 334,785 | 5,621,915 |
| **At January 1, 2011** | | | | | | | | | |
| Cost | 6,834 | 560,627 | 25,712 | 349 | 8,283,622 | 523,704 | 95,224 | 724,401 | 10,220,473 |
| Accumulated Depreciation | - | (159,449) | (14,909) | (323) | (3,756,581) | (255,504) | (22,176) | (389,616) | (4,598,558) |
| Net book amount January 1, 2011 | 6,834 | 401,178 | 10,803 | 26 | 4,527,041 | 268,200 | 73,048 | 334,785 | 5,621,915 |
| **Year ended December 31, 2011** | | | | | | | | | |
| Net book amount at January 1, 2011 | 6,834 | 401,178 | 10,803 | 26 | 4,527,041 | 268,200 | 73,048 | 334,785 | 5,621,915 |
| Additions | - | 17,479 | - | - | 502,206 | 86,716 | 9,280 | 76,589 | 692,270 |
| Disposals | - | - | - | - | (80,963) | (19,797) | (3,832) | (12,327) | (116,919) |
| Depreciation charge | - | (16,185) | (432) | - | (547,204) | (73,056) | (13,827) | (123,439) | (774,143) |
| Net book amount at December 31, 2011 | 6,834 | 402,472 | 10,371 | 26 | 4,401,080 | 262,063 | 64,669 | 275,608 | 5,423,123 |
| **At December 31, 2011** | | | | | | | | | |
| Cost | 6,834 | 578,105 | 25,712 | 349 | 8,643,056 | 568,501 | 99,661 | 738,128 | 10,660,346 |
| Accumulated depreciation | - | (175,633) | (15,341) | (323) | (4,241,976) | (306,438) | (34,992) | (462,520) | (5,237,223) |
| Net book amount at December 31, 2011 | 6,834 | 402,472 | 10,371 | 26 | 4,401,080 | 262,063 | 64,669 | 275,608 | 5,423,123 |

# Notes to the Financial Statements
**for the year ended December 31, 2011**

| | | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|---|
| **15.2** | **Capital work in progress** | | |
| | Plant and machinery | 573,558 | 186,144 |
| | Advances to suppliers | 95,603 | 15,629 |
| | | 669,161 | 201,773 |
| **15.3** | Depreciation charge has been allocated as follows: | | |
| | Cost of sales | 525,199 | 498,768 |
| | Raw material purchases and expenses | 100,627 | 103,297 |
| | Selling and distribution expenses | 57,998 | 45,571 |
| | Administrative expenses | 90,319 | 97,208 |
| | | 774,143 | 744,844 |

**15.4** Details of property, plant and equipment disposed off during the year, having book value of Rs 50,000 or more are as follows:

| | Original Cost Rs '000 | Book Value Rs '000 | Sale Proceeds Rs '000 | Particulars of Buyers |
|---|---|---|---|---|
| Vehicles | | | | |
| - as per Company's policy | 845 | 85 | 85 | Syed Hammad Ali - Employee |
| | 885 | 89 | 89 | Muhammad Gulzar - Employee |
| | 980 | 98 | 302 | Syed Khurram Shah - Employee |
| | 1,014 | 317 | 560 | Athar Sultan - Employee |
| | 1,309 | 131 | 131 | Athar Baig - Employee |
| | 1,319 | 132 | 238 | Younis Jan Durrani - Ex Employee |
| | 1,370 | 137 | 344 | Najeeb Ur Rehman - Ex Employee |
| | 1,809 | 678 | 1,095 | Hina Ahmed - Ex Employee |
| | 2,214 | 221 | 650 | Iqtidar Ahmed - Ex Employee |
| | 2,750 | 630 | 1,435 | Wajid Ali - Ex Employee |
| | 2,899 | 423 | 1,176 | Zahid Ul Islam - Ex Employee |
| | 6,093 | 609 | 609 | Mobasher Raza - Employee |
| - by auction | 604 | 60 | 552 | Sujawal Khan - Islamabad |
| | 739 | 74 | 773 | Sheryar Khan - Charsadda |
| | 835 | 84 | 694 | Falak Naaz - Buner |
| | 835 | 84 | 994 | S.M Ahsan Zaidi - Islamabad |
| | 845 | 85 | 880 | Huzaifa - Islamabad |
| | 845 | 85 | 991 | Mohammad Azam - Islamabad |
| | 881 | 88 | 950 | Syed Tayyab Tahir - Lahore |
| | 885 | 88 | 688 | Rizwan Mazher - Rawalpindi |
| | 1,024 | 102 | 931 | Raja Farooq - Rawalpindi |
| | 1,051 | 105 | 547 | Aziz Khan - Rawalpindi |
| | 1,309 | 131 | 900 | Zahid Qadri - Karachi |
| | 1,503 | 150 | 738 | Tahir Zada - Blambat, Lower Deer |
| | 1,852 | 185 | 875 | Syed Tayyab Tahir - Lahore |
| | 4,320 | 432 | 1,207 | Raja M.Naveed - Rawalpindi |

# Notes to the Financial Statements
**for the year ended December 31, 2011**

| | Original Cost Rs '000 | Book Value Rs '000 | Sale Proceeds Rs '000 | Particulars of Buyers |
|---|---|---|---|---|
| - by insurance claim | 558 | 244 | 495 | New Hampshire Insurance Company |
| | 575 | 503 | 545 | -do- |
| | 580 | 398 | 545 | -do- |
| | 651 | 232 | 595 | -do- |
| | 683 | 270 | 595 | -do- |
| | 1,309 | 131 | 1,345 | -do- |
| | 1,790 | 1,454 | 1,785 | -do- |
| | 1,869 | 1,168 | 1,745 | -do- |

## 16. Long term investment in subsidiary company - at cost

This represents 500,001 (2010: 500,001) fully paid ordinary shares of Rs 10 each in Phoenix (Private) Limited. The break up value of shares calculated by reference to net assets worked out to be Rs 10 per share (2010: Rs 10 per share) based on audited accounts for the year ended December 31, 2011.

This is a wholly owned subsidiary of Pakistan Tobacco Company Limited which has not yet commenced commercial production.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **17. Long term loans - unsecured, considered good** | | |
| Related parties | | |
| Key management personnel | 164 | 452 |
| Others | | |
| Executives | 2,856 | 3,817 |
| Other employees | - | 1,698 |
| | 2,856 | 5,515 |
| | 3,020 | 5,967 |
| Less: Receivable within one year | 1,760 | 2,550 |
| | 1,260 | 3,417 |

### 17.1 Reconciliation of loans:

| | Executives | | | | Other employees | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Key management personnel | | Other executives | | | | | |
| | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 |
| Balance as at January 1 | 452 | 487 | 3,817 | 6,629 | 1,698 | 4,313 | 5,967 | 11,429 |
| Disbursements | - | - | - | - | - | - | - | - |
| Repayments | 288 | 35 | 961 | 2,812 | 1,698 | 2,615 | 2,947 | 5,462 |
| Balance as at December 31 | 164 | 452 | 2,856 | 3,817 | - | 1,698 | 3,020 | 5,967 |

The above comprises interest free loans for purchase of household furniture, appliances, cars and motorcycles and are repayable over 5 to 10 years in equal monthly installments.

# Notes to the Financial Statements
for the year ended December 31, 2011

**17.2** The maximum amount due from the key management personnel and other executives at the end of any month during the year was:

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Key management personnel | 382 | 651 |
| Other executives | 5,073 | 7,256 |
| | 5,455 | 7,907 |

## 18. Long term deposits and prepayments

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Security deposits | 17,000 | 10,540 |
| Prepayments | 5,640 | 4,835 |
| | 22,640 | 15,375 |

## 19. Stock-in-trade

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Raw materials | 5,119,241 | 5,130,471 |
| Raw materials in transit | 207,493 | 144,924 |
| Work in process | 49,935 | 43,163 |
| Finished goods | 1,085,661 | 684,265 |
| | 6,462,330 | 6,002,823 |

## 20. Stores and spares

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Stores | 2,210 | 1,506 |
| Machine spares | 187,900 | 197,701 |
| | 190,110 | 199,207 |

## 21. Trade debts

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Considered good | 1,202 | 1,597 |
| Considered doubtful | 2,322 | 2,322 |
| | 3,524 | 3,919 |
| Provision for doubtful debts | (2,322) | (2,322) |
| | 1,202 | 1,597 |

## 22. Loans and advances - unsecured, considered good

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Related parties | | |
| Loans to key management personnel | 67 | 113 |
| Advances due from key management personnel | - | 3,208 |
| Others | | |
| Loans to executives and other employees | 1,693 | 2,437 |
| Advances due from executives and other employees - note 22.1 | 32,370 | 25,910 |
| Advances due from others | 30,180 | 16,599 |
| | 64,310 | 48,267 |

**22.1** Includes Rs 19,828 thousand (2010: Rs 17,662 thousand) due from executives of the Company.

# Notes to the Financial Statements
**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **23. Other receivables** | | |
| Related parties - unsecured | | |
| Due from holding company / associated companies - note 23.1 | 134,426 | 39,221 |
| Due from subsidiary company | 20,021 | 20,021 |
| Management's Provident Fund | 1,354 | 7,406 |
| Employees' Provident Fund | - | 2,013 |
| Others | | |
| Claims | 7,494 | 18,067 |
| Workers' Profit Participation Fund | 5,874 | 1,875 |
| Margin against guarantees | 24,868 | - |
| Others | 2,212 | 4,943 |
| | 196,249 | 93,546 |
| **23.1** The amount due from holding company / associated companies comprises: | | |
| Holding Company | | |
| British American Tobacco p.l.c. - UK | 5,055 | 2,513 |
| Associated Companies | | |
| PT Bentoel Prima - Indonesia | 93,610 | - |
| BAT SAA Services (Private) Limited - Pakistan | 28,738 | 12,918 |
| BAT Marketing (Singapore) Pte Ltd - Singapore | 2,044 | 16,949 |
| BAT Asia-Pacific Region Ltd - Hong Kong | 1,681 | 1,683 |
| Rothmans Far East B.V - South Korea | 1,003 | - |
| BAT Switzerland SA | 779 | - |
| BAT (Singapore) Pte Ltd - Singapore | 710 | 589 |
| BAT ASPAC Service Center Sdn Bhd - Malaysia | 528 | 670 |
| BAT PNG - Papua New Guinea | 278 | - |
| BAT Vietnam Ltd - Vietnam | - | 2,246 |
| BAT Western Europe Area - Netherland | - | 583 |
| BAT (Taiwan) Ltd - Taiwan | - | 289 |
| BAT Equatorial Africa Area Ltd - Kenya | - | 273 |
| BAT Australia Ltd EFT - Australia | - | 196 |
| BAT Egypt - Egypt | - | 187 |
| BAT (Malaysia) Berhad - Malaysia | - | 125 |
| | 134,426 | 39,221 |
| **24. Cash and bank balances** | | |
| Deposit accounts | 16,883 | 14,104 |
| Current accounts | | |
| Local currency | 1,845 | 5,941 |
| Foreign currency | 81,913 | 31,139 |
| | 100,641 | 51,184 |
| Cash in transit | 6,828 | - |
| Cash in hand | 2,162 | 761 |
| | 109,631 | 51,945 |

# Notes to the Financial Statements
**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **25. Trade and other payables** | | |
| Related parties - unsecured | | |
| Due to holding company / associated companies - note 25.1 | 451,905 | 198,914 |
| Others | | |
| Creditors | 1,095,606 | 910,126 |
| Federal excise duty - note 25.2 | 2,781,825 | 2,779,617 |
| Sales tax | 613,880 | 648,206 |
| Tobacco excise duty / Tobacco development cess - note 25.3 | 70,770 | 76,292 |
| Employees' termination benefits | 985,908 | - |
| Other employee benefits - note 25.4 | 565,749 | 274,238 |
| Retirement benefits - note 27 | 205,704 | 85,621 |
| Staff pension fund - defined contribution | 127 | 889 |
| Employees' Provident Fund | 741 | - |
| Workers' Welfare Fund | 26,661 | 40,854 |
| Other accrued liabilities | 217,893 | 206,017 |
| Advances from customers | 2,737 | 74,457 |
| Security deposits | 16,883 | 14,104 |
| Unclaimed dividend | 31,315 | 30,390 |
| | 7,067,704 | 5,339,725 |

**25.1** The amount due to holding company / associated companies comprises:

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Holding Company | | |
| British American Tobacco p.l.c. - UK | 149,671 | 80,805 |
| Associated Companies | | |
| BAT GLP Ltd - UK | 107,858 | - |
| BAT Asia-Pacific Region Ltd - Hong Kong | 73,786 | 69,679 |
| BAT Marketing (Singapore) Pte Ltd - Singapore | 70,939 | 25,522 |
| BAT ASPAC Service Center Sdn Bhd - Malaysia | 43,731 | 18,213 |
| Ceylon Tobacco Company Plc - Sri Lanka | 4,016 | 278 |
| BAT SA Ltd - South Africa | 1,068 | - |
| BAT Bangladesh Co. Ltd - Bangladesh | - | 3,727 |
| BAT (Malaysia) Berhad - Malaysia | 836 | 612 |
| BAT Hungary - Hungary | - | 55 |
| Rothmans Far East B.V - South Korea | - | 23 |
| | 451,905 | 198,914 |

**25.2 Federal excise duty**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Balance as at January 1 | 2,779,617 | 2,604,744 |
| Charge for the year | 34,719,661 | 30,476,421 |
| Payment to the Government during the year | (34,717,453) | (30,301,548) |
| Balance as at December 31 | 2,781,825 | 2,779,617 |

# Notes to the Financial Statements
## for the year ended December 31, 2011

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **25.3 Tobacco excise duty / Tobacco development cess:** | | |
| Balance as at January 1 | 76,292 | 66,783 |
| Charge for the year | 89,536 | 78,972 |
| Payment to the Government during the year | (95,058) | (69,463) |
| Balance as at December 31 | 70,770 | 76,292 |
| **25.4 Other employee benefits** | | |
| Balance as at January 1 | 274,238 | 317,769 |
| Charge for the year | 526,518 | 300,135 |
| Payment to employees during the year | (235,007) | (343,666) |
| Balance as at December 31 | 565,749 | 274,238 |

Other employee benefits represent bonus to eligible employees.

### 26. Short term running finance - secured

**(a) Short term running finance**

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 5,350 million (2010: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 3,566 million (2010: Rs 3,098 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 5,940 million (2010: Rs 5,940 million). The mark-up ranges between 12.42% and 14.79% (2010: 12.72% and 14.39%) per annum and is payable quarterly. The facilities are renewable on annual basis.

**(b) Non-funded finance facilities**

The Company also has non-funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 2,500 million (2010: Rs 2,500 million) and Rs 355 million (2010: Rs 355 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 588 million (2010: Rs 748 million) and Rs 109 million (2010: Rs 200 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2010: Rs 355 million).

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **27. Retirement benefits** | | |
| Staff pension fund | 158,626 | 51,640 |
| Employees gratuity fund | 47,078 | 33,981 |
| | 205,704 | 85,621 |

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2011 using the projected unit credit method. Details of the defined benefit plans are:

# Notes to the Financial Statements
## for the year ended December 31, 2011

| | | Defined benefit pension plan 2011 Rs '000 | Defined benefit pension plan 2010 Rs '000 | Defined benefit gratuity plan 2011 Rs '000 | Defined benefit gratuity plan 2010 Rs '000 |
|---|---|---|---|---|---|
| **(a)** | **The amounts recognised in the balance sheet:** | | | | |
| | Present value of defined benefit obligations | 2,841,970 | 2,399,679 | 792,745 | 683,533 |
| | Fair value of plan assets | (2,683,344) | (2,348,039) | (745,667) | (649,552) |
| | Net liability | 158,626 | 51,640 | 47,078 | 33,981 |
| **(b)** | **Movement in the liability recognized in the balance sheet is as follow:** | | | | |
| | Balance as at January 1 | 51,640 | 14,206 | 33,981 | 45,201 |
| | Charge for the year - profit & loss | 70,544 | 58,042 | 33,742 | 32,494 |
| | Charge for the year - statement of comprehensive income | 107,313 | 50,959 | 39,457 | 26,401 |
| | Employer's contribution during the year | (70,871) | (71,567) | (60,102) | (70,115) |
| | Balance as at December 31 | 158,626 | 51,640 | 47,078 | 33,981 |
| **(c)** | **The amounts recognised in the profit and loss account:** | | | | |
| | Current service cost | 95,271 | 94,207 | 32,674 | 29,860 |
| | Interest cost | 354,861 | 267,722 | 96,129 | 73,324 |
| | Expected return on plan assets | (337,442) | (265,045) | (91,279) | (67,527) |
| | Members' own contribution | (26,341) | (26,298) | - | - |
| | Secondees' own contribution | (5,246) | (4,417) | - | - |
| | Contribution by employer in respect of secondees | (10,559) | (8,127) | (3,782) | (3,163) |
| | | 70,544 | 58,042 | 33,742 | 32,494 |
| **(d)** | **The aggregate amounts recognised in the statement of comprehensive income:** | | | | |
| | Actuarial losses as at January 1 | 456,420 | 405,461 | 265,547 | 239,146 |
| | Actuarial losses on defined benefit obligations | 121,344 | 37,773 | 69,571 | 28,101 |
| | Actuarial losses / (gains) on plan assets | (14,031) | 13,186 | (30,114) | (1,700) |
| | | 107,313 | 50,959 | 39,457 | 26,401 |
| | Actuarial losses as at December 31 | 563,733 | 456,420 | 305,004 | 265,547 |
| **(e)** | **Changes in the present value of defined benefit obligation:** | | | | |
| | Present value of defined benefit obligation as at January 1 | 2,399,679 | 2,100,232 | 683,533 | 586,297 |
| | Current service cost | 95,271 | 94,207 | 32,674 | 29,860 |
| | Interest cost | 354,861 | 267,722 | 96,129 | 73,324 |
| | Actual benefits paid during the year | (129,185) | (100,255) | (89,162) | (34,049) |
| | Actuarial losses | 121,344 | 37,773 | 69,571 | 28,101 |
| | Present value of defined benefit obligation as at December 31 | 2,841,970 | 2,399,679 | 792,745 | 683,533 |

# Notes to the Financial Statements

**for the year ended December 31, 2011**

| | | Defined benefit pension plan | | Defined benefit gratuity plan | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | | Rs '000 | Rs '000 | Rs '000 | Rs '000 |
| (f) | **Changes in the fair value of plan assets:** | | | | |
| | Fair value of plan assets as at January 1 | 2,348,039 | 2,086,026 | 649,552 | 541,096 |
| | Expected return on plan assets | 337,442 | 265,045 | 91,279 | 67,527 |
| | Contribution by employer in respect of members | 70,871 | 71,567 | 60,102 | 70,115 |
| | Members' own contribution | 26,341 | 26,298 | - | - |
| | Secondees' own contribution | 5,246 | 4,417 | - | - |
| | Contribution by employer in respect of secondees | 10,559 | 8,127 | 3,782 | 3,163 |
| | Actual benefits paid during the year | (129,185) | (100,255) | (89,162) | (34,049) |
| | Actuarial (losses) / gains | 14,031 | (13,186) | 30,114 | 1,700 |
| | Fair value of plan assets as at December 31 | 2,683,344 | 2,348,039 | 745,667 | 649,552 |
| | Actual return on plan assets | 341,127 | 254,909 | 116,913 | 64,711 |

During the year 2012 the Company expects to contribute Rs 76.804 million and Rs 40.627 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

| | | Defined benefit pension plan | | Defined benefit gratuity plan | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | | Rs '000 | Rs '000 | Rs '000 | Rs '000 |
| (g) | **The major categories of plan assets:** | | | | |
| | Investment in equities | 348,386 | 218,145 | - | 81,754 |
| | Investment in bonds | 2,328,743 | 2,122,487 | 745,142 | 565,283 |
| | Cash | 6,215 | 2,279 | 525 | 2,460 |
| | Other assets | - | 5,128 | - | 55 |
| | | 2,683,344 | 2,348,039 | 745,667 | 649,552 |
| (h) | **Significant actuarial assumptions at the balance sheet date:** | | | | |
| | Discount rate | 12.50% | 14.50% | 12.50% | 14.50% |
| | Expected rate of return on plan assets | 12.50% | 14.50% | 12.50% | 14.50% |
| | Expected rate of increase in salary | | | | |
| | First year | 14.00% | 13.00% | 14.00% | 13.00% |
| | Second year onwards | 11.50% | 13.00% | 11.50% | 13.00% |
| | Pension increase rate | 8.50% | 10.50% | - | - |

The discount rate is determined by considering underlying yield currently available on Pakistan Investment Bonds and high quality term finance certificates and expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Salary increase assumption is based on the current general practice in the market.

# Notes to the Financial Statements
## for the year ended December 31, 2011

| | 2011 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2007 Rs '000 |
|---|---|---|---|---|---|
| **(i) Amounts for the current and previous four years:** | | | | | |
| **Defined Benefit Pension Plan** | | | | | |
| Present value of defined benefit obligation | 2,841,970 | 2,399,679 | 2,100,232 | 1,769,557 | 1,704,382 |
| Fair value of plan assets | (2,683,344) | (2,348,039) | (2,086,026) | (1,232,749) | (1,367,884) |
| Deficit | 158,626 | 51,640 | 14,206 | 536,808 | 336,498 |
| Experience (gain)/loss on obligation | 28,146 | 37,773 | 83,719 | 63,120 | 122,206 |
| Experience (gain)/loss on plan assets | (3,685) | 10,136 | (166,211) | 333,376 | (12,878) |
| **Defined Benefit Gratuity Plan** | | | | | |
| Present value of defined benefit obligation | 792,745 | 683,533 | 586,297 | 460,720 | 490,379 |
| Fair value of plan assets | (745,667) | (649,552) | (541,096) | (258,395) | (337,374) |
| Deficit | 47,078 | 33,981 | 45,201 | 202,325 | 153,005 |
| Experience (gain)/loss on obligation | 25,977 | 28,101 | 63,208 | 73,527 | 46,209 |
| Experience (gain)/loss on plan assets | (26,008) | 2,816 | (40,000) | 64,891 | (152) |

**27.1** Salaries, wages and benefits as appearing in note 7, 8 and 9 include amounts in respect of the following:

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Provident Fund | 59,340 | 56,290 |
| Pension Fund | 70,544 | 58,042 |
| Gratuity Fund | 33,742 | 32,494 |
| | 163,626 | 146,826 |

## 28. Deferred income tax liability

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity where there is an intention to settle the balances on a net basis.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| The offset amounts are as follows: | | |
| Deferred tax assets | (25,916) | (10,231) |
| Deferred tax liabilities | 1,107,954 | 1,147,812 |
| Deferred tax liability (net) | 1,082,038 | 1,137,581 |
| The gross movement on deferred income tax account is as follows: | | |
| At January 1 | 1,137,581 | 1,109,847 |
| Charge/(Credit) for the year - profit and loss account (note 12) | (39,858) | 27,734 |
| (Credit) for the year - statement of comprehensive income (note 12.2) | (15,685) | - |
| At December 31 | 1,082,038 | 1,137,581 |

# Notes to the Financial Statements
**for the year ended December 31, 2011**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within same tax jurisdiction, is as follows:

The deferred income tax asset is related to the temporary differences between carrying amount of retirement benefit and the corresponding tax base.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Balance as at January 1 | (10,231) | (10,231) |
| (Credit) for the year - statement of comprehensive income | (15,685) | - |
| Balance as at December 31 | (25,916) | (10,231) |

The deferred income tax liability is related to temporary differences between carrying amount of operating fixed assets and the corresponding tax base.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Balance as at January 1 | 1,147,812 | 1,120,078 |
| Charge/(Credit) for the year - profit and loss account | (39,858) | 27,734 |
| Balance as at December 31 | 1,107,954 | 1,147,812 |

## 29. Share capital

### 29.1 Authorized share capital

| 2011 (Number of Shares) | 2010 (Number of Shares) | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|---|
| 300,000,000 | 300,000,000 | Ordinary shares of Rs 10 each | 3,000,000 | 3,000,000 |

### 29.2 Issued, subscribed and paid-up capital

| 2011 (Number of Shares) | 2010 (Number of Shares) | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|---|
| 230,357,068 | 230,357,068 | Cash | 2,303,571 | 2,303,571 |
| 25,136,724 | 25,136,724 | Bonus shares | 251,367 | 251,367 |
| 255,493,792 | 255,493,792 | | 2,554,938 | 2,554,938 |

British American Tobacco (Investments) Limited held 241,045,141 (2010: 241,045,141) ordinary shares at the year end.

There has been no movement in issued, subscribed and paid-up capital during the year.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **30. Contingencies and commitments** | | |
| **30.1 Contingencies** | | |
| **(a) Claims and guarantees** | | |
| (i) Claims against the Company not acknowledged as debt | 131,800 | 127,050 |
| (ii) Guarantees issued by banks on behalf of the Company | 108,747 | 199,608 |

# Notes to the Financial Statements
for the year ended December 31, 2011

**(b) Litigation**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have any material impact on the financial statements.

**30.2 Commitments**

**(a)** All property rentals are under cancellable operating lease arrangements and are due as follows:

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| No later than one year | 32,801 | 20,099 |
| Later than one year and no later than five years | 285,430 | 91,171 |
| Later than five years | 26,739 | 35,898 |

**(b)** Letters of credit outstanding at December 31, 2011 were Rs 587,861 thousand (2010: Rs 748,185 thousand).

## 31. Financial instruments

| | Loans and receivables | |
|---|---|---|
| | 2011 Rs '000 | 2010 Rs '000 |
| **Financial assets and liabilities** | | |
| **Financial assets** | | |
| Maturity up to one year: | | |
| Trade debts | 1,202 | 1,597 |
| Loans and advances | 64,310 | 48,267 |
| Other receivables | | |
| Local Currency | 90,561 | 63,667 |
| Foreign Currency | 105,688 | 29,879 |
| Cash and bank balances | | |
| Local Currency | 27,718 | 20,806 |
| Foreign Currency | 81,913 | 31,139 |
| Maturity after one year: | | |
| Loans | 1,260 | 3,417 |
| Security deposits | 17,000 | 10,540 |
| | 389,652 | 209,312 |

| | Other financial liabilities | |
|---|---|---|
| | 2011 Rs '000 | 2010 Rs '000 |
| **Financial liabilities** | | |
| Maturity up to one year: | | |
| Federal excise duty and sales tax payable | 3,395,705 | 3,427,823 |
| Other trade payables | | |
| Local Currency | 3,208,871 | 1,678,043 |
| Foreign Currency | 460,393 | 159,402 |
| Accrued interest / mark-up | 51,187 | 46,789 |
| Short term running finance | 1,783,623 | 2,252,218 |
| | 8,899,779 | 7,564,275 |

# Notes to the Financial Statements
**for the year ended December 31, 2011**

## 32. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2010: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT-IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Company. Such entities are also referred to as 'BAT' in these financial statements. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is given in note 14 to the financial statements.

| | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|
| Purchase of goods and services from | | |
| Holding company | 267,846 | 192,129 |
| Associated companies | 1,702,866 | 1,370,643 |
| Sale of goods and services to | | |
| Holding company | 7,373 | 5,266 |
| Associated companies | 651,715 | 433,066 |
| Royalty charge from | | |
| Holding company | 358,468 | 345,340 |
| Expenses reimbursed to | | |
| Associated companies | 854 | 553 |
| Expenses reimbursed by | | |
| Holding company | 2,119 | 134 |
| Associated companies | 2,966 | 1,671 |

## 33. Post balance sheet event

Final dividend in respect of the year ended December 31, 2011 of Rs 1.00 (2010: Rs 2.10) per share amounting to a total dividend of Rs 255,494 thousand (2010: 536,537 thousand) has been proposed, over and above the interim dividend of Rs nil (2010: Rs 1.25) per share paid during the year, out of the revenue reserves at the Board of Directors meeting held on March 19, 2012. These financial statements do not reflect this proposed dividend.

## 34. General

### 34.1 Capacity and production

Against an estimated manufacturing capacity of 45,184 million (2010: 45,270 million) cigarettes, actual production was 40,537 million (2010: 36,196 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

### 34.2 Number of employees

Total number of employees as at December 31, 2011 was 1,543 ( 2010: 1,597).

### 34.3 Date of authorization for issue

These financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on March 19, 2012.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

Pakistan Tobacco Company Limited

# Consolidated Financial Statements

for the year ended December 31, 2011

# Auditor's Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2011 and the We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Pakistan Tobacco Company Limited (the Company) and its subsidiary company, Phoenix (Private) Limited as at December 31, 2011 and the related consolidated Profit and Loss Account, consolidated Statement of Comprehensive Income, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of the Company and its subsidiary company. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the Company and its subsidiary company as at December 31, 2011 and the results of their operations for the year then ended.

**Chartered Accountants**
Islamabad
Date: March 19, 2012

Engagement partner: Sohail M Khan

# Consolidated Profit & Loss Account

**for the year ended December 31, 2011**

| | Note | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| Gross turnover | | 67,491,816 | 60,195,535 |
| Excise duties | | (34,719,661) | (30,476,421) |
| Sales tax | | (9,822,181) | (8,766,485) |
| **Net turnover** | | 22,949,974 | 20,952,629 |
| Cost of sales | 7 | (16,709,273) | (14,747,717) |
| **Gross profit** | | 6,240,701 | 6,204,912 |
| Selling and distribution expenses | 8 | (3,129,938) | (3,279,390) |
| Administrative expenses | 9 | (1,321,713) | (1,233,165) |
| Other operating expenses | 10 | (1,182,363) | (208,211) |
| Other operating income | 11 | 53,967 | 46,610 |
| | | (5,580,047) | (4,674,156) |
| **Operating profit** | | 660,654 | 1,530,756 |
| Finance income | | 39,160 | 36,933 |
| Finance cost | | (140,539) | (149,680) |
| Net finance cost | | (101,379) | (112,747) |
| **Profit before income tax** | | 559,275 | 1,418,009 |
| Income tax expense | 12 | (195,490) | (492,909) |
| **Profit for the year** | | 363,785 | 925,100 |
| **Earnings per share - (Rupees)** | 13 | 1.42 | 3.62 |

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Consolidated Statement of Comprehensive Income

**for the year ended December 31, 2011**

| | Note | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|---|
| **Profit for the year** | | 363,785 | 925,100 |
| **Other comprehensive loss for the year:** | | | |
| Actuarial losses on defined benefit pension and gratuity plans | 27 | (146,770) | (77,360) |
| Tax credit related to actuarial losses on defined benefit pension and gratuity plans | 12 | 51,370 | 27,076 |
| Other comprehensive loss for the year - net of tax | | (95,400) | (50,284) |
| **Total comprehensive income for the year** | | 268,385 | 874,816 |

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Consolidated Balance Sheet

**as at December 31, 2011**

| | Note | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| **Non current assets** | | | |
| Property, plant and equipment | 15 | 6,117,332 | 5,848,736 |
| Long term loans | 16 | 1,260 | 3,417 |
| Long term deposits and prepayments | 17 | 22,640 | 15,375 |
| **Current assets** | | | |
| Stock-in-trade | 18 | 6,462,330 | 6,002,823 |
| Stores and spares | 19 | 190,110 | 199,207 |
| Trade debts | 20 | 1,202 | 1,597 |
| Loans and advances | 21 | 64,310 | 48,267 |
| Short term prepayments | | 94,052 | 118,329 |
| Other receivables | 22 | 176,228 | 73,525 |
| Income tax paid in advance | | 79,419 | 15,206 |
| Cash and bank balances | 23 | 109,631 | 51,945 |
| | | 7,177,282 | 6,510,899 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | 7,067,731 | 5,339,752 |
| Accrued interest / mark-up | | 51,187 | 46,789 |
| Short term running finance | 25 | 1,783,623 | 2,252,218 |
| | | 8,902,541 | 7,638,759 |
| **Net current liabilities** | | (1,725,259) | (1,127,860) |
| **Non current liabilities** | | | |
| Deferred income tax liability | 27 | (1,082,038) | (1,137,581) |
| **Net assets** | | 3,333,935 | 3,602,087 |
| **Share capital and reserves** | | | |
| Share capital | 28 | 2,554,938 | 2,554,938 |
| Revenue reserves | | 778,997 | 1,047,149 |
| | | 3,333,935 | 3,602,087 |
| **Contingencies and commitments** | 29 | | |

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Consolidated Cash Flow Statement

**for the year ended December 31, 2011**

| | Note | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 67,422,034 | 60,262,561 |
| Cash paid to Government for Federal excise duty, Sales tax and other levies | | (45,211,155) | (39,535,501) |
| Cash paid to suppliers | | (16,525,288) | (15,256,590) |
| Finance cost paid | | (136,141) | (130,550) |
| Cash paid as royalty | | (352,169) | (342,276) |
| Cash paid to employees and retirement funds | | (2,711,246) | (2,743,686) |
| Income tax paid | | (263,876) | (944,120) |
| Other cash payments | | (64,245) | (160,938) |
| | | 2,157,914 | 1,148,900 |
| **Cash flows from investing activities** | | | |
| Additions in property, plant and equipment | | (1,167,254) | (645,833) |
| Proceeds from disposal of property, plant and equipment | | 32,073 | 43,952 |
| Finance income received | | 39,160 | 36,933 |
| | | (1,096,021) | (564,948) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (535,612) | (1,531,262) |
| **Increase / (Decrease) in cash and cash equivalents** | | 526,281 | (947,310) |
| Cash and cash equivalents at beginning of year | | (2,200,273) | (1,252,963) |
| **Cash and cash equivalents at end of year** | | (1,673,992) | (2,200,273) |
| **Cash and cash equivalents comprise:** | | | |
| Cash and bank balances | | 109,631 | 51,945 |
| Short term running finance | | (1,783,623) | (2,252,218) |
| | | (1,673,992) | (2,200,273) |

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Consolidated Statement of Changes in Equity

**for the year ended December 31, 2011**

| | Share capital Rs '000 | Revenue reserves Rs '000 | Total Rs '000 |
|---|---|---|---|
| **Balance at January 1, 2010** | 2,554,938 | 1,705,296 | 4,260,234 |
| **Comprehensive income:** | | | |
| Profit for the year | - | 925,100 | 925,100 |
| Other comprehensive loss for the year | - | (50,284) | (50,284) |
| **Total Comprehensive income for the year** | - | 874,816 | 874,816 |
| **Transactions with owners:** | | | |
| Final dividend of Rs 4.75 per share relating to the year ended December 31, 2009 | - | (1,213,596) | (1,213,596) |
| 1st Interim dividend of Rs 1.25 per share relating to the year ended December 31, 2010 | - | (319,367) | (319,367) |
| **Total transactions with owners** | - | (1,532,963) | (1,532,963) |
| **Balance at December 31, 2010** | 2,554,938 | 1,047,149 | 3,602,087 |
| **Balance at January 1, 2011** | 2,554,938 | 1,047,149 | 3,602,087 |
| **Comprehensive income:** | | | |
| Profit for the year | - | 363,785 | 363,785 |
| Other comprehensive loss for the year | - | (95,400) | (95,400) |
| **Total Comprehensive income for the year** | - | 268,385 | 268,385 |
| **Transactions with owners:** | | | |
| Final dividend of Rs 2.10 per share relating to the year ended December 31, 2010 | - | (536,537) | (536,537) |
| **Total transactions with owners** | - | (536,537) | (536,537) |
| **Balance at December 31, 2011** | 2,554,938 | 778,997 | 3,333,935 |

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

## 1. The Group and its operations

The consolidated financial statements include the financial statements of Pakistan Tobacco Company Limited and its wholly owned subsidiary, Phoenix (Private) Limited.

Pakistan Tobacco Company Limited (the Company) is a public listed company incorporated in Pakistan on November 18,1947 under the Companies Act, 1913 (now the Companies Ordinance, 1984) and its shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The Company is a subsidiary of British American Tobacco (Investments) Limited, United Kingdom, whereas its ultimate parent company is British American Tobacco p.l.c, United Kingdom. The registered office of the Company is situated at Silver Square, Plot No.15, F-11 Markaz, Islamabad. The Company is engaged in the manufacture and sale of cigarettes.

Phoenix (Private) Limited (PPL) is a private company incorporated on March 9, 1992 in Azad Jamu and Kashmir under the Companies Ordinance, 1984. The registered office of PPL is situated at Bun Khurma, Chichian Road, Mirpur, Azad Jammu and Kashmir. The object for which PPL has been incorporated is to operate and manage an industrial undertaking in Azad Jammu and Kashmir to deal in tobacco products. PPL has not yet commenced its commercial operations.

For the purpose of these consolidated financial statements, the Company and its wholly owned subsidiary PPL is referred to as the Group.

## 2. Statement of compliance

These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984 (the Ordinance), and provisions of and directives issued under the Ordinance. In case requirements differ, the provisions or directives of the Ordinance shall prevail.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 in note 6.

## 3. New and amended standards and interpretations

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 10, Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is effective for the accounting period beginning on or after January 1, 2013.

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 is effective for the accounting period beginning on or after January 1, 2012.

The Management anticipates that adoption of above standards, amendments and interpretations in future periods will have no material impact on the Group's consolidated financial statements.

## 4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 4.1 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except as otherwise stated in the respective accounting policies notes.

### 4.2 Consolidation - Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiary are consistent with the policies adopted by the Group.

### 4.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of the board of directors that makes strategic decisions.

### 4.4 Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is the Pakistan rupee (Rs).

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

### 4.5 Foreign currency transactions and translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognized in the consolidated profit and loss account.

### 4.6 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue, and the associated cost incurred or to be incurred, can be measured reliably and when specific criteria have been met for each of the Group's activities as described below.

#### (a) Sale of goods

The Group manufactures and sells cigarettes to its appointed distributors. Sales of goods are recognized when the Group has delivered products to the distributor and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributor, and either the distributor has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Where goods are sold together with a customer loyalty incentive, the arrangement is a multiple element arrangement and the consideration from the customer is allocated between the components of the arrangement and related revenue is deferred until such time as the award credits are redeemed.

#### (b) Income on bank deposits

Income on bank deposits is accounted for on the time proportion basis using the applicable rate of return.

#### (c) Others

Scrap sales and miscellaneous receipts are recognized on realized amounts. All other income is recognized on accrual basis.

### 4.7 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax, and is recognized in the consolidated profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in the equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

#### (a) Current

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

Deferred income tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

### 4.8 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount could be reliably estimated. Provisions are not recognized for future operating losses.

All provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

### 4.9 Contingent assets

Contingent assets are disclosed when the Group has a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognized until their realization becomes virtually certain.

### 4.10 Contingent liabilities

Contingent liability is disclosed when the Group has a possible obligation as a result of past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or the Group has a present legal or constructive obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

### 4.11 Employee benefits

#### (a) Retirement benefit plans

The Group operates various retirement benefit schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations or upto the limit allowed in terms of the Income Tax Ordinance, 2001. The Group has both defined contribution and defined benefit plans.

A defined contribution plan is a plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a plan that is not a defined contribution plan. Typically defined benefit plans define an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group operates:

**(i)** Defined benefit, approved funded pension scheme for management and certain grades of business support officers and approved gratuity scheme for all employees. Employees also contribute to the approved pension scheme. The liability recognized in the consolidated balance sheet in respect of pension and gratuity plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

# Notes to the Consolidated Financial Statements
for the year ended December 31, 2011

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in Pakistan rupee and have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

**(ii)** Approved contributory provident fund for all employees administered by trustees and approved contributory pension fund for the new joiners. The contributions of the Group are recognized as employee benefit expense when they are due. Prepaid contributions, if any, are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(b) Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

**(c) Medical benefits**

The Group maintains a health insurance policy for its entitled employees and pensioners and their respective spouses. The Group contributes premium to the policy annually. Such premium is recognised as an expense in the consolidated profit and loss account.

**(d) Bonus plans**

**(i)** The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments and performance targets. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(ii)** The Group also operates a deferred bonus plan for certain eligible management staff members. These benefits are usually paid after 3 years from the date of grant of such an award unless otherwise authorized by the Compensation Committee of the Board of Directors. The obligation for these payments is recognised in the consolidated profit and loss account on a straight line basis to allocate the expected award amount over the term of the award.

### 4.12 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to consolidated profit and loss account on a straight-line basis over the period of the lease.

### 4.13 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except freehold land and capital work in progress which are stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in consolidated profit and loss account during the financial period in which they are incurred.

# Notes to the Consolidated Financial Statements
for the year ended December 31, 2011

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives at the following annual rates:

| | |
|---|---|
| Buildings on free-hold land, buildings on leasehold land and private railway sidings | 3% |
| Plant and machinery | 7% |
| Air conditioners included in plant and machinery | 25% |
| Office and household equipment | 20% to 25% |
| Furniture and fittings | 10% to 20% |
| Vehicles | 25% |

Depreciation on additions and deletions during the year is charged on a pro rata basis from the month when asset is put into use or up to the month when asset is disposed/written off.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of operating fixed assets are recognized in consolidated profit and loss account.

### 4.14 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount for which asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversal of the impairment loss is restricted to the original cost of the asset. An impairment loss or reversal of impairment loss is recognised in the consolidated profit and loss account.

### 4.15 Stock-in-trade

Stock-in-trade is stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less cost of completion and costs necessary to be incurred to make the sale.

### 4.16 Stores and spares

Stores and spares are stated at lower of cost and net realizable value. Cost is determined using weighted average method. Items in transit are valued at cost comprising invoice value and other related charges incurred upto the balance sheet date.

### 4.17 Financial assets

#### 4.17.1 Classification

The Group classifies its financial assets in four categories: held to maturity, loans and receivables, at fair value through profit or loss and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

# Notes to the Consolidated Financial Statements
for the year ended December 31, 2011

i) **Held to maturity**

A financial asset is classified in this category if acquired by the Group with the intention and ability to hold them upto maturity

(ii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise trade debts, loans and advances, other receivables, security deposits and cash and bank balances.

(iii) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

(iv) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

### 4.17.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the consolidated profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated profit and loss account as part of other income when the Group's right to receive payment is established.

### 4.17.3 Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

### 4.18 Trade debts

Trade debts are recognised initially at fair value and subsequently measured at cost less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the trade debts. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade debt is doubtful. The provision is recognised in the consolidated profit and loss account. When a trade debt is

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the consolidated profit and loss account.

### 4.19 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 4.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs are charged to consolidated profit and loss account.

### 4.21 Dividend distribution

Final dividend distribution to the Group's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividend is approved by the Group's shareholders at the Annual General Meeting, while interim dividend distributions are recognised in the period in which the dividends are declared by the Board of Directors.

### 4.22 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### 4.23 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## 5. Financial risk management

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Treasury Sub Committee (the Committee) under policies approved by the board of directors (the Board). The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of these policies.

# Notes to the Consolidated Financial Statements
for the year ended December 31, 2011

**(a) Market risk**

**(i) Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Great Britain Pound Sterling (GBP) and the Euro. Currently, the Group's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/payable from/to the foreign entities and outstanding letters of credit.

Financial assets include Rs 187,601 thousand (2010: 61,018 thousand) and financial liabilities include Rs 460,393 thousand (2010: 159,402 thousand) which were subject to foreign exchange risk.

At December 31 2011, if the functional currency had weakened/strengthened by 10% against foreign currencies, with all other variables held constant, the profit after taxation for the year would have been lower/higher by Rs 17.73 million (2010: Rs 6.41 million).

**(ii) Price risk**

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is not exposed to equity price risk since there are no investments in equity securities. The Group is also not exposed to commodity price risk.

**(iii) Cash flow and fair value interest rate risk**

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is not exposed to fair value interest rate risk as it does not hold any fixed rate instruments.

The Group has no significant long-term interest-bearing assets or liabilities whose fair value or future cash flows will fluctuate because of changes in market interest rates.

Financial liabilities include balances of Rs 1,783,623 thousand (2010: Rs 2,252,218 thousand) which are subject to interest rate risk. Applicable interest rates for financial liabilities have been indicated in respective notes.

At balance sheet date, if interest rates had been 1% higher/lower, with all other variables held constant, profit after taxation for the year would have been Rs 11.59 million (2010: Rs 14.64 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

**(b) Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from trade debts, loans and advances, other receivables and deposits with banks. The table below shows bank balances held with counterparties at the balance sheet date.

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| Counterparty | Rating Short term | Rating Long term | Rating Agency | Rs (million) 2011 | Rs (million) 2010 |
|---|---|---|---|---|---|
| MCB Bank Limited | A1+ | AA+ | PACRA | 25.08 | 16.32 |
| Citibank N.A. | P-1 | A1 | Moody's | 35.94 | 20.02 |
| Deutsche Bank AG | P-1 | Aa3 | Moody's | 45.97 | 11.12 |
| Barclays Bank p.l.c | P-1 | Aa3 | Moody's | 0.48 | 1.10 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | - | 1.99 |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS | - | 0.63 |
| | | | | 107.47 | 51.18 |

Trade debts, loans and advances and other receivables amounting to Rs 260 million (2010: Rs 137.35 million) do not include any amounts which are past due or impaired.

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2011, the Group had Rs 3,566 million unutilised borrowing facilities from financial institutions and Rs 110 million cash and bank balances. Further, the Group also has strong financial support from its holding company. Based on the above, in spite the fact that the Group is in a negative working capital position at the year end, management believes the liquidity risk to be low.

**5.2 Capital management**

The Group's objectives when managing capital risks are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

**5.3 Fair value estimation**

The carrying values of financial instruments approximate their fair values.

## 6. Critical accounting estimates and judgements

**(a) Income taxes**

The Group recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (note 4.7) is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

**(b) Employee benefits**

Retirement benefit plans (note 4.11 a)
Employees' termination benefits (note 4.11b)
Bonus plans (note 4.11d)

**(c) Property, plant and equipment**

The Group reviews useful life and residual value of property, plant and equipment (note 4.13) on regular basis. Any change in estimates may affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge.

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **7. Cost of sales** | | |
| Raw material consumed | | |
| Opening stock of raw materials and work in process | 5,318,558 | 4,915,788 |
| Raw material purchases and expenses - note 7.1 | 13,121,930 | 11,436,719 |
| Closing stock of raw materials and work in process | (5,376,669) | (5,318,558) |
| | 13,063,819 | 11,033,949 |
| Government taxes and levies | | |
| Customs duty and surcharges | 458,482 | 374,090 |
| Provincial and municipal taxes and other duties | 137,349 | 115,502 |
| Excise duty on royalty | 35,842 | 34,534 |
| | 631,673 | 524,126 |
| | 13,695,492 | 11,558,075 |
| Royalty | 358,468 | 345,340 |
| Production overheads | | |
| Salaries, wages and benefits | 1,366,513 | 1,206,280 |
| Stores, spares and machine repairs | 443,334 | 351,581 |
| Fuel and power | 362,813 | 312,685 |
| Insurance | 32,498 | 25,445 |
| Repairs and maintenance | 127,490 | 120,481 |
| Postage, telephone and stationery | 10,753 | 12,152 |
| Information technology | 74,156 | 73,277 |
| Depreciation | 525,199 | 498,768 |
| Stock written off | 6,960 | 18,176 |
| Stores and spares written off | 24,953 | 9,578 |
| Sundries | 82,040 | 50,565 |
| | 3,056,709 | 2,678,988 |
| Cost of goods manufactured | 17,110,669 | 14,582,403 |
| Cost of finished goods | | |
| Opening stock | 684,265 | 849,579 |
| Closing stock | (1,085,661) | (684,265) |
| | (401,396) | 165,314 |
| Cost of sales | 16,709,273 | 14,747,717 |

**7.1 Raw material purchases and expenses**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Materials | 12,059,600 | 10,525,185 |
| Salaries, wages and benefits | 490,922 | 421,119 |
| Stores, spares and machine repairs | 206,531 | 175,538 |
| Fuel and power | 136,222 | 100,181 |
| Property rentals | 44,607 | 39,827 |
| Insurance | 5,714 | 2,231 |
| Repairs and maintenance | 17,898 | 9,675 |
| Postage, telephone and stationery | 6,328 | 4,791 |
| Depreciation | 100,627 | 103,297 |
| Sundries | 53,481 | 54,875 |
| | 13,121,930 | 11,436,719 |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **8. Selling and distribution expenses** | | |
| Salaries, wages and benefits | 460,357 | 363,931 |
| Selling expenses | 2,151,830 | 2,473,812 |
| Freight | 282,209 | 235,187 |
| Repairs and maintenance | 103,323 | 88,974 |
| Postage, telephone and stationery | 7,044 | 7,937 |
| Travelling | 46,770 | 46,520 |
| Property rentals | 8,445 | 7,180 |
| Insurance | 7,549 | 7,960 |
| Stock written off | 4,413 | 2,318 |
| Depreciation | 57,998 | 45,571 |
| | 3,129,938 | 3,279,390 |
| **9. Administrative expenses** | | |
| Salaries, wages and benefits | 703,725 | 614,252 |
| Fuel and power | 30,722 | 20,651 |
| Property rentals | 84,409 | 79,334 |
| Insurance | 4,514 | 5,261 |
| Repairs and maintenance | 44,075 | 51,916 |
| Postage, telephone and stationery | 15,359 | 17,340 |
| Legal and professional charges | 26,776 | 19,179 |
| Donations - note 9.1 | 1,770 | 42,614 |
| Information technology | 220,200 | 152,210 |
| Travelling | 63,313 | 83,131 |
| Depreciation | 90,319 | 97,208 |
| Auditor's remuneration and expenses - note 9.2 | 7,490 | 7,969 |
| Sundries | 29,041 | 42,100 |
| | 1,321,713 | 1,233,165 |

**9.1** This includes an amount of Rs 1,600 thousand (2010: 42,164 thousand) paid to Gottfried Thoma - PTC Employees Benevolent Trust. A director of the Company is also trustee of this Trust.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **9.2** Auditor's remuneration and expenses include: | | |
| – Statutory audit fee | 1,295 | 1,177 |
| – Group reporting, review of half yearly accounts, audit of consolidated accounts, special certifications and staff retirement benefit funds | 2,831 | 2,580 |
| – Tax services | 2,969 | 3,886 |
| – Out-of-pocket expenses | 395 | 326 |
| | 7,490 | 7,969 |

# Notes to the Consolidated Financial Statements
for the year ended December 31, 2011

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **10. Other operating expenses** | | |
| Employees' termination benefits | 994,630 | 4,332 |
| Workers' Profit Participation Fund | 30,126 | 76,125 |
| Workers' Welfare Fund | 13,127 | 28,360 |
| Bank charges and fees | 32,037 | 38,800 |
| Operating fixed assets written off | 104,208 | - |
| Other receivables written off | 8,235 | 1,193 |
| Security deposits written off | - | 4,020 |
| Provision for potential contractual obligation | - | 53,000 |
| Foreign exchange loss | - | 2,215 |
| Interest on Workers' Profit Participation Fund | - | 166 |
| | 1,182,363 | 208,211 |
| **11. Other operating income** | | |
| Income from associated company | 28,144 | 22,536 |
| Gain on disposal of operating fixed assets | 19,361 | 14,543 |
| Foreign exchange gain | 1,895 | - |
| Miscellaneous | 4,567 | 9,531 |
| | 53,967 | 46,610 |
| **12. Income tax expense** | | |
| Current | 235,348 | 465,175 |
| Deferred | (39,858) | 27,734 |
| | 195,490 | 492,909 |

**12.1 Effective tax rate reconciliation:**

Numerical reconciliation between the average effective income tax rate and applicable income tax rate is as follows:

| | 2011 (%) | 2010 (%) |
|---|---|---|
| Applicable tax rate | 35.00 | 35.00 |
| Tax effect of: | | |
| Inadmissible expenses | 0.12 | 0.17 |
| Income taxed at different rate | (0.09) | (0.37) |
| Others | (0.08) | (0.04) |
| Average effective tax rate | 34.95 | 34.76 |

# Notes to the Consolidated Financial Statements
for the year ended December 31, 2011

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **12.2 Tax on items directly credited to statement of comprehensive income** | | |
| Current tax credit on defined benefit plans | (35,685) | (27,076) |
| Deferred tax credit on defined benefit plans | (15,685) | - |
| | (51,370) | (27,076) |

## 13. Earnings per share

| | 2011 | 2010 |
|---|---|---|
| Profit after tax (Rs '000) | 363,785 | 925,100 |
| Number of fully paid weighted average ordinary shares ('000) | 255,494 | 255,494 |
| Earnings per share - Basic (Rs) | 1.42 | 3.62 |

There is no dilutive effect on the basic earnings per share of the Group.

## 14. Remuneration of Chief Executive, Directors and Executives

The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to Chief Executive, Executive Directors and executives are as follows:-

| | Chief Executive | | Executive Directors | | Executives | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Key management personnel | | Other executives | | | |
| | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 |
| Managerial remuneration | 56,315 | 55,817 | 47,673 | 58,966 | 188,608 | 170,207 | 456,932 | 379,637 | 749,528 | 664,627 |
| Corporate bonus | 19,983 | 8,142 | 91,079 | 70,529 | 148,839 | 72,760 | 167,811 | 58,082 | 427,712 | 209,513 |
| Leave fare assistance | 2,355 | 3,073 | 3,044 | 3,937 | 5,578 | 4,251 | 3,376 | 3,739 | 14,353 | 15,000 |
| Housing and utilities | 9,584 | 7,773 | 15,002 | 13,454 | 46,274 | 43,321 | 194,382 | 163,442 | 265,242 | 227,990 |
| Medical expenses | 42 | 3 | 2,080 | 1,191 | 5,806 | 7,888 | 31,268 | 19,343 | 39,196 | 28,425 |
| Post employment benefits | 11,247 | 9,194 | 8,206 | 7,168 | 27,811 | 31,064 | 103,973 | 79,599 | 151,237 | 127,025 |
| | 99,526 | 84,002 | 167,084 | 155,245 | 422,916 | 329,491 | 957,742 | 703,842 | 1,647,268 | 1,272,580 |
| Number of persons | 1 | 1 | 4 | 5 | 28 | 32 | 333 | 286 | 366 | 324 |

**14.1** The Group, in certain cases, also provides individuals with the use of company accommodation, cars and household items, in accordance with their entitlements.

**14.2** The aggregate amounts charged in the consolidated financial statements of the year for remuneration including all benefits to four (2010: six) non-executive directors of the Group amounted to Rs 3,916 thousand (2010: Rs 4,935 thousand).

# Notes to the Consolidated Financial Statements
## for the year ended December 31, 2011

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **15. Property, plant and equipment** | | |
| Operating assets - note 15.1 | 5,426,487 | 5,625,279 |
| Capital work in progress - note 15.2 | 690,845 | 223,457 |
| | 6,117,332 | 5,848,736 |

### 15.1 Operating assets

| | Free-hold land Rs '000 | Buildings on free-hold land Rs '000 | Buildings on leasehold land Rs '000 | Private railway sidings Rs '000 | Plant and machinery Rs '000 | Office and household equipment Rs '000 | Furniture and fittings Rs '000 | Vehicles Rs '000 | Total Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2010** | | | | | | | | | |
| Cost | 10,198 | 522,297 | 25,712 | 349 | 7,751,713 | 451,141 | 83,377 | 613,930 | 9,458,717 |
| Accumulated depreciation | - | (144,119) | (14,474) | (323) | (3,244,088) | (226,296) | (10,380) | (332,635) | (3,972,315) |
| Net book amount at January 1, 2010 | 10,198 | 378,178 | 11,238 | 26 | 4,507,625 | 224,845 | 72,997 | 281,295 | 5,486,402 |
| **Year ended December 31, 2010** | | | | | | | | | |
| Net book amount at January 1, 2010 | 10,198 | 378,178 | 11,238 | 26 | 4,507,625 | 224,845 | 72,997 | 281,295 | 5,486,402 |
| Additions | - | 38,330 | - | - | 562,349 | 113,747 | 11,885 | 186,819 | 913,130 |
| Disposals | - | - | - | - | (8,031) | (5,689) | (4) | (15,685) | (29,409) |
| Depreciation charge | - | (15,330) | (435) | - | (534,902) | (64,703) | (11,830) | (117,644) | (744,844) |
| Net book amount at December 31, 2010 | 10,198 | 401,178 | 10,803 | 26 | 4,527,041 | 268,200 | 73,048 | 334,785 | 5,625,279 |
| **At January 1, 2011** | | | | | | | | | |
| Cost | 10,198 | 560,627 | 25,712 | 349 | 8,283,622 | 523,704 | 95,224 | 724,401 | 10,223,837 |
| Accumulated Depreciation | - | (159,449) | (14,909) | (323) | (3,756,581) | (255,504) | (22,176) | (389,616) | (4,598,558) |
| Net book amount January 1, 2011 | 10,198 | 401,178 | 10,803 | 26 | 4,527,041 | 268,200 | 73,048 | 334,785 | 5,625,279 |
| **Year ended December 31, 2011** | | | | | | | | | |
| Net book amount at January 1, 2011 | 10,198 | 401,178 | 10,803 | 26 | 4,527,041 | 268,200 | 73,048 | 334,785 | 5,625,279 |
| Additions | - | 17,479 | - | - | 502,206 | 86,716 | 9,280 | 76,589 | 692,270 |
| Disposals | - | - | - | - | (80,963) | (19,797) | (3,832) | (12,327) | (116,919) |
| Depreciation charge | - | (16,185) | (432) | - | (547,204) | (73,056) | (13,827) | (123,439) | (774,143) |
| Net book amount at December 31, 2011 | 10,198 | 402,472 | 10,371 | 26 | 4,401,080 | 262,063 | 64,669 | 275,608 | 5,426,487 |
| **At December 31, 2011** | | | | | | | | | |
| Cost | 10,198 | 578,105 | 25,712 | 349 | 8,643,056 | 568,501 | 99,661 | 738,128 | 10,663,710 |
| Accumulated depreciation | - | (175,633) | (15,341) | (323) | (4,241,976) | (306,438) | (34,992) | (462,520) | (5,237,223) |
| Net book amount at December 31, 2011 | 10,198 | 402,472 | 10,371 | 26 | 4,401,080 | 262,063 | 64,669 | 275,608 | 5,426,487 |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| **15.2** | **Capital work in progress** | | |
| | Civil and electrical works | 12,563 | 12,563 |
| | Plant and machinery | 582,679 | 195,265 |
| | Advances to suppliers | 95,603 | 15,629 |
| | | 690,845 | 223,457 |
| **15.3** | Depreciation charge has been allocated as follows: | | |
| | Cost of sales | 525,199 | 498,768 |
| | Raw material purchases and expenses | 100,627 | 103,297 |
| | Selling and distribution expenses | 57,998 | 45,571 |
| | Administrative expenses | 90,319 | 97,208 |
| | | 774,143 | 744,844 |

**15.4** Details of property, plant and equipment disposed off during the year, having book value of Rs 50,000 or more are as follows:

| | Original Cost Rs '000 | Book Value Rs '000 | Sale Proceeds Rs '000 | Particulars of Buyers |
|---|---|---|---|---|
| Vehicles | | | | |
| - as per Company's policy | 845 | 85 | 85 | Syed Hammad Ali - Employee |
| | 885 | 89 | 89 | Muhammad Gulzar - Employee |
| | 980 | 98 | 302 | Syed Khurram Shah - Employee |
| | 1,014 | 317 | 560 | Athar Sultan - Employee |
| | 1,309 | 131 | 131 | Athar Baig - Employee |
| | 1,319 | 132 | 238 | Younis Jan Durrani - Ex Employee |
| | 1,370 | 137 | 344 | Najeeb Ur Rehman - Ex Employee |
| | 1,809 | 678 | 1,095 | Hina Ahmed - Ex Employee |
| | 2,214 | 221 | 650 | Iqtidar Ahmed - Ex Employee |
| | 2,750 | 630 | 1,435 | Wajid Ali - Ex Employee |
| | 2,899 | 423 | 1,176 | Zahid Ul Islam - Ex Employee |
| | 6,093 | 609 | 609 | Mobasher Raza - Employee |
| - by auction | 604 | 60 | 552 | Sujawal Khan - Islamabad |
| | 739 | 74 | 773 | Sheryar Khan - Charsadda |
| | 835 | 84 | 694 | Falak Naaz - Buner |
| | 835 | 84 | 994 | S.M Ahsan Zaidi - Islamabad |
| | 845 | 85 | 880 | Huzaifa - Islamabad |
| | 845 | 85 | 991 | Mohammad Azam - Islamabad |
| | 881 | 88 | 950 | Syed Tayyab Tahir - Lahore |
| | 885 | 88 | 688 | Rizwan Mazher - Rawalpindi |
| | 1,024 | 102 | 931 | Raja Farooq - Rawalpindi |
| | 1,051 | 105 | 547 | Aziz Khan - Rawalpindi |
| | 1,309 | 131 | 900 | Zahid Qadri - Karachi |
| | 1,503 | 150 | 738 | Tahir Zada - Blambat, Lower Deer |
| | 1,852 | 185 | 875 | Syed Tayyab Tahir - Lahore |
| | 4,320 | 432 | 1,207 | Raja M.Naveed - Rawalpindi |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| | Original Cost Rs '000 | Book Value Rs '000 | Sale Proceeds Rs '000 | Particulars of Buyers |
|---|---|---|---|---|
| - by insurance claim | 558 | 244 | 495 | New Hampshire Insurance Company |
| | 575 | 503 | 545 | -do- |
| | 580 | 398 | 545 | -do- |
| | 651 | 232 | 595 | -do- |
| | 683 | 270 | 595 | -do- |
| | 1,309 | 131 | 1,345 | -do- |
| | 1,790 | 1,454 | 1,785 | -do- |
| | 1,869 | 1,168 | 1,745 | -do- |

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **16. Long term loans - unsecured, considered good** | | |
| Related parties | | |
| Key management personnel | 164 | 452 |
| Others | | |
| Executives | 2,856 | 3,817 |
| Other employees | - | 1,698 |
| | 2,856 | 5,515 |
| | 3,020 | 5,967 |
| Less: Receivable within one year | 1,760 | 2,550 |
| | 1,260 | 3,417 |

### 16.1 Reconciliation of loans:

| | Executives | | | | Other employees | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Key management personnel | | Other executives | | | | | |
| | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 |
| Balance as at January 1 | 452 | 487 | 3,817 | 6,629 | 1,698 | 4,313 | 5,967 | 11,429 |
| Disbursements | - | - | - | - | - | - | - | - |
| Repayments | 288 | 35 | 961 | 2,812 | 1,698 | 2,615 | 2,947 | 5,462 |
| Balance as at December 31 | 164 | 452 | 2,856 | 3,817 | - | 1,698 | 3,020 | 5,967 |

The above comprises interest free loans for purchase of household furniture, appliances, cars and motorcycles and are repayable over 5 to 10 years in equal monthly installments.

**16.2** The maximum amount due from the key management personnel and other executives at the end of any month during the year was:

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Key management personnel | 382 | 651 |
| Other executives | 5,073 | 7,256 |
| | 5,455 | 7,907 |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|
| **17.** | **Long term deposits and prepayments** | | |
| | Security deposits | 17,000 | 10,540 |
| | Prepayments | 5,640 | 4,835 |
| | | 22,640 | 15,375 |
| **18.** | **Stock-in-trade** | | |
| | Raw materials | 5,119,241 | 5,130,471 |
| | Raw materials in transit | 207,493 | 144,924 |
| | Work in process | 49,935 | 43,163 |
| | Finished goods | 1,085,661 | 684,265 |
| | | 6,462,330 | 6,002,823 |
| **19.** | **Stores and spares** | | |
| | Stores | 2,210 | 1,506 |
| | Machine spares | 187,900 | 197,701 |
| | | 190,110 | 199,207 |
| **20.** | **Trade debts** | | |
| | Considered good | 1,202 | 1,597 |
| | Considered doubtful | 2,322 | 2,322 |
| | | 3,524 | 3,919 |
| | Provision for doubtful debts | (2,322) | (2,322) |
| | | 1,202 | 1,597 |
| **21.** | **Loans and advances - unsecured, considered good** | | |
| | Related parties | | |
| | Loans to key management personnel | 67 | 113 |
| | Advances due from key management personnel | - | 3,208 |
| | Others | | |
| | Loans to executives and other employees | 1,693 | 2,437 |
| | Advances due from executives and other employees - note 21.1 | 32,370 | 25,910 |
| | Advances due from others | 30,180 | 16,599 |
| | | 64,310 | 48,267 |

**21.1** Includes Rs 19,828 thousand (2010: Rs 17,662 thousand) due from executives of the Group.

# Notes to the Consolidated Financial Statements

**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **22. Other receivables** | | |
| Related parties - unsecured | | |
| Due from holding company / associated companies - note 22.1 | 134,426 | 39,221 |
| Management's Provident Fund | 1,354 | 7,406 |
| Employees' Provident Fund | - | 2,013 |
| Others | | |
| Claims | 7,494 | 18,067 |
| Workers' Profit Participation Fund | 5,874 | 1,875 |
| Margin against guarantees | 24,868 | - |
| Others | 2,212 | 4,943 |
| | 176,228 | 73,525 |
| **22.1** The amount due from holding company / associated companies comprises: | | |
| Holding Company | | |
| British American Tobacco p.l.c. - UK | 5,055 | 2,513 |
| Associated Companies | | |
| PT Bentoel Prima - Indonesia | 93,610 | - |
| BAT SAA Services (Private) Limited - Pakistan | 28,738 | 12,918 |
| BAT Marketing (Singapore) Pte Ltd - Singapore | 2,044 | 16,949 |
| BAT Asia-Pacific Region Ltd - Hong Kong | 1,681 | 1,683 |
| Rothmans Far East B.V - South Korea | 1,003 | - |
| BAT Switzerland SA | 779 | - |
| BAT (Singapore) Pte Ltd - Singapore | 710 | 589 |
| BAT ASPAC Service Center Sdn Bhd - Malaysia | 528 | 670 |
| BAT PNG - Papua New Guinea | 278 | - |
| BAT Vietnam Ltd - Vietnam | - | 2,246 |
| BAT Western Europe Area - Netherland | - | 583 |
| BAT (Taiwan) Ltd - Taiwan | - | 289 |
| BAT Equatorial Africa Area Ltd - Kenya | - | 273 |
| BAT Australia Ltd EFT - Australia | - | 196 |
| BAT Egypt - Egypt | - | 187 |
| BAT (Malaysia) Berhad - Malaysia | - | 125 |
| | 134,426 | 39,221 |
| **23. Cash and bank balances** | | |
| Deposit accounts | 16,883 | 14,104 |
| Current accounts | | |
| Local currency | 1,845 | 5,941 |
| Foreign currency | 81,913 | 31,139 |
| | 100,641 | 51,184 |
| Cash in transit | 6,828 | - |
| Cash in hand | 2,162 | 761 |
| | 109,631 | 51,945 |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **24. Trade and other payables** | | |
| Related parties - unsecured | | |
| Due to holding company / associated companies - note 24.1 | 451,905 | 198,914 |
| Others | | |
| Creditors | 1,095,633 | 910,153 |
| Federal excise duty - note 24.2 | 2,781,825 | 2,779,617 |
| Sales tax | 613,880 | 648,206 |
| Tobacco excise duty / Tobacco development cess - note 24.3 | 70,770 | 76,292 |
| Employees' termination benefits | 985,908 | - |
| Other employee benefits - note 24.4 | 565,749 | 274,238 |
| Retirement benefits - note 26 | 205,704 | 85,621 |
| Staff pension fund - defined contribution | 127 | 889 |
| Employees' Provident Fund | 741 | - |
| Workers' Welfare Fund | 26,661 | 40,854 |
| Other accrued liabilities | 217,893 | 206,017 |
| Advances from customers | 2,737 | 74,457 |
| Security deposits | 16,883 | 14,104 |
| Unclaimed dividend | 31,315 | 30,390 |
| | 7,067,731 | 5,339,752 |

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **24.1** The amount due to holding company / associated companies comprises: | | |
| Holding Company | | |
| British American Tobacco p.l.c. - UK | 149,671 | 80,805 |
| Associated Companies | | |
| BAT GLP Ltd - UK | 107,858 | - |
| BAT Asia-Pacific Region Ltd - Hong Kong | 73,786 | 69,679 |
| BAT Marketing (Singapore) Pte Ltd - Singapore | 70,939 | 25,522 |
| BAT ASPAC Service Center Sdn Bhd - Malaysia | 43,731 | 18,213 |
| Ceylon Tobacco Company Plc - Sri Lanka | 4,016 | 278 |
| BAT SA Ltd - South Africa | 1,068 | - |
| BAT Bangladesh Co. Ltd - Bangladesh | - | 3,727 |
| BAT (Malaysia) Berhad - Malaysia | 836 | 612 |
| BAT Hungary - Hungary | - | 55 |
| Rothmans Far East B.V - South Korea | - | 23 |
| | 451,905 | 198,914 |

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **24.2 Federal excise duty** | | |
| Balance as at January 1 | 2,779,617 | 2,604,744 |
| Charge for the year | 34,719,661 | 30,476,421 |
| Payment to the Government during the year | (34,717,453) | (30,301,548) |
| Balance as at December 31 | 2,781,825 | 2,779,617 |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

| | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|
| **24.3 Tobacco excise duty / Tobacco development cess:** | | |
| Balance as at January 1 | 76,292 | 66,783 |
| Charge for the year | 89,536 | 78,972 |
| Payment to the Government during the year | (95,058) | (69,463) |
| Balance as at December 31 | 70,770 | 76,292 |
| **24.4 Other employee benefits** | | |
| Balance as at January 1 | 274,238 | 317,769 |
| Charge for the year | 526,518 | 300,135 |
| Payment to employees during the year | (235,007) | (343,666) |
| Balance as at December 31 | 565,749 | 274,238 |

Other employee benefits represent bonus to eligible employees.

## 25. Short term running finance - secured

**(a) Short term running finance**

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 5,350 million (2010: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 3,566 million (2010: Rs 3,098 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 5,940 million (2010: Rs 5,940 million). The mark-up ranges between 12.42% and 14.79% (2010: 12.72% and 14.39%) per annum and is payable quarterly. The facilities are renewable on annual basis.

**(b) Non-funded finance facilities**

The Group also has non-funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 2,500 million (2010: Rs 2,500 million) and Rs 355 million (2010: Rs 355 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 588 million (2010: Rs 748 million) and Rs 109 million (2010: Rs 200 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2010: Rs 355 million).

| | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|
| **26. Retirement benefits** | | |
| Staff pension fund | 158,626 | 51,640 |
| Employees gratuity fund | 47,078 | 33,981 |
| | 205,704 | 85,621 |

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2011 using the projected unit credit method. Details of the defined benefit plans are:

# Notes to the Consolidated Financial Statements

**for the year ended December 31, 2011**

| | | Defined benefit pension plan | | Defined benefit gratuity plan | |
|---|---|---|---|---|---|
| | | 2011 Rs '000 | 2010 Rs '000 | 2011 Rs '000 | 2010 Rs '000 |
| **(a)** | **The amounts recognised in the balance sheet:** | | | | |
| | Present value of defined benefit obligations | 2,841,970 | 2,399,679 | 792,745 | 683,533 |
| | Fair value of plan assets | (2,683,344) | (2,348,039) | (745,667) | (649,552) |
| | Net liability | 158,626 | 51,640 | 47,078 | 33,981 |
| **(b)** | **Movement in the liability recognized in the balance sheet is as follow:** | | | | |
| | Balance as at January 1 | 51,640 | 14,206 | 33,981 | 45,201 |
| | Charge for the year - profit & loss | 70,544 | 58,042 | 33,742 | 32,494 |
| | Charge for the year - statement of comprehensive income | 107,313 | 50,959 | 39,457 | 26,401 |
| | Employer's contribution during the year | (70,871) | (71,567) | (60,102) | (70,115) |
| | Balance as at December 31 | 158,626 | 51,640 | 47,078 | 33,981 |
| **(c)** | **The amounts recognised in the profit and loss account:** | | | | |
| | Current service cost | 95,271 | 94,207 | 32,674 | 29,860 |
| | Interest cost | 354,861 | 267,722 | 96,129 | 73,324 |
| | Expected return on plan assets | (337,442) | (265,045) | (91,279) | (67,527) |
| | Members' own contribution | (26,341) | (26,298) | - | - |
| | Secondees' own contribution | (5,246) | (4,417) | - | - |
| | Contribution by employer in respect of secondees | (10,559) | (8,127) | (3,782) | (3,163) |
| | | 70,544 | 58,042 | 33,742 | 32,494 |
| **(d)** | **The aggregate amounts recognised in the statement of comprehensive income:** | | | | |
| | Actuarial losses as at January 1 | 456,420 | 405,461 | 265,547 | 239,146 |
| | Actuarial losses on defined benefit obligations | 121,344 | 37,773 | 69,571 | 28,101 |
| | Actuarial losses / (gains) on plan assets | (14,031) | 13,186 | (30,114) | (1,700) |
| | | 107,313 | 50,959 | 39,457 | 26,401 |
| | Actuarial losses as at December 31 | 563,733 | 456,420 | 305,004 | 265,547 |
| **(e)** | **Changes in the present value of defined benefit obligation:** | | | | |
| | Present value of defined benefit obligation as at January 1 | 2,399,679 | 2,100,232 | 683,533 | 586,297 |
| | Current service cost | 95,271 | 94,207 | 32,674 | 29,860 |
| | Interest cost | 354,861 | 267,722 | 96,129 | 73,324 |
| | Actual benefits paid during the year | (129,185) | (100,255) | (89,162) | (34,049) |
| | Actuarial losses | 121,344 | 37,773 | 69,571 | 28,101 |
| | Present value of defined benefit obligation as at December 31 | 2,841,970 | 2,399,679 | 792,745 | 683,533 |

# Notes to the Consolidated Financial Statements
## for the year ended December 31, 2011

| | | Defined benefit pension plan 2011 Rs '000 | Defined benefit pension plan 2010 Rs '000 | Defined benefit gratuity plan 2011 Rs '000 | Defined benefit gratuity plan 2010 Rs '000 |
|---|---|---|---|---|---|
| (f) | **Changes in the fair value of plan assets:** | | | | |
| | Fair value of plan assets as at January 1 | 2,348,039 | 2,086,026 | 649,551 | 541,096 |
| | Expected return on plan assets | 337,442 | 265,045 | 91,279 | 67,527 |
| | Contribution by employer in respect of members | 70,871 | 71,567 | 60,102 | 70,115 |
| | Members' own contribution | 26,341 | 26,298 | - | - |
| | Secondees' own contribution | 5,246 | 4,417 | - | - |
| | Contribution by employer in respect of secondees | 10,559 | 8,127 | 3,782 | 3,163 |
| | Actual benefits paid during the year | (129,185) | (100,255) | (89,162) | (34,049) |
| | Actuarial (losses) / gains | 14,031 | (13,186) | 30,114 | 1,700 |
| | Fair value of plan assets as at December 31 | 2,683,344 | 2,348,039 | 745,666 | 649,552 |
| | Actual return on plan assets | 341,127 | 254,909 | 116,913 | 64,711 |

During the year 2012 the Company expects to contribute Rs 76.804 million and Rs 40.627 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

| | | Defined benefit pension plan 2011 Rs '000 | Defined benefit pension plan 2010 Rs '000 | Defined benefit gratuity plan 2011 Rs '000 | Defined benefit gratuity plan 2010 Rs '000 |
|---|---|---|---|---|---|
| (g) | **The major categories of plan assets:** | | | | |
| | Investment in equities | 348,386 | 218,145 | - | 81,754 |
| | Investment in bonds | 2,328,743 | 2,122,487 | 745,142 | 565,283 |
| | Cash | 6,215 | 2,279 | 525 | 2,460 |
| | Other assets | - | 5,128 | - | 55 |
| | | 2,683,344 | 2,348,039 | 745,667 | 649,552 |
| (h) | **Significant actuarial assumptions at the balance sheet date:** | | | | |
| | Discount rate | 12.50% | 14.50% | 12.50% | 14.50% |
| | Expected rate of return on plan assets | 12.50% | 14.50% | 12.50% | 14.50% |
| | Expected rate of increase in salary | | | | |
| | First year | 14.00% | 13.00% | 14.00% | 13.00% |
| | Second year onwards | 11.50% | 13.00% | 11.50% | 13.00% |
| | Pension increase rate | 8.50% | 10.50% | - | - |

The discount rate is determined by considering underlying yield currently available on Pakistan Investment Bonds and high quality term finance certificates and expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Salary increase assumption is based on the current general practice in the market.

# Notes to the Consolidated Financial Statements

**for the year ended December 31, 2011**

| | 2011 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2007 Rs '000 |
|---|---|---|---|---|---|
| **(i) Amounts for the current and previous four years:** | | | | | |
| **Defined Benefit Pension Plan** | | | | | |
| Present value of defined benefit obligation | 2,841,970 | 2,399,679 | 2,100,232 | 1,769,557 | 1,704,382 |
| Fair value of plan assets | (2,683,344) | (2,348,039) | (2,086,026) | (1,232,749) | (1,367,884) |
| Deficit | 158,626 | 51,640 | 14,206 | 536,808 | 336,498 |
| Experience (gain)/loss on obligation | 28,146 | 37,773 | 83,719 | 63,120 | 122,206 |
| Experience (gain)/loss on plan assets | (3,685) | 10,136 | (166,211) | 333,376 | (12,878) |
| **Defined Benefit Gratuity Plan** | | | | | |
| Present value of defined benefit obligation | 792,745 | 683,533 | 586,297 | 460,720 | 490,379 |
| Fair value of plan assets | (745,667) | (649,552) | (541,096) | (258,395) | (337,374) |
| Deficit | 47,078 | 33,981 | 45,201 | 202,325 | 153,005 |
| Experience (gain)/loss on obligation | 25,977 | 28,101 | 63,208 | 73,527 | 46,209 |
| Experience (gain)/loss on plan assets | (26,008) | 2,816 | (40,000) | 64,891 | (152) |

**26.1** Salaries, wages and benefits as appearing in note 7, 8 and 9 include amounts in respect of the following:

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Provident Fund | 59,340 | 56,290 |
| Pension Fund | 70,544 | 58,042 |
| Gratuity Fund | 33,742 | 32,494 |
| | 163,626 | 146,826 |

## 27. Deferred income tax liability

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity where there is an intention to settle the balances on a net basis.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| The offset amounts are as follows: | | |
| Deferred tax assets | (25,916) | (10,231) |
| Deferred tax liabilities | 1,107,954 | 1,147,812 |
| Deferred tax liability (net) | 1,082,038 | 1,137,581 |
| The gross movement on deferred income tax account is as follows: | | |
| At January 1 | 1,137,581 | 1,109,847 |
| Charge/(Credit) for the year - profit and loss account (note 12) | (39,858) | 27,734 |
| (Credit) for the year - statement of comprehensive income (note 12.2) | (15,685) | - |
| At December 31 | 1,082,038 | 1,137,581 |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within same tax jurisdiction, is as follows:

The deferred income tax asset is related to the temporary differences between carrying amount of retirement benefit and the corresponding tax base.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Balance as at January 1 | (10,231) | (10,231) |
| (Credit) for the year - statement of comprehensive income | (15,685) | - |
| Balance as at December 31 | (25,916) | (10,231) |

The deferred income tax liability is related to temporary differences between carrying amount of operating fixed assets and the corresponding tax base.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| Balance as at January 1 | 1,147,812 | 1,120,078 |
| Charge/(Credit) for the year - profit and loss account | (39,858) | 27,734 |
| Balance as at December 31 | 1,107,954 | 1,147,812 |

## 28. Share capital

### 28.1 Authorized share capital

| 2011 (Number of Shares) | 2010 | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|---|
| 300,000,000 | 300,000,000 | Ordinary shares of Rs 10 each | 3,000,000 | 3,000,000 |

### 28.2 Issued, subscribed and paid-up capital

| 2011 (Number of Shares) | 2010 | | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|---|---|
| 230,357,068 | 230,357,068 | Cash | 2,303,571 | 2,303,571 |
| 25,136,724 | 25,136,724 | Bonus shares | 251,367 | 251,367 |
| 255,493,792 | 255,493,792 | | 2,554,938 | 2,554,938 |

British American Tobacco (Investments) Limited held 241,045,141 (2010: 241,045,141) ordinary shares at the year end.

There has been no movement in issued, subscribed and paid-up capital during the year.

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| **29. Contingencies and commitments** | | |
| **29.1 Contingencies** | | |
| **(a) Claims and guarantees** | | |
| (i) Claims against the Group not acknowledged as debt | 131,800 | 127,050 |
| (ii) Guarantees issued by banks on behalf of the Group | 108,747 | 199,608 |

# Notes to the Consolidated Financial Statements

**for the year ended December 31, 2011**

**(b) Litigation**

The Group is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have any material impact on the consolidated financial statements.

**29.2 Commitments**

**(a)** All property rentals are under cancellable operating lease arrangements and are due as follows:

| | 2011 Rs '000 | 2010 Rs '000 |
|---|---|---|
| No later than one year | 32,801 | 20,099 |
| Later than one year and no later than five years | 285,430 | 91,171 |
| Later than five years | 26,739 | 35,898 |

**(b)** Letters of credit outstanding at December 31, 2011 were Rs 587,861 thousand (2010: Rs 748,185 thousand).

## 30. Financial instruments

| | Loans and receivables | |
|---|---|---|
| | 2011 Rs '000 | 2010 Rs '000 |
| **Financial assets and liabilities** | | |
| **Financial assets** | | |
| Maturity up to one year: | | |
| Trade debts | 1,202 | 1,597 |
| Loans and advances | 64,310 | 48,267 |
| Other receivables | | |
| Local Currency | 70,540 | 43,646 |
| Foreign Currency | 105,688 | 29,879 |
| Cash and bank balances | | |
| Local Currency | 27,718 | 20,806 |
| Foreign Currency | 81,913 | 31,139 |
| Maturity after one year: | | |
| Loans | 1,260 | 3,417 |
| Security deposits | 17,000 | 10,540 |
| | 369,631 | 189,291 |

| | Other financial liabilities | |
|---|---|---|
| | 2011 Rs '000 | 2010 Rs '000 |
| **Financial liabilities** | | |
| Maturity up to one year: | | |
| Federal excise duty and sales tax payable | 3,395,705 | 3,427,823 |
| Other trade payables | | |
| Local Currency | 3,208,898 | 1,678,070 |
| Foreign Currency | 460,393 | 159,402 |
| Accrued interest / mark-up | 51,187 | 46,789 |
| Short term running finance | 1,783,623 | 2,252,218 |
| | 8,899,806 | 7,564,302 |

# Notes to the Consolidated Financial Statements
**for the year ended December 31, 2011**

## 31. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2010: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT-IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Group. Such entities are also referred to as 'BAT' in these consolidated financial statements. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is given in note 14 to the consolidated financial statements.

| | 2011<br>Rs '000 | 2010<br>Rs '000 |
|---|---|---|
| Purchase of goods and services from | | |
| Holding company | 267,846 | 192,129 |
| Associated companies | 1,702,866 | 1,370,643 |
| Sale of goods and services to | | |
| Holding company | 7,373 | 5,266 |
| Associated companies | 651,715 | 433,066 |
| Royalty charge from | | |
| Holding company | 358,468 | 345,340 |
| Expenses reimbursed to | | |
| Associated companies | 854 | 553 |
| Expenses reimbursed by | | |
| Holding company | 2,119 | 134 |
| Associated companies | 2,966 | 1,671 |

## 32. Post balance sheet event

Final dividend in respect of the year ended December 31, 2011 of Rs 1.00 (2010: Rs 2.10) per share amounting to a total dividend of Rs 255,494 thousand (2010: 536,537 thousand) has been proposed, over and above the interim dividend of Rs nil (2010: Rs 1.25) per share paid during the year, out of the revenue reserves at the Board of Directors meeting held on March 19, 2012. These consolidated financial statements do not reflect this proposed dividend.

## 33. General

### 33.1 Capacity and production

Against an estimated manufacturing capacity of 45,184 million (2010: 45,270 million) cigarettes, actual production was 40,537 million (2010: 36,196 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

### 33.2 Number of employees

Total number of employees as at December 31, 2011 was 1,543 ( 2010: 1,597).

### 33.3 Date of authorization for issue

These consolidated financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on March 19, 2012.

**Graeme Amey**
Managing Director & CEO

**Mobasher Raza**
Finance Director

# Form of Proxy
## Pakistan Tobacco Company Limited

I, ____________________________________________

of ____________________________________________

a member of Pakistan Tobacco Company Limited, hereby appoint ______________________

______________________ of ______________________

as my proxy to vote for me and on my behalf at the 65th Annual General Meeting of the Company to be held on the 24th April, 2012 and at any and every adjournment thereof.

As witness my hand this ____________ day of ____________ 2012.

Revenue Stamp
Rs 5/=

Signed ______________________

Shareholder's folio No. ______________________

**Note:**

1. The signature should agree with the specimen signature registered with the Company.
2. A proxy need not be a member of the Company.
3. Proxy Forms properly completed should be deposited at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.1-A, 1st Floor, I. I. Chundrigar Road, Karachi not later than 48 hours before the time for holding the Meeting or adjourned Meeting and in default the instrument of proxy shall not be treated as valid.

**For Beneficial Owners as per CDC List**

In addition to the above the following requirements have to be met:

**(i)** Attested copies of CNIC or the Passport of the beneficial owners and the proxy shall be submitted with the Company's Share Registrar not less than 48 hours before the Meeting.

**(ii)** The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

**(iii)** The proxy shall produce his original CNIC or Passport at the time of the Meeting.

**(iv)** In case of a corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature shall be submitted along with proxy form to the Company's Share Registrar.

Witness as per (ii) above:

1. ______________________

______________________

______________________

2. ______________________

______________________

______________________

www.ptc.com.pk

**Pakistan Tobacco Company Limited**
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Islamabad 4400