



70 Years of Leadership

THIS LEGACY OF 7 DECADES IS A TESTAMENT TO OUR RESILIENCE



Condensed Interim Financial Statements

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

Corporate Information

Board of Directors

Mueen Afzal
Chairman and Non-Executive Director

Syed Javed Iqbal
MD & Chief Executive Officer

Wael Sabra
CFO & Director Finance / IT

Tajamal Shah
Executive Director

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

Imran Maqbool
Non-Executive Director

Zafar Mahmood
Non-Executive Director

Hae In Kim
Non-Executive Director

Michael Koest
Non-Executive Director

Audit Committee

Zafar Mahmood

Lt. Gen. (Retd.) Ali Kuli Khan Khattak

Imran Maqbool

Michael Koest

Hae In Kim

Umair Luqman (Secretary)

Company Secretary

M Idries Ahmed

Registered Office

Pakistan Tobacco Company Limited
Serena Business Complex, Khayaban-e-
Suhrawardy. P.O. Box 2549, Islamabad-44000
Telephone: +92 (051) 2083200, 2083201
Fax: +92 (051) 2604516
Web: www.ptc.com.pk

Factories

Akora Khattak Factory
P.O. Akora Khattak
Tehsil and District Nowshera,
Khyber Pakhtunkhwa
Telephone: +92 (0923) 561561-72
Fax: +92 (0923) 561502

Jhelum Factory
G.T. Road, Kala Gujran
Jhelum
Telephone: +92 (0544) 646500-7
Fax: +92 (0544) 646524

Bankers

MCB Bank Limited
MCB Islamic Bank Limited
Habib Bank Limited
National Bank of Pakistan
Citibank N.A.
Standard Chartered Bank (Pakistan) Ltd.
Deutsche Bank AG

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building No. 5
Jinnah Avenue, Blue Area, Islamabad. 44000
Telephone: +92 (051) 2823558
Fax: +92 (051) 2822671

Share Registrar

FAMCO Associates (Pvt.) Ltd.
8-F, Near Hotel Faran, Nursery, Block 6,
P.E.C.H.S, Shahrah-e-Faisal,
Karachi
Ph: +92 (021) 34380101-2

Directors' Review

The Directors present the performance of Pakistan Tobacco Company Limited (PTC) for the nine months ended September 30, 2018.

During the period under review, the company continued its recovery momentum and maintained its market leadership of the legitimate industry. However, the operating environment remained challenging with significant pressure on cost due to accelerated devaluation of Rupee since Dec'17 and two excise increases within the first nine months of the year. The recent excise hike being significant, led to a portfolio wide consumer price increase, widening the price gap with cheap duty evaded cigarettes. Though the impact of this price increase on the legitimate industry will manifest itself in the coming months, it is of primary importance that a level playing field is provided to the legitimate players through fiscal and administrative measures by the relevant government authorities. Despite the persistent high level of the illicit sector (33.2% market share as of Aug'18 in the country), the Company managed to contribute a 15% increase vs Same Period Last Year (SPLY) in government revenue collections (Excise and Sales Tax) in the 1st quarter of the fiscal year 2018/19.

PTC's market leadership in the legitimate industry reflects the strong equity of its brand portfolio and its team's efforts to continuously address consumer preferences. This is supported by focused marketing activities across the brand spectrum and trade partners. In the premium segment, the Company launched a pack and product upgrade for Dunhill in line with British American Tobacco (BAT) global standards. In the Value for Money segment, the pack of Capstan by Pall Mall was upgraded to a new and modern outlook, while Gold Flake was supported through rural focused activations. The Company's brand portfolio was further enriched through the launch of John Player in the Aspirational Premium segment in September this year, which was complimented by innovative marketing activities and consumer engagements. Further more, the Company continued its journey towards sales automation and investment in trade marketing capabilities.

Key financial indicators of PTC for YTD September 30, 2018 are:

	Rs (million)	
	Jan - Sep, 2018	Jan - Sep, 2017
Gross Turnover	97,055	79,990
Net Turnover	39,307	30,154
Cost of Sales	19,652	15,502
Gross Profit	19,655	14,652
Operating Profit	13,974	10,110
Profit Before Tax – PBT	14,430	10,147
Profit After Tax – PAT	9,296	6,755
Earnings Per Share – EPS (Rs)	36.38	26.44

Gross Turnover and Net Turnover increased due to an increase in sales vs SPLY, which was driven by last year's fiscal reforms coupled with an attractive portfolio of consumer offerings backed by heavy marketing investments, that facilitated the shift of consumption from cheaper Duty Not Paid (DNP) alternatives to legitimate brands. Although, the latest excise led price increase in Sept'18 widened the price gap between the legitimate and DNP brands, the Company will continue to strengthen its reach and products to provide a valuable proposition to its consumers.

Although, cost of sales primarily increased due to higher sales, the cost base was also impacted by the rapid devaluation of the Rupee as well as the increase in import and regulatory duties. Currency devaluation and its consequent impact on domestic inflation pose a significant challenge for the

Company especially in the absence of currency hedging products in Pakistani financial markets. Despite these challenges, the Company continued its journey towards manufacturing excellence by achieving the highest level of operating efficiencies compared to and in some cases exceeding BAT global benchmarks.

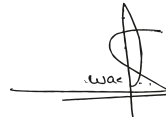
It is important to mention here that PTC runs one of the largest private sector afforestation programs in the country and has planted more than 75 million trees, since 1981. The Company was pivotal in supporting the “Plant for Pakistan” campaign launched by the Government of Pakistan and is actively contributing towards the 10 billion tree tsunami program. The Company has signed MoUs with Capital Development Authority, Ministry of Climate Change and National Highways Authority for furthering its flagship program and helping to make Pakistan a greener place. Furthermore, PTC also supported local tobacco farming communities by introducing modern water conservation techniques and irrigation systems. Farmers were educated on improving water efficiency through innovative techniques like ‘irrigation scheduling’, ‘laser land levelling’ and high efficiency irrigation systems like “Drip & Sprinkler irrigation systems”.

For the first nine months of 2018, PTC contributed PKR 64.1 Bn (up by 19% vs. SPLY) to the National Exchequer in the form of excise duties, sales tax, customs duties and income tax. Past industry data indicates that aggressive excise led price increases widen the price gap between the legitimate and DNP brands, triggering accelerated down trading to illicit brands causing massive losses to the government revenues. Therefore, we strongly urge the relevant government authorities to drive both fiscal and administrative measures coupled with effective enforcement to curb the availability of cheap duty evaded cigarettes to ensure sustainable growth of government revenues.

PTC remains committed to deliver shareholder value through a strong brand portfolio and through the high quality of its human resource.



Syed Javed Iqbal
MD & Chief Executive Officer



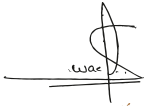
Wael Sabra
Chief Financial Officer & Director

اگرچہ پیداواری لاگت برائے فروخت گزشتہ برس کے مقابلے میں بڑھی، روپے کی قدر میں کمی کی وجہ سے پیداواری لاگتوں پر قابل ذکر اثر پڑا۔ ان مشکل حالات میں بھی PTC نے بہترین پیداواری قابلیت کے حصول کی جانب اپنا سفر جاری رکھا جو کے BAT صلاحیت کے مطابق تھیں۔

یہاں یہ بات قابل ذکر ہے کہ PTC جنگلات میں اضافے کے لئے شجر کاری کا پروگرام چلا رہی ہے اور 1981 سے اب تک 75 ملین درخت لگا چکی ہے اور حکومتی مہم میں اہم کردار ادا کر رہی ہے۔ PTC نے مقامی لیف فارمنگ کو آبپاشی کے جدید نظام سے روشناس کروایا۔ کسان کو پانی کے استعمال سے متعلق آبپاشی شیڈول متعارف کروایا اور اس کے ساتھ جدید فوارہ آبپاشی نظام کی تعلیم سے روشناس کروایا۔

2018 کے پہلے 9 ماہ میں PTC نے 64.1 ملین (19% اضافہ بلحاظ 2017) ایکسپنڈیوٹی، سلائیٹس، کسٹم ڈیوٹی اور ایکسٹیکس کی صورت میں جمع کروائی۔ ماضی میں جب بھی ایکسپنڈیوٹی بڑھایا جاتا ہے تو اس کا اثر قانونی کمپنیوں پر پڑتا ہے۔ تاہم ہم متعلقہ حکومتی حکام سے گزارش کرتے ہیں کہ غیر قانونی ٹو بیکو انڈسٹری سے متعلق اپنی پالیسی مزید سخت کریں تاکہ قانونی ٹو بیکو انڈسٹری کو یکساں کاروباری مواقع ملیں اور حکومتی آمدنی میں مزید اضافہ ہو۔

PTC اپنے مضبوط برانڈز، اعلیٰ صلاحیتوں کے حامل لوگ اور انتظامی پالیسیوں کے ذریعے اپنے حصے داران کو زیادہ منافع دینے کا عزم کئے ہوئے ہے۔



واکمل صابرا

ڈائریکٹر فنانس و آئی ٹی



سید جاوید اقبال

مینیجنگ ڈائریکٹر چیف ایگزیکٹو

جائزہ ڈائریکٹرز

پاکستان تباکو کمپنی کے ڈائریکٹرز رواں سال کے پہلے نو مہینوں کی کارکردگی کا جائزہ پیش کرتے ہیں۔

کمپنی نے اس سال کے نو مہینوں میں اپنی مارکیٹ برتری برقرار رکھی اور کاروباری بحالی کا سفر جاری رکھا۔ تاہم اس سال روپے کی قدر میں تیزی سے کمی اور یکے بعد دیگرے دو مرتبہ ایکسائز ڈیوٹی کے بڑھنے کی وجہ سے کاروباری ماحول بہت مشکل رہا۔ حالیہ ایکسائز ڈیوٹی میں اضافہ کی وجہ سے سگریٹ کی قیمت میں اضافہ کرنا پڑا۔ اس اضافہ کی وجہ سے ڈیوٹی ادا شدہ سگریٹ اور غیر ڈیوٹی ادا شدہ سگریٹ کے درمیان قیمت کا فرق بڑھ گیا۔ تاہم اس اضافے کے اثرات آنے والے دنوں میں عیاں ہوں جائیں گے، لیکن ضرورت اس بات کی ہے کہ قانونی کارروائی عملی اقدامات لیتے ہوئے حکومتی اقدامات کے ذریعے جیساں مواقع فراہم کئے جائیں۔ غیر قانونی سگریٹ انڈسٹری کے مسلسل بڑھتے ہوئے رجحان (اگست 2018ء 33.2 فیصد) کے باوجود حکومتی آمدنی (ایکسائز اور سیلز ٹیکس) میں کمپنی کی مدد سے 15% اضافہ کیا گیا۔

مارکیٹ میں PTC کی برتری اپنے مضبوط پرائیڈ اور اس کی ٹیم کی طرف سے اپنے صارفین کی پسند منظر رکھتے ہوئے بہترین مصنوعات متعارف کرانے کی وجہ سے ممکن ہوئی۔ اس کا اندازہ کمپنی کی کاروباری سرگرمیوں سے لگایا جاسکتا ہے۔ کمپنی نے مارکیٹ میں DUNHILL برانڈ کا نیا اور بین الاقوامی معیار کے مطابق پراڈکٹ متعارف کروایا۔ VFM درجہ میں CAPSTAN BY PALL MALL کا نیا اور جدید انداز متعارف کروایا۔ جبکہ GOLD FLAKE کی مقبولیت میں دہائی کاروباری مہمات کے ذریعے اضافہ کیا۔ اس کے علاوہ کمپنی نے نیا برانڈ JOHN PLAYER متعارف کروایا جس کو مقبول کرنے کے لئے نئی اور جدید کاروباری سرگرمیوں کا سہارا لیا گیا۔ اس کے ساتھ ہی کمپنی نے فروخت کے عمل کی جدت اور اپنی صلاحیتوں میں اضافے کی غرض سے سرمایہ کاری جاری رکھی۔

30 ستمبر 2018 تک کی کارکردگی مندرجہ ذیل ہے۔

روپے (ملین)			
جنوری سے ستمبر، 2018	جنوری سے ستمبر، 2017		
97,055	79,990	(Gross Turnover)	کل وصولیات
39,307	30,154	(Net Turnover)	خالص وصولیات
19,652	15,502	(Cost of Sales)	لاگت برائے فروخت
19,655	14,652	(Gross Profit)	مجموعی منافع
13,974	10,110	(Operating Profit)	کاروباری منافع
14,430	10,147	(Profit Before Tax – PBT)	قبل از ٹیکس منافع
9,296	6,755	(Profit After Tax – PAT)	بعد از ٹیکس منافع
36.38	26.44	Earnings Per Share – EPS (Rs)	آمدنی فی حصص (روپے)

کل اور خالص وصولیات میں گزشتہ برس کے نو مہینوں کے مقابلے میں اضافہ ہوا۔ جس کی وجہ گزشتہ سال کے بجٹ کی مالی اصلاحات اور صارفین کے لیے پرکشش مصنوعات کی پیشکش تھیں۔ جس کی وجہ سے صارف قانونی مصنوعات کے استعمال کی طرف دوبارہ راغب ہوئے۔ اگرچہ ستمبر 2018 میں ایکسائز ڈیوٹی کے بڑھنے کی وجہ سے قانونی اور غیر قانونی سگریٹ کی قیمتوں میں فرق بڑھ گیا ہے اس کے باوجود کمپنی اپنی معیاری مصنوعات اپنے صارفین تک پہنچانے کے لئے کوشاں رہے گی۔

Condensed Interim Profit or Loss Account (Un-audited)

for the Nine months period ended September 30, 2018

	Note	Three months ended		Nine months ended	
		Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
Gross turnover		33,276,674	30,159,786	97,055,026	79,989,946
Excise duties		(15,176,258)	(13,002,024)	(42,933,069)	(37,710,695)
Sales tax		(5,063,266)	(4,573,908)	(14,815,401)	(12,125,629)
Net turnover		13,037,150	12,583,854	39,306,556	30,153,622
Cost of sales	7	(6,598,020)	(5,619,997)	(19,651,793)	(15,501,633)
Gross profit		6,439,130	6,963,857	19,654,763	14,651,989
Selling and distribution costs		(1,006,238)	(893,753)	(2,885,819)	(2,276,994)
Administrative expenses		(507,179)	(404,658)	(1,736,846)	(1,516,146)
Other operating expenses	8	(334,924)	(435,990)	(1,173,946)	(880,097)
Other income	9	13,439	106,700	116,149	130,962
		(1,834,902)	(1,627,701)	(5,680,462)	(4,542,275)
Operating profit		4,604,228	5,336,156	13,974,301	10,109,714
Finance income	10	149,049	25,999	479,076	88,010
Finance cost		(7,923)	(23,503)	(22,917)	(50,397)
Net finance income		141,126	2,496	456,159	37,613
Profit before income tax		4,745,354	5,338,652	14,430,460	10,147,327
Income tax expense	11	(1,794,239)	(1,560,098)	(5,134,834)	(3,392,294)
Profit for the period		2,951,115	3,778,554	9,295,626	6,755,033
Earnings per share - basic and diluted (Rupees)		11.55	14.79	36.38	26.44

The annexed notes 1 to 26 form an integral part of these condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Condensed Interim Statement of Comprehensive Income (Un-audited)

for the Nine months period ended September 30, 2018

	Three months ended		Nine months ended	
	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
Profit for the period	2,951,115	3,778,554	9,295,626	6,755,033
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	2,951,115	3,778,554	9,295,626	6,755,033

The annexed notes 1 to 26 form an integral part of these condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Condensed Interim Statement of Financial Position (Un-audited)

as at September 30, 2018

	Note	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
Assets			
Property, plant and equipment	12	8,721,573	8,630,814
Long term investment in subsidiary company	13	5,000	5,000
Long term deposits and prepayments		30,193	32,319
Non-current assets		8,756,766	8,668,133
Stock-in-trade		16,823,288	14,460,890
Stores and spares		612,468	593,909
Trade debts		3,502	2,636
Loans and advances	14	165,260	72,685
Short term prepayments		141,341	212,747
Other receivables	15	1,638,997	968,996
Short term investments		8,284,960	6,763,842
Cash and bank balances	16	1,310,762	390,128
Current assets		28,980,578	23,465,833
Total assets		37,737,344	32,133,966
Equity			
Share capital	17	2,554,938	2,554,938
Revenue reserves		16,753,554	14,356,260
Total equity		19,308,492	16,911,198
Liabilities			
Finance lease obligation	18	299,473	260,050
Deferred tax liabilities		1,110,389	1,108,225
Non current liabilities		1,409,862	1,368,275
Finance lease obligation	18	162,551	165,245
Accrued interest / mark-up		3,454	3,414
Trade and other payables	20	12,696,876	10,796,865
Other liabilities		2,118,457	2,226,659
Current income tax liabilities		2,037,652	662,310
Current liabilities		17,018,990	13,854,493
Total liabilities		18,428,852	15,222,768
Total equity and liabilities		37,737,344	32,133,966

Contingencies and commitments

21

The annexed notes 1 to 26 form an integral part of these condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Condensed Interim Statement of Changes in Equity (Un-audited)

for the Nine months period ended September 30, 2018

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2017	2,554,938	10,421,692	12,976,630
Total comprehensive income for the period:			
Profit for the period	-	6,755,033	6,755,033
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	6,755,033	6,755,033
Transactions with owners of the Company:			
Final dividend for the year ended December 31, 2016 @ Rs.11 per share	-	(2,810,432)	(2,810,432)
Balance at September 30, 2017	2,554,938	14,366,293	16,921,231
Balance at January 1, 2018	2,554,938	14,356,260	16,911,198
Total comprehensive income for the period:			
Profit for the period	-	9,295,626	9,295,626
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	9,295,626	9,295,626
Transactions with owners of the Company:			
Final dividend relating to year ended December 31, 2017 @ Rs. 20 per share	-	(5,109,876)	(5,109,876)
Interim dividend relating to year ending December 31, 2018 @ Rs. 7 per share	-	(1,788,456)	(1,788,456)
Balance at September 30, 2018	2,554,938	16,753,554	19,308,492

The annexed notes 1 to 26 form an integral part of these condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Condensed Interim Statement of Cash Flows (Un-audited)

for the Nine months period ended September 30, 2018

	Note	Sep 30, 2018 Rs '000 Nine month ended	Sep 30, 2017 Rs '000
Cash flows from operating activities			
Cash generated from operations	22	13,619,266	10,584,081
Finance cost paid		(22,877)	(35,535)
Income tax paid		(3,757,328)	(2,717,735)
Contribution to retirement benefit funds		(204,553)	(200,703)
Net cash from/(used in) operating activities		9,634,508	7,630,108
Cash flows from investing activities			
Purchases of property, plant and equipment		(638,463)	(512,422)
Proceeds from sale of property, plant and equipment		120,546	202,698
Interest received		471,709	76,880
Net cash from/(used in) investing activities		(46,208)	(232,844)
Cash flows from financing activities			
Dividends paid		(6,946,667)	(2,808,974)
Finance lease payments		(199,881)	(246,251)
Net cash used in financing activities		(7,146,548)	(3,055,225)
Net increase in cash and cash equivalents		2,441,752	4,342,039
Cash and cash equivalents at January 1		7,153,970	1,031,888
Cash and cash equivalents at September 30		9,595,722	5,373,927
Cash and cash equivalents comprise:			
Short-term investments		8,284,960	5,369,717
Cash and bank balances		1,310,762	165,010
Short term running finance			(160,800)
		9,595,722	5,373,927

The annexed notes 1 to 26 form an integral part of these condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

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 Act, 2017) and its shares are quoted on the Pakistan Stock Exchange. The Company is a subsidiary of the British American Tobacco (Investments) Limited, United Kingdom, whereas its ultimate parent company is British American Tobacco p.l.c, United Kingdom. The Company is engaged in the manufacture and sale of cigarettes.

The registered office of the Company is situated at Serena Business Complex, Khayaban-e-Suharwardy, Islamabad.

2. Statement of compliance

These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprises:

- International Accounting Standards (IAS) 34, Interim Financial Reporting, issued by the International Accounting Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

3. Basis of preparation

These interim financial statements should be read in conjunction with the Company's latest annual financial statements as at and for the year ended December 31, 2017 ('last annual financial statements'). These interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with the approved accounting and reporting standards as applicable in Pakistan. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

Comparative figures of condensed interim statement of financial position are extracted from the annual financial statements as of December 31, 2017 whereas comparative figures of condensed interim statement of profit or loss, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows are extracted from un-audited condensed interim financial statements of the Company for the nine months period ended September 30, 2017. Due to a change in the financial reporting framework consequent to the applicability of the Companies Act, 2017, certain changes in presentation and disclosures have been made in the comparative figures, however, there was no change in the reported amounts of profit or loss or the amounts presented in the statement of financial position.

These condensed interim financial statements are un-audited and are being submitted to the members of the Company as required under Section 237 of the Companies Act, 2017, and the listing regulations of the Pakistan Stock Exchange.

4. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty including measurement of fair values were the same as those described in the last annual financial statements except for:

- the new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 which are described in Note 5; and

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

- the change in estimate of residual values and useful lives of property, plant and equipment. The Company changed residual values of vehicles from 35% to 20% and useful life of plant and machinery from 14.5 years to 20 years. The change in estimate is applied prospectively and resulted in decrease of depreciation expense for the period as at September 30, 2018.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. Significant accounting policies

The accounting policies and the methods of computation adopted in the preparation of these interim financial statements are the same as those applied in the preparation of the financial statements as at and for the year ended December 31, 2017 except for the following.

- The Company has adopted IFRS 9 'Financial Instruments' from 1 January 2018; however, the adoption of this standard has no impact on the amounts reported in these interim financial statements.
- The Company has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. Accordingly, the Company has changed its accounting policy for revenue recognition in respect of certain marketing costs previously recognized as 'selling and distribution costs' These costs are now recognized as deduction from transaction price of sale of goods as required under IFRS 15.

The change in accounting policy has been applied retrospectively and comparative figures in the condensed interim statement of profit or loss are restated. The following table summarises the impacts of adopting IFRS 15 on the comparative figures as presented in the interim statement of profit or loss for each of the line items affected.

	As previously reported	Effect of Change in accounting policy	Restated amount
	Rs '000	Rs '000	Rs '000
Revenue	80,659,273	(669,327)	79,989,946
Selling and distribution costs	(2,946,321)	669,327	(2,276,994)

There was no significant impact on the comparative figures presented in the interim statement of financial position, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows. Further, the change in accounting policy has no impact on the reported amount of accumulated profits as at 01 January 2017.

6. Standards issued but not effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 01, 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards except for IFRS 9 and IFRS 15 in preparing these condensed interim financial statements.

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

	Three months ended		Nine months ended	
	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
7. Cost of sales				
Raw material consumed:				
Opening stock of raw materials and work in process	9,770,739	9,887,005	13,137,236	12,449,905
Raw material purchases and expenses	11,167,679	9,022,616	18,015,436	13,385,896
Duties, taxes and tobacco development cess	276,160	183,285	1,230,627	376,914
Closing stock of raw materials and work in process	(15,307,803)	(14,457,518)	(15,307,803)	(14,457,518)
	5,906,775	4,635,388	17,075,496	11,755,197
Royalty	113,492	134,711	357,528	401,690
Production overheads	690,291	1,163,312	2,397,936	3,321,087
Cost of goods manufactured	6,710,558	5,933,411	19,830,960	15,477,974
Cost of finished goods				
Opening stock	1,402,947	852,128	1,336,318	1,189,201
Closing stock	(1,515,485)	(1,165,542)	(1,515,485)	(1,165,542)
	(112,538)	(313,414)	(179,167)	23,659
	6,598,020	5,619,997	19,651,793	15,501,633
8. Other operating expenses				
Workers' Profit Participation Fund (WPPF)	254,836	286,650	774,998	545,066
Workers' Welfare Fund (WWF)	96,520	107,687	294,499	208,921
Bank charges and fees	8,892	10,358	25,124	26,865
Interest paid to WPPF	-	-	-	11,732
Loss on disposal / write off of operating assets	-	17,870	-	21,817
Foreign exchange loss	(25,324)	13,425	79,325	65,696
	334,924	435,990	1,173,946	880,097
9. Other income				
Income from services to associated companies:				
- BAT SAA (Private) Limited	-	-	54,451	13,169
- BAT Myanmar/BAT Bangladesh/Ceylon Tobacco	-	3,529	3,927	7,939
- BAT Singapore	-	-	-	5,477
	-	3,529	58,378	26,585
Gain on disposal of property, plant and equipment	(2,045)	-	19,060	-
Liabilities written back	15,114	102,766	37,644	103,207
Others	370	405	1,067	1,170
	13,439	106,700	116,149	130,962
10. Finance income				

This includes profit from placement with banks in saving accounts, term deposit and treasury bills earned under interest arrangement. The interest rates range between 3.75% and 7.55% (nine months ended Sep 30, 2017: 3.75% and 5.90%) per annum and is received on maturity.

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

11. Income tax expense

Increase in income tax expense is due to an increase in profit before tax in the first nine months of 2018 as compared to 2017. The applicable income tax rate was reduced from 30% to 29% during the period on account of the changes made to the Income Tax Ordinance, 2001. Further, income tax charge also included prior year charge of Rs 390,340 thousand in respect of super tax levied for the tax year 2018 (2017: Rs 461,464 thousand for tax year 2017) and Rs 284,589 thousand super tax levied for tax year 2019 (2018: Rs nil for tax year 2018) in accordance with the Finance Act, 2017.

	Note	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
12. Property, plant and equipment			
Operating fixed assets	12.1	8,051,824	8,171,245
Capital work in progress	12.2	669,749	459,569
		8,721,573	8,630,814
12.1 Operating fixed assets			
Carrying amount at January 01		8,171,245	8,282,901
Additions during the nine months/year:			
- Owned assets			
Building		-	64,328
Plant and machinery		400,492	747,226
Office and household equipment		25,163	683
Vehicles		-	171,617
Furniture and fittings		2,627	6,500
		428,282	990,354
- Leased assets			
Vehicles		236,610	244,157
		664,892	1,234,511
Disposals during the nine months/year (net book value):			
- Owned assets			
Building		-	(15,252)
Plant and machinery		(25,517)	(164,723)
Office and household equipment		(272)	(1,586)
Vehicles		-	(4,682)
Furniture and fittings		-	(353)
		(25,789)	(186,596)
- Leased assets			
Vehicles		(75,697)	(47,229)
		(101,486)	(233,825)
Depreciation charge for the nine months/year:		(682,827)	(1,112,342)
Carrying amount at Sep 30/ December 31		8,051,824	8,171,245

12.1.1 During the nine months ended September 30, 2018, the Company acquired assets, including transfers from capital work in progress, amounting to Rs. 664,892 thousand (nine months ended September 30, 2017: Rs. 515,288 thousand). Operating fixed assets having net book value of Rs. 101,486 thousand were disposed off during nine months ended September 30, 2018 (nine months ended September 30, 2017: Rs. 224,515 thousand). Depreciation charge for nine months ended September 30, 2018 was Rs. 682,827 thousand (nine months ended September 30, 2017: Rs. 835,488 thousand).

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
12.2 Capital work in progress		
Balance as at the beginning of the period	459,569	346,534
Additions during the nine months/year	513,105	417,633
	972,674	764,167
Transferred to operating fixed assets	(302,925)	(304,598)
Carrying amount as at end of the period	669,749	459,569

13. Long term investment in subsidiary company

This represents 500,001 (December 31, 2017: 500,001) fully paid ordinary shares of Rs.10 each in Phoenix (Private) Limited, a wholly owned subsidiary of the Company which has not yet commenced commercial production. The break up value of shares calculated by reference to net assets worked out to be Rs.10 per share based on financial statements for the nine months ended September 30, 2018.

14. Loans and advances

These include non-interest bearing advances to employees of Rs. 50,634 thousand (December 31, 2017: Rs. 41,953 thousand).

15. Other receivables

These include following balances due from related parties:

	Note	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
Holding company / associated companies		136,608	52,145
Subsidiary company		20,021	20,021
Employees retirement benefit plans		764,430	765,618
16. Cash and bank balances			
Cash at banks			
- deposit accounts		8,785	9,460
- current accounts	16.1	1,300,149	379,278
		1,308,934	388,738
Cash in hand		1,828	1,390
		1,310,762	390,128

16.1 These include balances of Rs. 109,405 thousand (December 31, 2017: Rs. 96,741 thousand) held in foreign currency accounts.

17. Share capital

Authorised share capital of the Company is Rs. 3,000,000 thousand (December 31, 2017: Rs. 3,000,000 thousand) divided into 300,000,000 ordinary shares of Rs. 10 each. Issued, subscribed and paid up capital of the Company is Rs. 2,554,938 thousand (December 31, 2017: Rs. 2,554,938 thousand) divided into 255,493,792 ordinary shares of Rs. 10 each.

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

18. Finance lease obligation

This represents finance lease agreements entered into with a leasing company (a related party) for vehicles. Total lease rentals due under various lease agreements aggregate to Rs 462,024 thousand (December 31, 2017: Rs 425,295 thousand) and are payable in equal monthly instalments latest by December 2022. Taxes, repairs, replacement and insurance costs are to be borne by the Company. Financing rates of 7.61% to 9.73% (December 31, 2017: 7.30% to 7.40%) per annum have been used as discounting factor.

19. Short term running finance-secured

Short term running finance facilities available under mark-up arrangements with banks amount to Rs. 6,500 million (December 31, 2017: Rs.6,500 million), out of which the amount un-availed at the reporting date was Rs. 6,500 million (December 31, 2017: Rs.6,500 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs.7,222 million (December 31, 2017: Rs.7,222 million). The mark-up ranges between 6.40% and 8.21% (2017: 6.34% and 6.54%) per annum and is payable quarterly. The facilities are renewable on annual basis.

20. Trade and other payables

20.1 These include following balances due to related parties:

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
Holding company / associated companies	1,708,500	1,593,422
Employees retirement benefit plans	139,717	147,071

20.2 Trade and other payables include unpaid/unclaimed dividend amounting to Rs. 222,471 thousand (December 31, 2017: Rs. 264,303 thousand).

20.3 These also include 'contract liabilities' representing advances from customers amounting to Rs. 112,899 thousand (December 31, 2017: Rs. 150 thousand).

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
--	---	--

21. Contingencies and commitments

21.1 Contingencies

Claims and guarantees

Claims against the Company not acknowledged as debt	75,631	72,474
Guarantees issued by banks on behalf of the Company	287,451	276,051

Litigation

There is no significant change to status of litigations disclosed in annual financial statements for the year ended 31 December 2017.

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
21.2 Commitments		
Capital expenditure	1,409,956	-
Letters of credit outstanding	942,382	386,925
Lease rentals	468,603	644,519
	Nine months ended Sep 30, 2018 Sep 30, 2017 Rs '000 Rs '000	
22. Cash generated from operations		
Profit before income tax	14,430,460	10,147,327
Adjustment for non-cash items:		
- Depreciation	682,827	835,488
- (Gain)/loss on disposal of property, plant and equipment	(19,060)	21,817
- Finance cost	22,917	50,397
- Finance income	(479,076)	(88,010)
- Forex loss	79,325	65,696
- Reversal of provision for slow moving stores and spares	40,602	49,160
- Reversal of provision for stock-in-trade	(12,664)	(20,576)
- Provision for staff retirement benefit plans	205,722	174,753
	520,593	1,088,725
Changes in working capital:		
- Stock-in-trade	(2,349,734)	(1,983,954)
- Stores and spares	(59,162)	9,247
- Trade debts	(866)	(560)
- Loans and advances	(198,145)	84,724
- Short term prepayments	71,406	81,712
- Other receivables	(663,822)	91,200
- Trade and other payables	1,974,612	1,065,008
- Other liabilities	(108,202)	-
	(1,333,913)	(652,623)
Changes in long term deposits and prepayments	2,126	652
	13,619,266	10,584,081

Notes to the Condensed Interim Financial Statements (Un-audited) for the Nine months period ended September 30, 2018

23. Financial instruments

23.1 Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	September 30, 2018 (Unaudited)			December 31, 2017 (Audited)		
	Loans and receivables	Other financial liabilities	Total	Loans and receivables	Other financial liabilities	Total
		Rs '000			Rs '000	
Financial assets measured at fair value						
Financial assets not measured at fair value						
Deposits	-	-	-	-	-	-
Trade debts	25,531	-	25,531	25,465	-	25,465
Other receivables	3,502	-	3,502	2,636	-	2,636
Short-term investment	1,638,997	-	1,638,997	968,996	-	968,996
Cash and bank balances	8,284,960	-	8,284,960	6,763,842	-	6,763,842
	1,310,762	-	1,310,762	390,128	-	390,128
	11,263,752	-	11,263,752	8,151,067	-	8,151,067
Financial liabilities measured at fair value						
Financial liabilities not measured at fair value						
Finance lease obligation	-	(462,024)	(462,024)	-	(425,295)	(425,295)
Accrued interest / mark-up	-	(3,454)	(3,454)	-	(3,414)	(3,414)
Trade and other payables	-	(10,871,703)	(10,871,703)	-	(6,624,273)	(6,624,273)
	-	(11,337,181)	(11,337,181)	-	(7,052,982)	(7,052,982)

The Company has not disclosed the fair values of financial assets and financial liabilities as these are for short-term or reprice over short-term. Therefore, the carrying amounts are reasonable approximation of their values.

23.2 Financial risk management

The Company's financial risk management objective and policies are consistent with those disclosed in the financial statements for the year ended December 31, 2017.

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

24. Related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (December 31, 2017: 94.34%) shares of the Company. 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. The related parties also include directors and their relatives, key management personnel and their relatives, entities in which directors have interest or common directorship, subsidiary and associated companies and subsidiaries of holding company, post-employment benefit plans and persons or entities having control or joint control or having significant influence over the Company.

The amounts due from and due to these parties are disclosed in the respective notes. All outstanding balances with related parties are to be settled in the normal course of business. None of the balances are secured. Transactions with related parties were as follows:

	Three months ended		Nine months ended	
	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
Purchase of goods and services from				
Holding company	222,145	167,382	687,542	474,578
Associated companies	658,683	650,450	1,153,361	1,282,676
Sale of goods and services to				
Holding company	22,566	677	22,566	2,226
Associated companies	21,715	45,503	223,482	728,470
Dividend paid to				
Holding company	1,692,974	-	6,530,042	2,660,388
Royalty charged by				
Holding company	113,492	134,711	357,528	401,690
Employees retirement benefit plans - expense				
Staff defined contribution pension fund	24,561	19,847	69,449	56,459
Employees' gratuity fund	23,686	18,932	69,470	54,067
Management provident fund	18,657	17,437	54,799	49,999
Employees' provident fund	4,023	3,677	12,004	14,228
Remuneration of key management personnel	180,464	174,722	478,476	450,202
Other income:				
Associated company:				
Recharges written back	15,114	102,766	37,644	102,766

Notes to the Condensed Interim Financial Statements (Un-audited)

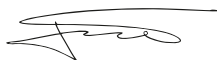
for the Nine months period ended September 30, 2018

25. Post balance sheet events

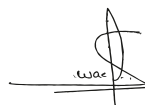
The Board of Directors in its meeting held on October 23, 2018 has declared an interim dividend of Rs 10.00 (2017: Rs 10.00) per share. This interim dividend of Rs 2,554,938 thousand (2017: Rs 2,554,938 thousand) will be recorded as liability in the interim financial statements for the next quarter as required by the IAS 10 'Events after the Balance Sheet Date'. These condensed interim financial statements do not reflect this dividend.

26. Date of authorisation for issue

These condensed interim financial statements have been authorised for issue by the Board of Directors of the Company on October 23, 2018.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Consolidated Condensed Interim Statement of Profit or Loss Account (Un-audited)

for the Nine months period ended September 30, 2018

	Note	Three months ended		Nine months ended	
		Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
Gross turnover		33,276,674	30,159,786	97,055,026	79,989,946
Excise duties		(15,176,258)	(13,002,024)	(42,933,069)	(37,710,695)
Sales tax		(5,063,266)	(4,573,908)	(14,815,401)	(12,125,629)
Net turnover		13,037,150	12,583,854	39,306,556	30,153,622
Cost of sales	7	(6,598,020)	(5,619,997)	(19,651,793)	(15,501,633)
Gross profit		6,439,130	6,963,857	19,654,763	14,651,989
Selling and distribution costs		(1,006,238)	(893,753)	(2,885,819)	(2,276,994)
Administrative expenses		(507,179)	(404,658)	(1,736,846)	(1,516,146)
Other operating expenses	8	(334,924)	(435,990)	(1,173,946)	(880,097)
Other income	9	13,439	106,700	116,149	130,962
		(1,834,902)	(1,627,701)	(5,680,462)	(4,542,275)
Operating profit		4,604,228	5,336,156	13,974,301	10,109,714
Finance income	10	149,049	25,999	479,076	88,010
Finance cost		(7,923)	(23,503)	(22,917)	(50,397)
Net finance income		141,126	2,496	456,159	37,613
Profit before income tax		4,745,354	5,338,652	14,430,460	10,147,327
Income tax expense	11	(1,794,239)	(1,560,098)	(5,134,834)	(3,392,294)
Profit for the period		2,951,115	3,778,554	9,295,626	6,755,033
Earnings per share - basic and diluted (Rupees)		11.55	14.79	36.38	26.44

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Consolidated Condensed Interim Statement of Comprehensive Income (Un-audited)

for the Nine months period ended September 30, 2018

	Three months ended		Nine months ended	
	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
Profit for the period	2,951,115	3,778,554	9,295,626	6,755,033
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	2,951,115	3,778,554	9,295,626	6,755,033

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Consolidated Condensed Interim Statement of Financial Position (Un-audited)

as at September 30, 2018

	Note	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
Assets			
Property, plant and equipment	12	8,746,621	8,655,862
Long term deposits and prepayments		30,193	32,319
Non-current assets		8,776,814	8,688,181
Stock-in-trade		16,823,288	14,460,890
Stores and spares		612,468	593,909
Trade debts		3,502	2,636
Loans and advances	13	165,260	72,685
Short term prepayments		141,341	212,747
Other receivables	14	1,618,976	948,975
Short term investments		8,284,960	6,763,842
Cash and bank balances	15	1,310,762	390,128
Current assets		28,960,557	23,445,812
Total assets		37,737,371	32,133,993
Equity			
Share capital	16	2,554,938	2,554,938
Revenue reserves		16,753,554	14,356,260
Total equity		19,308,492	16,911,198
Liabilities			
Finance lease obligation	17	299,473	260,050
Deferred tax liabilities		1,110,389	1,108,225
Non current liabilities		1,409,862	1,368,275
Finance lease obligation	17	162,551	165,245
Accrued interest / mark-up		3,454	3,414
Trade and other payables	19	12,696,903	10,796,892
Other liabilities		2,118,457	2,226,659
Current income tax liabilities		2,037,652	662,310
Current liabilities		17,019,017	13,854,520
Total liabilities		18,428,879	15,222,795
Total equity and liabilities		37,737,371	32,133,993
Contingencies and commitments	20		

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Consolidated Condensed Interim Statement of Changes in Equity (Un-audited)

for the Nine months period ended September 30, 2018

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2017	2,554,938	10,421,692	12,976,630
Total comprehensive income for the period:			
Profit for the period	-	6,755,033	6,755,033
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	6,755,033	6,755,033
Transactions with owners of the Company:			
Final dividend for the year ended December 31, 2016 @ Rs.11 per share	-	(2,810,432)	(2,810,432)
Balance at September 30, 2017	2,554,938	14,366,293	16,921,231
Balance at January 1, 2018	2,554,938	14,356,260	16,911,198
Total comprehensive income for the period:			
Profit for the period	-	9,295,626	9,295,626
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	9,295,626	9,295,626
Transactions with owners of the Company:			
Final dividend relating to year ended December 31, 2017 @ Rs. 20 per share	-	(5,109,876)	(5,109,876)
Interim dividend relating to year ending December 31, 2018 @ Rs. 7 per share	-	(1,788,456)	(1,788,456)
Balance at September 30, 2018	2,554,938	16,753,554	19,308,492

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Consolidated Condensed Interim Statement of Cash Flows (Un-audited)

for the Nine months period ended September 30, 2018

	Note	Sep 30, 2018 Rs '000 Nine month ended	Sep 30, 2017 Rs '000
Cash flows from operating activities			
Cash generated from operations	21	13,619,266	10,584,081
Finance cost paid		(22,877)	(35,535)
Income tax paid		(3,757,328)	(2,717,735)
Contribution to retirement benefit funds		(204,553)	(200,703)
Net cash from/(used in) operating activities		9,634,508	7,630,108
Cash flows from investing activities			
Purchases of property, plant and equipment		(638,463)	(512,422)
Proceeds from sale of property, plant and equipment		120,546	202,698
Interest received		471,709	76,880
Net cash from/(used in) investing activities		(46,208)	(232,844)
Cash flows from financing activities			
Dividends paid		(6,946,667)	(2,808,974)
Finance lease payments		(199,881)	(246,251)
Net cash used in financing activities		(7,146,548)	(3,055,225)
Net increase in cash and cash equivalents		2,441,752	4,342,039
Cash and cash equivalents at January 1		7,153,970	1,031,888
Cash and cash equivalents at September 30		9,595,722	5,373,927
Cash and cash equivalents comprise:			
Short-term investments		8,284,960	5,369,717
Cash and bank balances		1,310,762	165,010
Short term running finance			(160,800)
		9,595,722	5,373,927

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

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 Act, 2017) and its shares are quoted on the Pakistan Stock Exchange. The Company is a subsidiary of the British American Tobacco (Investments) Limited, United Kingdom, whereas its ultimate parent company is British American Tobacco p.l.c, United Kingdom. The Company is engaged in the manufacture and sale of cigarettes.

The registered office of the Company is situated at Serena Business Complex, Khayaban-e-Suharwardy, Islamabad.

Phoenix (Private) Limited (PPL) is a private limited company incorporated on March 9, 1992 in Azad Jammu and Kashmir under the Companies Ordinance, 1984. The registered office of PPL is situated at Bun Khurma, Chichian Road, Mirpur, Azad Jamu and Kashmir. The object for which the PPL has been incorporated is to operate and manage an industrial undertaking in Azad Jammu and Kashmir to deal in Tobacco products. PPL is dormant and has not 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 condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprises:

- International Accounting Standards (IAS) 34, Interim Financial Reporting, issued by the International Accounting Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

3. Basis of preparation

These consolidated condensed interim financial statements should be read in conjunction with the Group's latest annual financial statements as at and for the year ended December 31, 2017 ('last annual financial statements'). These interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with the approved accounting and reporting standards as applicable in Pakistan. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

Comparative figures of condensed interim statement of financial position is extracted from annual financial statements as of December 31, 2017 whereas comparative figures of condensed interim statement of profit or loss, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows are extracted from un-audited condensed interim financial statements of the Group for the nine months period ended September 30, 2017. Due to change in financial reporting framework consequent to applicability of requirements of the Companies Act, 2017, certain changes in presentation and disclosures have been made in the comparative figures, however, there was no change in the reported amounts of profit or loss or the amounts presented in the statement of financial position.

4. Use of judgements and estimates

In preparing these consolidated interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty including measurement of fair values were the same as those described in the last annual financial statements except for:

- the new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 which are described in Note 5; and
- the change in estimate of residual values and useful lives of property, plant and equipment. The Company changed residual values of vehicles from 35% to 20% and useful life of plant and machinery from 14.5 years to 20 years. The change in estimate is applied prospectively and resulted in decrease of depreciation expense for the period as at September 30, 2018.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. Significant accounting policies

The accounting policies and the methods of computation adopted in the preparation of these interim financial statements are the same as those applied in the preparation of the financial statements as at and for the year ended December 31, 2017 except for the following.

- The Group has adopted IFRS 9 'Financial Instruments' from 1 January 2018; however, the adoption of this standard has no impact on the amounts reported in these interim financial statements.
- The Group has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. Accordingly, the Company has changed its accounting policy for revenue recognition in respect of certain marketing costs previously recognized as 'selling and distribution costs' These costs are now recognized as deduction from transactions price of sale of goods as required under IFRS 15.

The change in accounting policy has been applied retrospectively and comparative figures in the condensed interim statement of profit or loss are restated. The following table summarises the impacts of adopting IFRS 15 on the comparative figures as presented in the interim statement of profit or loss for each of the line items affected.

	As previously reported	Effect of Change in accounting policy	Restated amount
	Rs '000	Rs '000	Rs '000
Revenue	80,659,273	(669,327)	79,989,946
Selling and distribution costs	(2,946,321)	669,327	(2,276,994)

There was no significant impact on the comparative figures presented in the interim statement of financial position, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows. Further, the change in accounting policy has no impact on the reported amount of accumulated profits as at 01 January 2017.

6. Standards issued but not effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 01, 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards except for IFRS 9 and IFRS 15 in preparing these condensed interim financial statements.

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

	Three months ended		Nine months ended	
	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
7. Cost of sales				
Raw material consumed:				
Opening stock of raw materials and work in process	9,770,739	9,887,005	13,137,236	12,449,905
Raw material purchases and expenses	11,167,679	9,022,616	18,015,436	13,385,896
Duties, taxes and tobacco development cess	276,160	183,285	1,230,627	376,914
Closing stock of raw materials and work in process	(15,307,803)	(14,457,518)	(15,307,803)	(14,457,518)
	5,906,775	4,635,388	17,075,496	11,755,197
Royalty	113,492	134,711	357,528	401,690
Production overheads	690,291	1,163,312	2,397,936	3,321,087
Cost of goods manufactured	6,710,558	5,933,411	19,830,960	15,477,974
Cost of finished goods				
Opening stock	1,402,947	852,128	1,336,318	1,189,201
Closing stock	(1,515,485)	(1,165,542)	(1,515,485)	(1,165,542)
	(112,538)	(313,414)	(179,167)	23,659
	6,598,020	5,619,997	19,651,793	15,501,633
8. Other operating expenses				
Workers' Profit Participation Fund (WPPF)	254,836	286,650	774,998	545,066
Workers' Welfare Fund (WWF)	96,520	107,687	294,499	208,921
Bank charges and fees	8,892	10,358	25,124	26,865
Interest paid to WPPF	-	-	-	11,732
Loss on disposal / write off of operating assets	-	17,870	-	21,817
Foreign exchange loss	(25,324)	13,425	79,325	65,696
	334,924	435,990	1,173,946	880,097
9. Other income				
Income from services to associated companies:				
- BAT SAA (Private) Limited	-	-	54,451	13,169
- BAT Myanmar/BAT Bangladesh/Ceylon Tobacco	-	3,529	3,927	7,939
- BAT Singapore	-	-	-	5,477
	-	3,529	58,378	26,585
Gain on disposal of property, plant and equipment	(2,045)	-	19,060	-
Liabilities written back	15,114	102,766	37,644	103,207
Others	370	405	1,067	1,170
	13,439	106,700	116,149	130,962
10. Finance income				

This includes profit from placement with banks in saving accounts, term deposit and treasury bills earned under interest arrangement. The interest rates range between 3.75% and 7.55% (nine months ended Sep 30, 2017: 3.75% and 5.90%) per annum and is received on maturity.

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

11. Income tax expense

Increase in income tax expense is due to an increase in profit before tax in the first nine months of 2018 as compared to 2017. The applicable income tax rate was reduced from 30% to 29% during the period on account of the changes made to the Income Tax Ordinance, 2001. Further, income tax charge also included prior year charge of Rs 390,340 thousand in respect of super tax levied for the tax year 2018 (2017: Rs 461,464 thousand for tax year 2017) and Rs 284,589 thousand super tax levied for tax year 2019 (2018: Rs nil for tax year 2018) in accordance with the Finance Act, 2017.

	Note	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
12. Property, plant and equipment			
Operating fixed assets	12.1	8,055,188	8,174,609
Capital work in progress	12.2	691,433	481,253
		8,746,621	8,655,862
12.1 Operating fixed assets			
Carrying amount at January 01		8,174,609	8,286,265
Additions during the nine months/year:			
- Owned assets			
Building		-	64,328
Plant and machinery		400,492	747,226
Office and household equipment		25,163	683
Vehicles		-	171,617
Furniture and fittings		2,627	6,500
		428,282	990,354
- Leased assets			
Vehicles		236,610	244,157
		664,892	1,234,511
Disposals during the nine months/year (net book value):			
- Owned assets			
Building		-	(15,252)
Plant and machinery		(25,517)	(164,723)
Office and household equipment		(272)	(1,586)
Vehicles		-	(4,682)
Furniture and fittings		-	(353)
		(25,789)	(186,596)
- Leased assets			
Vehicles		(75,697)	(47,229)
		(101,486)	(233,825)
Depreciation charge for the nine months/year:		(682,827)	(1,112,342)
Carrying amount at Sep 30/ December 31		8,055,188	8,174,609

12.1.1 During the nine months ended September 30, 2018, the Company acquired assets, including transfers from capital work in progress, amounting to Rs. 664,892 thousand (nine months ended September 30, 2017: Rs. 515,288 thousand). Operating fixed assets having net book value of Rs. 101,486 thousand were disposed off during nine months ended September 30, 2018 (nine months ended September 30, 2017: Rs. 224,515 thousand). Depreciation charge for nine months ended September 30, 2018 was Rs. 682,827 thousand (nine months ended September 30, 2017: Rs. 835,488 thousand).

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
12.2 Capital work in progress		
Balance as at the beginning of the period	481,253	368,218
Additions during the nine months/year	513,105	417,633
	994,358	785,851
Transferred to operating fixed assets	(302,925)	(304,598)
Carrying amount as at end of the period	691,433	481,253

13. Loans and advances

These include non-interest bearing advances to employees of Rs. 50,634 thousand (December 31, 2017: Rs. 41,953 thousand).

14. Other receivables

These include following balances due from related parties:

	Note	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
Holding company / associated companies		136,608	52,145
Employees retirement benefit plans		764,430	765,618
15. Cash and bank balances			
Cash at banks			
- deposit accounts		8,785	9,460
- current accounts	15.1	1,300,149	379,278
		1,308,934	388,738
Cash in hand		1,828	1,390
		1,310,762	390,128

15.1 These include balances of Rs. 109,405 thousand (December 31, 2017: Rs. 96,741 thousand) held in foreign currency accounts.

16. Share capital

Authorised share capital of the Company is Rs. 3,000,000 thousand (December 31, 2017: Rs. 3,000,000 thousand) divided into 300,000,000 ordinary shares of Rs. 10 each. Issued, subscribed and paid up capital of the Company is Rs. 2,554,938 thousand (December 31, 2017: Rs. 2,554,938 thousand) divided into 255,493,792 ordinary shares of Rs. 10 each.

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

17. Finance lease obligation

This represents finance lease agreements entered into with a leasing company (a related party) for vehicles. Total lease rentals due under various lease agreements aggregate to Rs 462,024 thousand (December 31, 2017: Rs 425,295 thousand) and are payable in equal monthly instalments latest by December 2022. Taxes, repairs, replacement and insurance costs are to be borne by the Company. Financing rates of 7.61% to 9.73% (December 31, 2017: 7.30% to 7.40%) per annum have been used as discounting factor.

18. Short term running finance-secured

Short term running finance facilities available under mark-up arrangements with banks amount to Rs. 6,500 million (December 31, 2017: Rs.6,500 million), out of which the amount un-availed at the reporting date was Rs. 6,500 million (December 31, 2017: Rs.6,500 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs.7,222 million (December 31, 2017: Rs.7,222 million). The mark-up ranges between 6.40% and 8.21% (2017: 6.34% and 6.54%) per annum and is payable quarterly. The facilities are renewable on annual basis.

19. Trade and other payables

19.1 These include following balances due to related parties:

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
Holding company / associated companies	1,708,500	1,593,422
Employees retirement benefit plans	139,717	147,071

19.2 Trade and other payables include unpaid/unclaimed dividend amounting to Rs. 222,471 thousand (December 31, 2017: Rs. 264,303 thousand).

19.3 These also include 'contract liabilities' representing advances from customers amounting to Rs. 112,899 thousand (December 31, 2017: Rs. 150 thousand).

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
--	---	--

20. Contingencies and commitments

20.1 Contingencies

Claims and guarantees

Claims against the Company not acknowledged as debt	75,631	72,474
Guarantees issued by banks on behalf of the Company	287,451	276,051

Litigation

There is no significant change to status of litigations disclosed in annual financial statements for the year ended 31 December 2017.

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

	September 30, 2018 (Unaudited) Rs '000	December 31, 2017 (Audited) Rs '000
20.2 Commitments		
Capital expenditure	1,409,956	-
Letters of credit outstanding	942,382	386,925
Lease rentals	468,603	644,519
	Nine months ended Sep 30, Sep 30, 2018 2017 Rs '000 Rs '000	
21. Cash generated from operations		
Profit before income tax	14,430,460	10,147,327
Adjustment for non-cash items:		
- Depreciation	682,827	835,488
- (Gain)/loss on disposal of property, plant and equipment	(19,060)	21,817
- Finance cost	22,917	50,397
- Finance income	(479,076)	(88,010)
- Forex loss	79,325	65,696
- Reversal of provision for slow moving stores and spares	40,602	49,160
- Reversal of provision for stock-in-trade	(12,664)	(20,576)
- Provision for staff retirement benefit plans	205,722	174,753
	520,593	1,088,725
Changes in working capital:		
- Stock-in-trade	(2,349,734)	(1,983,954)
- Stores and spares	(59,162)	9,247
- Trade debts	(866)	(560)
- Loans and advances	(198,145)	84,724
- Short term prepayments	71,406	81,712
- Other receivables	(663,822)	91,200
- Trade and other payables	1,974,612	1,065,008
- Other liabilities	(108,202)	-
	(1,333,913)	(652,623)
Changes in long term deposits and prepayments	2,126	652
	13,619,266	10,584,081

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited) for the Nine months period ended September 30, 2018

22. Financial instruments

22.1 Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	September 30, 2018 (Unaudited)			December 31, 2017 (Audited)		
	Loans and receivables	Other financial liabilities	Total	Loans and receivables	Other financial liabilities	Total
		Rs '000			Rs '000	
Financial assets measured at fair value						
Financial assets not measured at fair value						
Deposits	-	-	-	-	-	-
Trade debts	25,531	-	25,531	25,465	-	25,465
Other receivables	3,502	-	3,502	2,636	-	2,636
Short-term investment	1,618,976	-	1,618,976	948,975	-	948,975
Cash and bank balances	8,284,960	-	8,284,960	6,763,842	-	6,763,842
	1,310,762	-	1,310,762	390,128	-	390,128
	11,243,731	-	11,243,731	8,131,046	-	8,131,046
Financial liabilities measured at fair value						
Financial liabilities not measured at fair value						
Finance lease obligation	-	(462,024)	(462,024)	-	(425,295)	(425,295)
Accrued interest / mark-up	-	(3,454)	(3,454)	-	(3,414)	(3,414)
Trade and other payables	-	(10,871,730)	(10,871,730)	-	(6,624,300)	(6,624,300)
	-	(11,337,208)	(11,337,208)	-	(7,053,009)	(7,053,009)

The Group has not disclosed the fair values of financial assets and financial liabilities as these are for short-term or reprice over short-term. Therefore, the carrying amounts are reasonable approximation of their values.

22.2 Financial risk management

The Group's financial risk management objective and policies are consistent with those disclosed in the financial statements for the year ended December 31, 2017.

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

for the Nine months period ended September 30, 2018

23. Related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (December 31, 2017: 94.34%) shares of the Company. 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. The related parties also include directors and their relatives, key management personnel and their relatives, entities in which directors have interest or common directorship, subsidiary and associated companies and subsidiaries of holding company, post-employment benefit plans and persons or entities having control or joint control or having significant influence over the Company.

The amounts due from and due to these parties are disclosed in the respective notes. All outstanding balances with related parties are to be settled in the normal course of business. None of the balances are secured. Transactions with related parties were as follows:

	Three months ended		Nine months ended	
	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000	Sep 30, 2018 Rs '000	Sep 30, 2017 Rs '000
Purchase of goods and services from				
Holding company	222,145	167,382	687,542	474,578
Associated companies	658,683	650,450	1,153,361	1,282,676
Sale of goods and services to				
Holding company	22,566	677	22,566	2,226
Associated companies	21,715	45,503	223,482	728,470
Dividend paid to				
Holding company	1,692,974	-	6,530,042	2,660,388
Royalty charged by				
Holding company	113,492	134,711	357,528	401,690
Employees retirement benefit plans - expense				
Staff defined contribution pension fund	24,561	19,847	69,449	56,459
Employees' gratuity fund	23,686	18,932	69,470	54,067
Management provident fund	18,657	17,437	54,799	49,999
Employees' provident fund	4,023	3,677	12,004	14,228
Remuneration of key management personnel	180,464	174,722	478,476	450,202
Other income:				
Associated company:				
Recharges written back	15,114	102,766	37,644	102,766

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)

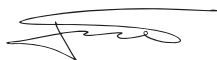
for the Nine months period ended September 30, 2018

24. Post balance sheet events

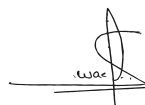
The Board of Directors in its meeting held on October 23, 2018 has declared an interim dividend of Rs 10.00 (2017: Rs 10.00) per share. This interim dividend of Rs 2,554,938 thousand (2017: Rs 2,554,938 thousand) will be recorded as liability in the interim financial statements for the next quarter as required by the IAS 10 'Events after the Balance Sheet Date'. These condensed interim financial statements do not reflect this dividend.

25. Date of authorisation for issue

These consolidated condensed interim financial statements have been authorised for issue by the Board of Directors of the Group on October 23, 2018.



Syed Javed Iqbal
MD & Chief Executive Officer



Wael Sabra
Chief Financial Officer & Director

www.ptc.com.pk



Pakistan Tobacco Company Limited
Serena Business Complex, Khayaban-e-Suhrwardy,
Islamabad, Pakistan
Tel: +92 (51) 2083200-1
Fax: +92 (51) 2604516