

Report and Accounts 2004



**PAKISTAN TOBACCO
COMPANY**



Jasmine is associated with peace and happiness. It happens to be Pakistan's national flower, our symbol of purity and harmony.

Report and Accounts 2004

for the year ended December 31, 2004



This year Pakistan Tobacco Company has chosen the "theme of the Jasmine" as a reflection of its link with the country and the community.

The Company is the first in Pakistan to launch a Corporate Social Report. From being the first multinational to invest in the country to becoming the first to report its contribution in the social sector, the Company has always believed in transparency and accountability.

On the financial front, Pakistan Tobacco Company has substantially moved positively in most areas, as is reflected in the Report and Accounts.

We take pride in being an integral part of the Country and its blooming economy.



www.ptc.com.pk

Our Vision

1st Choice for Everyone

Our Mission

**Transform PTC to perform
with the speed, flexibility
and enterprising spirit of an
innovative, consumer-focused
company**

THREE WAYS TO WIN

statement of business principles



good corporate conduct
responsible product stewardship
mutual benefit

"If you have ever watched a game of cricket, you will know that a star team will normally beat a team of stars. Successful teams build on a set of values that guide the way they compete and once competing, agree that the way one plays the game is as important as winning. Business Principles are the "Rules of the Game" we have set for ourselves to ensure victory. Bringing our Business Principles to life in all our actions, in everything we do, is our way of winning."

BEING GOOD SHOTS

GOOD CORPORATE CONDUCT



High standards of behaviour & integrity
Promoting industry responsibility
Respecting human rights
Having a voice with government
Minimising environmental impact

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The Board



Aslam Khaliq

Aslam Khaliq joined Pakistan Tobacco Company in 1967 as an Agronomist. During his service he worked in various departments including Product Development and Corporate Planning. Was seconded to BAT, UK during 1988-89 and soon after returning was appointed as GM, Leaf. In 1996, he was appointed the Director Corporate and Regulatory Affairs and became Deputy Managing Director in 2001. On retirement in June 2004, he was invited to become the Chairman of the Board.

He also served as a member of Pakistan Tobacco Board (Federal Board under the Ministry of Commerce) between 1991-2003, and as Chairman and Vice Chairman of Cigarette Manufacturers Association between 1997-2004. Since 2002, he is on the Board of Governors of Lahore University of Management Sciences (LUMS).



Jeremy Pike

Born and brought up in Kenya, Jeremy did his schooling there before going to the UK for his further education. He graduated with a BSc. Hons. from London University in 1975. He then joined the British Army and spent 4 years in the Royal Tank Regiment, serving in Germany, Northern Ireland, England and Belize. After leaving the army as a Captain in 1979, Jeremy spent 8 years with Rothmans, mainly working in Africa, leaving them in 1987 to join Citibank in London. He returned to the tobacco industry in 1990, joining RJ Reynolds International, based in Geneva. In 1996 Jeremy joined British American Tobacco and was appointed as MD BAT Kenya, until 2000. He was then appointed as Head of eVolution, BAT's e-business unit, in London. In September 2002, Jeremy was appointed as MD and CEO of PTC.



Fazal Ghaffoor

Fazal Ghaffoor, most instantly recognizable as Gaff by the PTC team, hails from Sri Lanka where he started his career in the Sri Lankan operations (Ceylon Tobacco Company) as a sales officer in trade marketing. Currently Marketing Director, Fazal has been with the group for 27 years.



Zafar Ahmed Taji

Ex Human Resources Director, Zafar comes from an IT background, working in the oil & gas industry before joining Pakistan Tobacco Company. He has had various roles in finance and operations before becoming Head of Human Resources. He served the Company for 13 years.



Mobasher Raza

Mobasher Raza, Finance Director, has been with the Company for 25 years. Besides holding key positions in Pakistan Tobacco's finance function, he has done assignments with the British American Tobacco Group i.e. Internal Auditor in UK, Finance Director in Nigeria and Head of Finance in Croatia.



Ali Kuli Khan

Lt. General (Retd.) Ali Kuli Khan hails from Peshawar and belongs to a renowned industrial family. A graduate of Sandhurst UK, he was commissioned in the Pakistan Army in 1964/65. Important assignments during his brilliant career were Commandant Staff College in Quetta, Chief of General Staff and Director General Military Intelligence.



Brendan James Brady

With over fourteen years in the tobacco industry, Brendan has had a variety of roles including regional responsibilities for Asia Pacific (his current role), Europe, Africa and Latin America. He has also worked in two operating companies as Head of Special Public Affairs Projects at Brown & Williamson and CORA Director at British American Tobacco Australasia.

Brendan has also worked for various international tobacco trade associations.



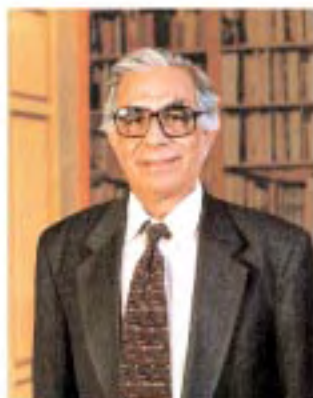
Stephen Wayne Daintith

Stephen has held various positions in BAT including General Manager BAT Bangladesh and his current role as GM BAT Switzerland. A Certified Accountant from the UK, Stephen spent 2 years at PTC as Finance Director.



Mueen Afzal

Mueen Afzal graduated with Honours from the Punjab University before going to Oxford University in 1963. He joined the Civil Service in 1964. He served in various prominent positions in Finance and Health ministries with Provincial and Central Government. He also served as Secretary General, Finance and Economic Affairs with the Government from 1999 to 2002.



Kunwar Idris

A career bureaucrat of 1957 batch, Kunwar Idris retired as a Federal Secretary some 4 years ago. He also served as Secretary Home, Secretary Industries and Chief Secretary in the province of Sind. Presently the head of Shahnawaz Industries, Kunwar Idris also held the role of heading the Pakistan Auto-mobile Corporation. He also writes as a freelance writer in various English newspapers.



Istaqbal Mehdi

Istaqbal Mehdi is the Managing Director / CEO of Pak Kuwait. Prior to this role, he was the President of Zarai Taraqati Bank of Pakistan. Mehdi held executive positions in several national organizations like Chief Experts Advisory Cell, Ministry of Industry and Production and Senior Economist, Board of Industrial Management etc. Between 1972-76 he remained Research Fellow at Leeds University, Leeds, UK. He was also Advisor to the World Bank during the period 1969-72.



Fatehali Walimuhammad Vellani

Senior Partner of Law firm Vellani & Vellani, Fatehali Walimuhammad Vellani has been in practice as an advocate since 1956. He also sits on the Boards of several multinational companies including Unilever Pakistan, Shell Pakistan and Roche Pakistan.



Corporate Information

Registered Office	Pakistan Tobacco Company Limited Evacuee Trust Complex Agha Khan Road, Sector F-5/1 P.O. Box 2549 Islamabad-44000 Telephone: (051) 2083200, 2083201 Fax: (051) 2278376, 2278377
Company Secretary	Tajamal Shah Head of Legal and Company Secretary
Bankers	ABN - AMRO Bank Citibank N. A. Deutsche Bank Habib Bank Hong Kong & Shanghai Banking Corp. Muslim Commercial Bank National Bank of Pakistan Standard Chartered Bank
Auditors	A.F. Ferguson & Co. Chartered Accountants
Share Registrar	Ferguson Associates (Pvt.) Ltd. State Life Building 1-A I.I. Chundrigar Road Karachi

Factories

Akora Khatak Factory
P.O. Akora Khattak
Tehsil & District Nowshera
N.W.F.P.
Telephone: (0923) 630901-11
Fax: (0923) 510792

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

Regional Sales Offices

North Punjab & N.W.F.P.	House # 57-A/6, Satellite Town Rawalpindi Telephone: (051) 4582390-91 Fax: (051) 4582392
Central Punjab	128/129-G, Commercial Area Phase-1, Defence Housing Authority Lahore Telephone: (042) 5899351-5 Fax: (042) 5899356
Southern Punjab	46-B, Qasim Road, Multan Telephone: (061) 584376, 512553 Fax: (061) 542291
Sind & Baluchistan	8th Floor, N.I.C. Building Abbasi Shaheed Road, Karachi Telephone: (021) 5662909, 5673108 Fax: (021) 5681590



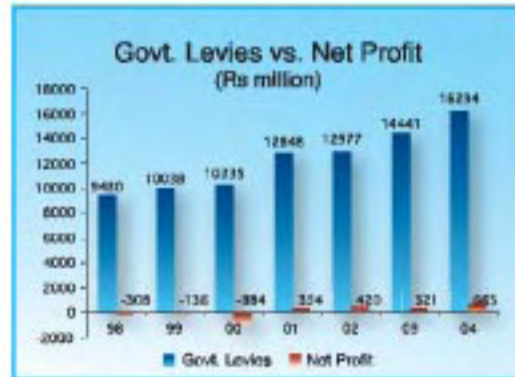
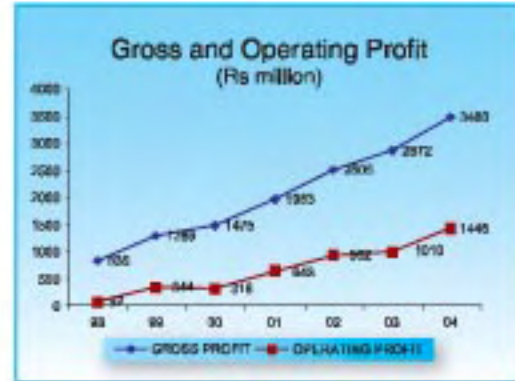
Highlights

PROFIT & LOSS		2004	2003	2002	2001	2000	1999	1998
Volume	Million Sticks	26,846	24,861	24,364	27,103	21,360	18,694	22,115
Turnover	Rs million	25,453	22,572	20,556	19,880	15,907	14,938	14,250
Excise & Sales Tax	Rs million	15,693	13,849	12,570	11,968	9,790	9,345	8,846
Net Turnover	Rs million	9,760	8,723	7,986	7,912	6,117	5,593	5,404
Gross Profit	Rs million	3,403	2,872	2,505	1,983	1,475	1,289	835
Operating Profit	Rs million	1,445	1,010	952	643	316	344	92
Profit / (Loss) Before Tax	Rs million	1,056	615	730	352	(854)	(108)	(281)
Profit / (Loss) After Tax	Rs million	665	321	420	354	(884)	(136)	(308)
Cash Dividends	Rs million	511	–	204	–	–	–	–

BALANCE SHEET		2004	2003	2002	2001	2000	1999	1998
Shareholders' Funds	Rs million	3,263	2,853	2,788	2,572	2,218	867	1,002
Reserves / (Accumulated Loss)	Rs million	708	554	233	17	(337)	547	683
Property, Plant & Equipment	Rs million	3,564	3,411	3,013	2,815	2,421	1,805	1,468
Net Current Assets / (Liabilities)	Rs million	297	40	65	(58)	(6)	(494)	(67)
Capital Employed	Rs million	3,887	3,479	3,108	2,942	2,430	1,324	1,414
Capital Expenditure during the year	Rs million	598	854	523	713	841	515	292
Long Term / Deferred Liabilities	Rs million	624	371	321	370	212	457	412

KEY INDICATORS / RATIOS		2004	2003	2002	2001	2000	1999	1998
Gross Profit Ratio	%	13.7	12.7	12.2	10.0	9.3	8.6	5.9
Earnings / (Loss) Per Share After Tax	Rs	2.60	1.26	1.65	1.38	(17.49)	(4.25)	(9.66)
Price to Earning Ratio		17.9	21.4	14.5	7.6	(.7)	(5.2)	(1.2)
Dividend Per Share	Rs	2.0	–	0.8	–	–	–	–
Return on Capital Employed	%	17.1	9.2	13.5	12.0	(36.4)	(10.3)	(21.8)
Current Ratio		1.1	1.0	1.0	1.0	1.0	0.9	1.0
Inventory Turnover Ratio		7.0	5.9	5.4	5.2	5.3	4.5	5.0
Fixed Assets Turnover Ratio		7.1	6.6	6.8	7.1	6.6	8.3	9.7
Total Asset Turnover Ratio		3.6	3.1	3.1	2.9	2.8	2.8	3.1
Debt to Equity Ratio		0.3	0.5	0.6	0.9	0.8	3.5	2.6
Interest Cover		29.9	7.7	4.7	2.5	(1.1)	0.7	0.2
Market Value Per Share (Year end)	Rs	46.5	27.0	23.8	10.5	12.7	22.0	12.0

GOVERNMENT LEVIES		2004	2003	2002	2001	2000	1999	1998
Customs, Excise Duties & Sales Tax	Rs million	16,086	14,322	12,861	12,726	10,230	9,927	9,356
Local Taxes and Other Duties	Rs million	71	75	76	82	74	83	47
Corporate Tax	Rs million	137	44	40	40	31	28	27
Total		16,294	14,441	12,977	12,848	10,335	10,038	9,430



Notice of Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Eighth Annual General Meeting of Pakistan Tobacco Company Limited ("the Company") will be held at the Company's Registered Office at Evacuee Trust Complex, Agha Khan Road, Sector F-5/1, Islamabad on Wednesday, April 20, 2005 at 11.00 a.m. to transact the following business: -

Ordinary Business

1. To receive and consider the audited accounts for the year ended December 31, 2004, and the Report of the Directors and Auditors thereon.
2. To declare and approve Dividend recommended by the Board.
3. To appoint Auditors and to fix their remuneration.

Special Business

1. To approve the transmission of Quarterly Accounts electronically by placing them on the Company's website: www.ptc.com.pk, (A statement under section 160 (1)(b) of the Companies Ordinance 1984 pertaining to the special business is being sent to the shareholders with this notice).

By Order of the Board
Tajamal Shah
Head of Legal and Company Secretary

Islamabad: March 28, 2005

N.B. (1) A member entitled to attend and vote at this Meeting is entitled to appoint a proxy to attend instead of him and such proxy will have the right to attend, speak and vote in place of the member of the Company.

- (2) 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) Attending of general meeting by account holders, sub-account holders or persons whose securities are in group account and their registration details are uploaded to Central Depository System ("CDS"):-

A) In person

- i) The Company shall obtain list of beneficial owners from the Central Depository Company ("CDC") as per Regulation 12.3.5 of the CDC Regulations;
- ii) In the case of individuals, authenticate his identity by showing his/her National Identity Card (NIC) or original Passport at the time of the meeting; and
- iii) In the case of a corporate entity provide the 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, they shall submit the proxy form as per requirement notified in Note 2 above.
- ii) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be stated on the form.
- iii) Attested copies of NIC or the Passport of the beneficial owners and proxy furnished with the proxy form.
- iv) The proxy shall produce his original NIC 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) The Share Transfer Books of the Company will be closed from April 11, 2005 to April 20, 2005, both days inclusive. Transfers received in order at the office of the Company's Share Registrar, Ferguson Associates (Pvt.) Ltd., State Life Building 1-A, I. I. Chundrigar Road, Karachi at the close of business on April 10, 2005 will be in time, to be entitled to vote and for the entitlement of dividend.
- (5) Shareholders are requested to notify the Company's Share Registrar promptly of changes in their address.

Statement under Section 160(1) (b) of the Companies Ordinance, 1984

The following statements are annexed to the Notice of the Fifty-Eighth Annual General Meeting of the Company to be held on April 20, 2005 and sets out the material facts concerning the special business to be transacted at the Meeting.

Note 1.

The Board of Directors have recommended for approval by the shareholders the transmission of Quarterly Accounts electronically by placing them on the Company's website: www.ptc.com.pk

For this purpose the following Special Resolution will be moved at the Meeting:

"Resolved to transmit the Quarterly Accounts electronically by placing them on the Company's website: www.ptc.com.pk"



Chairman's Message

It gives me great pleasure to say that 2004 has been one of the most successful years in the history of the Company with the following achievements.

- Record operating profit
- Strong volume growth in all key brands
- Published its 1st Social Report, which is the first of its kind in Pakistan
- Successfully implemented SAP, a world class Enterprise Resource Planning tool for automating processes.
- Awarded BAT's Excellence Award for Environment, Health & Safety.
- Launched PTC Website, www.ptc.com.pk – Provides an Interactive Tool for our stakeholders.

I would like to acknowledge the efforts of Government of Pakistan (GoP) to control evasion, strengthening excise rules and rationalising Tobacco Excise Duty all of which have contributed in making this performance possible.

However, despite all the successes, the legitimate sector of the industry still faces a very serious threat from the Tax Evaded Sector. In 2004, this sector was over 20% of the total cigarette market. I would like to reiterate that much more needs to be done on a sustainable basis for establishing a Level Playing Field (LPF) to avoid negative impact on revenues and building confidence in the Legitimate Industry and its Stakeholders. LPF would provide substantial increase in GoP revenues.

The management has worked with thorough professionalism, thus registering positive improvements under all major business indicators.

2004 saw a re-election of the Board: Mr. Jim Kirke did not offer himself for re-election, hence the total number of directors reduced from 13 to 12 ; Mr. Brendan Brady, Regional Manager Asia Pacific based in Hong Kong was elected as a Non-Executive Director; Mr. Saquib Hameed, on the successful completion of his three year tenure as Non-Executive Chairman resigned from the Board on July 01, 2004. The Company would like to thank Mr. Hameed most sincerely for leading the Board in a highly professional and effective manner and providing able leadership in

a period when Company was going through a major turnaround.

I am tempted to say that the future looks positive, with the caveat that the Government has to formulate and rigorously implement a long term strategy to deal with the tax-evaded sector, which is the biggest threat we and the Government face in our market.

Your Company has been a 'Good' Company for the last few years, showing a consistent improvement in volume and profits. It is the aim of the management team to make PTC a 'Great' Company in the coming years. I am confident that 2005 will see the laying of the foundation for the leap from 'Good' to 'Great'. I am sure that with the support of all the members, and Allah's blessing, this transformation will be completed sooner rather than later.



Aslam Khaliq
Chairman

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years in the history of the Company.



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foundation for the leap from
'Good' to 'Great'.

The Government has to formulate and
rigorously implement a long term strategy
to deal with the tax-evaded sector, which
is the **biggest threat** we and
the Government face in our market.



Managing Director's Message

It is my pleasure to share with you the performance of Pakistan Tobacco Company (PTC) during 2004. Your Company achieved record heights in 2004 in all areas of the business. Operating Profit, at Rs 1,445 mn, is the highest ever and is a 43% increase over 2003. Similarly, substantial improvements were achieved in Profit Before Tax and Profit After Tax over 2003. Your Company contributed Rs 16.3 billion to the national exchequer, an increase of 13% over 2003. This outstanding financial performance was achieved through a significant increase in our sales volume, improved margins across the portfolio and continuous focus on reducing costs. Details of the financial performance are covered in the Directors' Report.

In 2004, the overall tobacco industry witnessed an estimated growth of 4%, mainly on the back of strong GDP growth and a rise in disposable incomes. However, the level of evasion, which registered a decline in first half of the year due to Government enforcement actions, is again on the rise, post the inflation-led price increases taken by the legitimate players in June, 2004. I would like to strongly reiterate that only the establishment of a Level Playing Field in Pakistan's tobacco industry, through effective ongoing control on evasion resulting from strict Government enforcement, can ensure the long-term sustainable growth in the Government revenues and profitability of the legitimate players. We appreciate the Government's administrative actions in the past to control evasion and would like to urge strict enforcement of the relevant laws to curb this menace.

Brand Performances

PTC achieved an impressive growth of 8% over 2003 sales volume. This is a very strong performance when compared with the industry's estimated growth of 4%. The fact that 50% of our growth in 2004 was contributed by the Premium/High/Medium segment brands is particularly heartening and clearly solidifies our position as the value leader in Pakistan's tobacco industry.

BENSON & HEDGES

Building on the low volumes in 2003, B&H further strengthened its position as the legitimate premium offer in the market. Strong consumer acceptance, inspired by innovative and effective communication,

and the excellent Trade support helped the franchise grow. Building on this success, the 'Lights' variant was launched in August.

JOHN PLAYER GOLD LEAF

2004 proved to be yet another remarkable year for JPGL, marking the second successive year with an impressive 9% annual growth, and achieving 7.7% market share. Focus on increased rural distribution helped JPGL to deliver this performance which will continue in the future. Building on its strong consumer loyalty and superior taste, JPGL will continue to engage and delight its consumers through innovative communication tools.

CAPSTAN

Capstan re-affirmed its overwhelming domination of the Medium segment in 2004, reaching 70% segment share. Despite having been priced above the competition offers in the Medium segment, Capstan was able to achieve an impressive 13% growth over 2003. A vibrant communication, with thematic and stylish Limited Edition Packs generated very positive responses from the target smokers. Concerted efforts will continue to reinforce Capstan as the platform for upgrading its smokers to JPGL.

GOLD FLAKE

Gold Flake, with an 18% growth over 2003, is by far the biggest success story of 2004, following an extremely successful national pack migration in early 2004. Gold Flake has soared to new heights, and achieved over 1.0 bn sticks sales in the month of December. Massive consumer contact campaigns helped us to establish this revamped offer, in addition to generating trial from the smokers of other brands. Solidifying its position as the highest-selling brand in our portfolio, Gold Flake has laid solid foundations to make further significant inroads into the popular segment in coming years.

Embassy

Embassy is the only brand in our portfolio that faced volume erosion, down 11% vs. 2003, in the face of stiff competition from the cheap tax-evaded offers from the illicit sector. In order to arrest the declining trend of Embassy Family, the Kings variant, around a third of the family volume, was re-launched with

Operating Profit, at Rs 1,445 mn, is the highest ever and is a 43% increase over 2003.



Substantial improvements

were achieved in Profit Before Tax and Profit After Tax over 2003.

50% of our growth in 2004 was contributed by the Premium / High / Medium segment brands and clearly solidifies our position as the **value leader** in Pakistan's tobacco industry.



rejuvenated communication and packaging in November. Initial results are very encouraging.

Business Process Re-engineering

Your Company is fully aware of the fact that continuous improvement in all business processes results in greater efficiencies and effectiveness to deliver strong business results in a sustainable manner. The Supply Chain structure put in place last year has already delivered excellent results in terms of process efficiencies and cost savings through better inventory management. The key process improvements in 2004 are outlined below:

SAP

The Company undertook a mammoth task in 2004 to replace the existing Enterprise Resource Planning (ERP) system with SAP, world's leading ERP system. I am happy to report that SAP went live in the first week of Jan 2005. A smooth implementation across the organisation, in a short period of 8 months, was possible through an excellent cross-functional effort by the Project Team. I am fully confident that SAP will greatly facilitate the achievement of further efficiencies in all key business processes.

Effective Fund Management

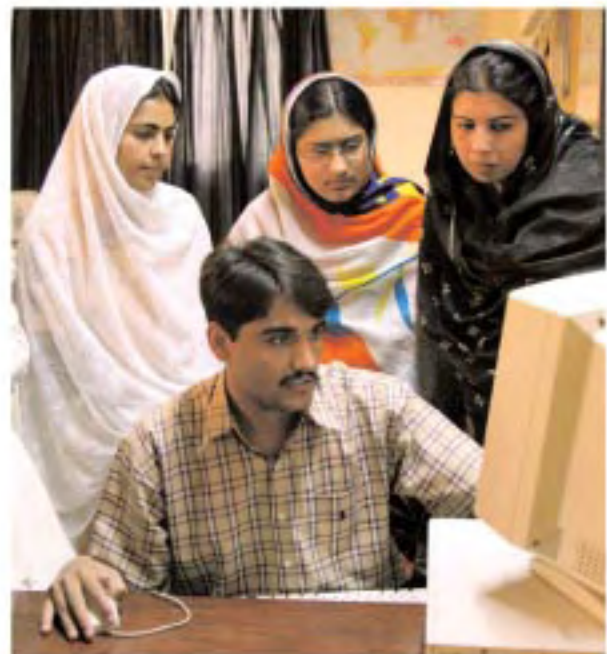
The Company implemented a state-of-the-art vendor payment solution, further simplifying the process, outsourcing the non-value adding activities and ensuring effective fund management. Our new sales collection system is robust and cost effective and this has resulted in better fund management for the Company, while offering flexibility to suit the requirements of our distributors.

Corporate Social Responsibility (CSR)

We are part of an industry that is seen as controversial. We are committed to managing our business while

balancing 'responsibility' alongside 'growth' and 'productivity'. We fully acknowledge that a long-term sustainable growth can only be achieved if we establish and nurture lasting relationships with all key stakeholders. For us CSR extends beyond just corporate philanthropy. From afforestation to community healthcare, and from literacy to disaster relief, whether it is preventing youth from smoking or practicing rigorous environmental health and safety standards, PTC has always striven to act as a responsible corporate citizen.

We are endeavouring to bring transparency and openness in our relationships so that dialogue with stakeholders is mutually beneficial. The launch of our first Social Report in early 2005 was another first in the history of Pakistan's corporate sector. The whole process was monitored and verified by the independent external auditors. During the dialogue process in 2004, we got a great chance to listen to the concerns / expectations of all key stakeholders i.e. Government, trade partners, civil society, NGOs etc. We fully recognise the need to meet all stakeholders' reasonable expectations and have already initiated necessary actions.







Organisational Restructuring

With a view to improve our productivity, provide world class products to our customers and keep costs under control, we continued our factory modernisation programme in 2004. This led to reduced manning levels and we offered a separation scheme to our production employees in Akora Khatak Factory, with handsome separation packages. A total of 290 employees opted for the scheme, and left the organisation in a cordial and honourable way. The morale of all members of the PTC family remains high and all of us are committed to continue to deliver superior business results as "One Team".

Environment, Health & Safety (EH&S)

World class EH&S standards have become a way of life at PTC. The Company achieved significant milestones this year on the EH&S roadmap. Both production facilities were recertified with internationally





recognised EH&S standards i.e. ISO 9001 and 14001. Recognising our contributions in the area of environment and community welfare, we received the prestigious 'EH&S Excellence Award' from the British American Tobacco Group.

2005 & Beyond

In 2004, PTC made significant achievements in all facets of the business – from sales to profitability, and from productivity to establishing our credentials as a socially responsible corporate citizen. This was all possible because the entire team is fully committed to achieve the Company's vision – **First Choice for Every One** – and has absolute belief in its capability to take your company to new heights. The dedication, commitment and hard work of the PTC Team and our Valued Business Partners (VBPs) are truly world class and for that I would like to sincerely thank each and every member of the PTC Team and our VBPs.

The Team is clearly focused on some very tough challenges ahead. We are very aware of the fact that success can lead to complacency. I am absolutely confident that a culture of continuous improvement is now fully embedded across the entire Company and the Team is ready to meet the challenging requirements of a dynamic market like Pakistan. I firmly believe that we have a robust, integrated and effective corporate strategy in place to deliver sustainable volume and profit growth.



Jeremy David Pike
Managing Director and CEO



Directors' Report

The Directors are pleased to submit the Annual Report along with the audited financial statements of the Company for the year ended December 31, 2004.

Besides numerous initiatives taken by the Company during the year, the improved economic environment of Pakistan has impacted positively on the performance of the Company. The year 2004 was another step towards creating sustainable long term shareholder value which is shown by the sales and profit growth of the Company.

Profitability Performance

Key highlights

The analysis of key operating results is given below:

	(Rs in million)		Increase
	2004	2003	
Turnover	25,453	22,572	13%
Gross profit	3,483	2,872	21%
Operating profit	1,445	1,010	43%
Profit before tax	1,056	615	72%
Profit after tax	665	321	107%

The Company has been able to achieve outstanding growth in all areas. This improved performance is attributed to higher sales volume, better brand mix, improved margins across all brands and control over costs and overheads through various initiatives. Earnings per share (EPS) improved from Rs 1.26 to Rs 2.60 – 106% higher than the previous year.

Sales Performance

The Company achieved a significant growth in sales volume to 26.8 billion sticks – 8% higher than same period last year (SPLY). This impressive sales growth was achieved across all brands except Embassy which declined by 11% vs. SPLY. All our drive brands registered double digit growth vs. SPLY.

We appreciate the ongoing support provided by the Government to curtail illicit activities in the tobacco industry which has checked the growth of evaded

volumes. However, this sector is still estimated at 20% of the total tobacco industry and remains a major threat to both the Government revenues and the legitimate industry both now and in the future. We would urge the Government to continue to work with the legitimate industry to effectively curb this threat.

Cost of Sale

The Company embarked upon various initiatives during the year to curtail costs and improve efficiency in all areas of the business, including reorganisation of the supply chain function, resulting in significant reductions in procurement costs and more efficient working capital management.

The increase in per unit cost of sale was merely 1% higher than SPLY, significantly lower than inflation, resulting in higher gross profit.

Operating and Other Costs

Our marketing spend of Rs 1,442 million was 2% lower than last year. The consolidation of last year's initiatives and focus on spend effectiveness resulted in this reduction in overall marketing spend, while registering 8% growth in sales volume.

The Company places a high value in having world class systems and processes to ensure quality and flexibility that meets upcoming challenges. In pursuit of this goal, the Company implemented the world renowned business solution – Systems, Applications & Products (SAP) – for Enterprise Resource Planning.

The major increase in Administration expenses is attributed to SAP implementation, the inflation linked salary increase for our employees, and the higher corporate bonus of 12 weeks salary paid to Management and Business Support Officers.

The increase in 'Other' expenses is mainly due to costs for staff separation

A lower interest rates regime in the financial markets and efficient working capital management helped the Company to reduce the financial charges by 60% in 2004.

Cash Flow

The Company generated Rs 520 million more cash than last year. Major contributors to this significant cash growth are higher sales with improved gross margins and lower investment in Capex than last year. This is offset by the interim dividend of Rs 255 million paid during the year (2003: Nil).

Plant Modernisation

The Company's commitment to deliver products of world class quality that meets diverse consumer preferences resulted in continued spend on modernising and automating its manufacturing facilities – Rs 271 million spent on Plant and Machinery out of the total capital expenditure of Rs 598 million.

Dividend

In view of the excellent performance of the Company this year, the Board is pleased to recommend a final dividend @ 12% over and above the interim dividend declaration of 10% in September 2004, subject to the approval of shareholders in the Annual General Meeting. The dividend distribution for the year at 22% amounts to Rs 562 million and represents a payout of 84% of the net profit after tax for the year.

The changes in the Companies Ordinance, 1984 require that events subsequent to the financial year end, including declaration of dividends, should be incorporated in the financial period in which it is declared. Therefore, the final dividend for the year 2004 shall be reflected in the financial statements for the year 2005. This change will have no impact on the payment of dividends to shareholders, which will continue as before.

Appropriation of Profit

Profit for the year has been appropriated as follows:

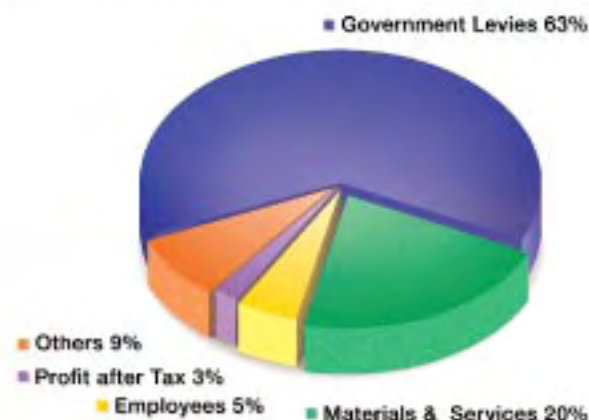
	2004	2003
	(Rs 000s)	
Operating profit	1,444,628	1,010,268
Profit after tax	665,227	321,081
Accumulated profit brought forward	553,646	232,565
Profit available for appropriation	1,218,873	553,646

Appropriations

Interim dividend @10% (2003: Nil)	255,494	–
Final dividend for 2003 @ 10% - paid in 2004	255,494	–
Un-appropriated profit carried forward	707,885	553,646

Contribution to the National Exchequer

PTC is the largest excise tax generator in the private sector in the country. In 2004, the Company contributed Rs 16.3 billion to the national exchequer towards central excise duty, sales tax, custom duties etc. – 13% higher than SPLY.



Our tobacco export programme is another reflection of our contribution towards the national economy. The Company's continued effort to increase the volume of leaf exports and earn foreign exchange yielded Rs 212 million.

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 account 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 judgement.
- 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, 2004, have been cleared subsequent to the year end.
- i) Key operating and financial data for last six years in summarised form is annexed.
- j) Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2003 are as follows:

Management Provident Fund	Rs 246.5 million
Staff Pension Fund	Rs 852.9 million
Employees' Provident Fund	Rs 368.1 million
Employees' Gratuity Fund	Rs 209.4 million

The Board

The Board comprises four executive and eight non-executive directors. The positions of Chairman and CEO are kept separate in line with good governance practice. The Board has several committees, which assist the Board in the performance of its functions. A list of these committees is provided separately in the report.

Changes in the Board

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

- Total number of directors in the Board reduced from 13 – 6 executive directors and 7 non-executive directors to 12 – 4 executive directors and 8 non executive directors as approved by the shareholders of the Company in the Annual General Meeting held on April 20, 2004.
- Mr. Najmus Saquib Hameed, Chairman of the Board and Non-Executive Director resigned at the end of his 3 year contract – His resignation was accepted with effect from July 01, 2004
- Mr. Brendan James Brady was appointed as Non-Executive Director with effect from July 01, 2004 to fill the casual vacancy caused by the resignation of Mr. Najmus Saquib Hameed.
- Mr. James Anthony St. George Kirke did not present himself for re-election in the Annual General Meeting held on April 20, 2004. Hence, he ceased to be the Member of the Board with effect from April 20, 2004.
- Mr. Aslam Khaliq retired from the Company's service on June 30, 2004. However, he retained his position on the Board as Non-Executive Director and took over as Chairman of the Board with effect from August 09, 2004.

Board of Directors Meetings

During the year 2004 five meetings of the Board of Directors were held. Attendances are detailed below.

	No. of meetings attended
1. Mr. Aslam Khaliq Chairman and Non-Executive Director	4
2. Mr. Jeremy David Pike Managing Director and Chief Executive	5
3. Mr. Fazal Ghaffoor Marketing Director	4
4. Mr. Mobasher Raza Finance Director	5
5. Mr. Zafar Ahmed Tajj Human Resources Director	4
6. Lt. Gen. (Retd.) Ali Kuli Khan Khattak (Non-Executive Director)	3
7. Mr. Brendan James Brady* (Non-Executive Director)	2
8. Mr. Fatehali Walimuhammad Vellani (Non-Executive Director)	3
9. Mr. Istaqbal Mehdi (Non-Executive Director)	4
10. Mr. Kunwar Idris (Non-Executive Director)	4
11. Mr. Mueen Afzal (Non-Executive Director)	3
12. Mr. Stephen Wayne Daintith** (Non-Executive Director)	–

* Mr. Brendan James Brady was appointed with effect from July 01, 2004.

** Mr. Stephen Daintith has been appointed to an executive position in Europe within BAT.

Board Committees

The Board has several committees, which assist the Board in the performance of its functions. A list of these committees is provided separately in the report.

Audit Committee

The PTC Audit Committee operates in accordance with the requirements of the Code of Corporate Governance issued by the SECP. Terms of Reference (TOR) agreed with the Board sets out the scope (the roles and responsibilities) of the Committee. The TOR defines purpose, membership and authority, independence, working of internal and external audit and detailed objectives for maintenance of internal controls and financial reporting.

The Committee comprises seven Non-Executive Directors. The Managing Director and Finance Director are invited to attend the meetings; however, they are not members. The Internal Audit Manager is the secretary of the Committee and reports directly to the BAT Asia Pacific Regional Audit Controller, who is based in Sydney, Australia.

The Committee held four meetings during the year. The External Auditors were also in attendance to present and discuss specific issues. The accounts of the Company and public announcements relating to them were reviewed by the Audit Committee before approval by the Board. The Audit Committee comprises the following Directors:

Fatehali Walimuhammad Vellani (Chairman)
Lt. Gen. (Retd.) Ali Kuli Khan Khattak
Aslam Khaliq
Brendan James Brady
Istaqbal Mehdi
Kunwar Idris
Mueen Afzal
Stephen Wayne Daintith

The Audit Committee supervises the function of the Internal Audit Department of the Company and assists the Board of Directors in monitoring and managing risks and internal controls. The Internal Audit Department adopts a risk-based approach for planning and conducting business process audits, which is consistent with the Company's established framework. The Audit Committee approves the annual Internal Audit Plan at the beginning of the year, and regularly monitors the progress. The Committee also reviews the performance of the



Company's External Auditors and recommends their appointment and the terms of their appointment.

Corporate Social Responsibility (CSR)

CSR is an integral part of good corporate governance and effective management at the Company. PTC launched its first Social Report for year 2004 in addition to other CSR initiatives like Free Mobile Dispensaries, Afforestation, Learning Resource Centres, and Waste Management programmes. Social Reporting is a relatively new phenomenon globally but, particularly so in Pakistan. It stems from the premise that commercial enterprises are linked not just to their employees and shareholders, but also to their broader communities. To build long-term sustainable shareholder value, it is fundamental, and indeed imperative, for businesses to address the issues and concerns of stakeholders. Through the Social Reporting process, the Company has attempted to engage constructively with our stakeholders, tried to understand what is expected reasonably from a responsible Company and then, where possible, to act on these insights in our better interests and the larger interests of the communities we live in. We believe we have taken the right step forward and the comments from our stakeholders are also positive.

Auditors

The Auditors Messrs. A. F. Ferguson & Co. retired and offered themselves for re-appointment.

Shareholding

The pattern of shareholding as at December 31, 2004 along with disclosure as required under Code of Corporate Governance is annexed.

The Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children, have reportedly carried out no trading in the shares of the Company.

Holding Company

British American Tobacco (Investments) Limited is the Holding Company and is incorporated in the United Kingdom.

Consolidated Financial Statements

Consolidated financial statements of the Company and its wholly owned subsidiary, Phoenix (Private) Limited, are submitted herewith.

Future outlook

Consistent efforts of the Government at pursuing forward looking economic policies, creating fiscal discipline and promoting a friendly business environment have yielded benefits in 2004. We believe that consistent application of current economic policies will lead to a strong economic growth in the years ahead.

The continued commitment and confidence of PTC family – our employees, distributors, suppliers and customers – towards 'Winning as One' have been a driving force in achieving this remarkable performance. We express our appreciation for their support and hard work.

Our continued efforts in pursuit of the 'Must Achieve Objectives' (MAOs) – Growth, Productivity, Responsibility and Winning Organisation – have delivered tangible benefits in terms of growth in our brands and profit. We are confident that in the future we will continue our growth momentum, further improve upon the Company's performance and continue to deliver sustainable volume and profit growth.



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO

Board Committees

Committee	Members	Function
1. Exective Committee of the Board	Jeremy David Pike Ahmed Zeb Dirk Eloff Fazal Ghaffoor Feroze Ahmed James Anthony St. George Kirke Malik Asmat Saleem Mobasher Raza Naveed Aftab Ahmad Naveed A. Khawaja Syed Ali Naseer Zafar Ahmed Taji Zahid-ul-Islam Tajamal Shah (Secretary)	Responsible for implementing the corporate strategy and for the day to day management of the Company.
2. Board Compensation Committee	Aslam Khaliq Jeremy David Pike Fatehali Walimuhammad Vellani Zafar Ahmed Taji (Secretary)	Responsible for the compensation of the directors of the Company.
3. Audit Committee	Aslam Khaliq Brendan James Brady Fatehali Walimuhammad Vellani Istaqbal Mehd Kunwar Idris Lt. Gen. (Retd.) Ali Kuli Khan Mueen Afzal Stephen Wayne Daintith Khali Ahmed (Secretary)	Assists the Board of Directors in the management of business risks, internal controls and the conduct of the business in economically sound and ethical manner.
4. Share Transfer Committee	Jeremy David Pike Naveed Aftab Ahmad Zafar Ahmed Taji Tajamal Shah (Secretary)	Responsible for dealing with the day to day matters relating to the shares of the Company.



Statement Of Compliance With The Code Of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (Code) contained in Regulation No.37 of Listing Regulations of the Stock Exchanges of Karachi, Lahore and Islamabad 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 seven independent non-executive directors and one director representing 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy occurred in the Board on July 01, 2004, was filled within 30 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. 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.
7. 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.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose 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.
9. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
10. 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.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an audit committee. It comprises eight members, of whom all are non-executive directors including the chairman of the committee.
15. 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.

16. 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.
17. 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.
18. 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.
19. We confirm that all other material principles contained in the Code have been complied with.



Jeremy David Pike
Managing Director and CEO



Statement of Compliance With the Best Practices on Transfer Pricing For the year ended December 31, 2004

The Company has fully complied with the best practices on Transfer Pricing as contained in the Listing Regulation No.38 of the Karachi Stock Exchange.



Jeremy David Pike
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 as applicable to the Company for the year ended December 31, 2004 prepared by the Board of Directors of Pakistan Tobacco Company Limited, to comply with the Listing Regulations of the 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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, 2004.



A. F. Ferguson & Co.
Chartered Accountants
Islamabad



HANDLE WITH CARE

RESPONSIBLE PRODUCT STEWARDSHIP



Communicating risks
Reducing health impacts
Meaningful product information
Tackling underage smoking
Marketing responsibly
Contributing to government revenue
Reasonable regulation
Accommodating smokers & non-smokers

Our Company

Pakistan Tobacco Company Limited (PTC) was incorporated in 1947 immediately after partition, when it took over the business of the Imperial Tobacco Company of India which had been operational in the subcontinent since 1905.

We are part of the trans-national British American Tobacco Group (BAT), which employs some 85,000 people worldwide at its operations in 180 countries. BAT has a position of market leader in more than 50 countries selling over 300 brands. The group's sales account for about 15% of the global tobacco market.



Our journey from a single factory operation starting at Karachi port to one of Pakistan's most significant business concerns has brought us a long way. Apart from playing an instrumental role in the development of the country, we have been supporting and contributing to various causes of national interest. Educating growers in the latest techniques and technology in agriculture, afforestation and providing free health care in designated areas are but a few examples.

Through these fifty-seven years, our continuous investment in people, brands, technology, innovation and the communities in which we operate has borne fruit in many ways.

We have always considered ourselves a consumer-focused company. We aim to offer a product that

excels in all aspects and exceeds the expectations of the consumer.

As the largest group of stakeholders, the farming community has always been considered part of the larger Pakistan Tobacco Company family. We make substantial investments in the field of agriculture, ensuring best practices and constant support.

Pakistan Tobacco Company's role in shaping the course of agriculture in Pakistan is a success story in many ways. The best farming practices of Pakistan Tobacco are now being applied to other crops such as sugarcane, wheat, cotton, rice, fruits and vegetables.

To improve the buying process for the farmers, the Company has recently launched a fully integrated, electronic system of leaf purchasing called BATLeaf. The system allows for efficient purchasing during the buying season. The farmer thus gets prompt compensation.



Pakistan Tobacco Company is a company truly proud of its people. Significant investment in people development through local and international training has helped us in establishing a culture that encourages global interaction of talent. Currently some of our employees are on secondments with other BAT companies around the world, similarly we

Established in 1947

BUKHSHELLAHIE & C

WHOLESALE TOBACCONISTS



have people from different nationalities based here, adding value to our business.



In the wake of the new millennium, Pakistan Tobacco Company is constantly changing and reinventing itself to keep ahead of the rapidly changing environment of the commercial world.

The result of this change in philosophy has been nothing short of remarkable in that everyone has become part of the decision making process- bottom to top and top to bottom.



Leading from the front

The year 2004 witnessed significant growth in most of our brands, specially those in the premium & high  and medium  segment, further strengthening our value leadership.

Our commitment to quality paid rich dividends, pushing up volumes  in the value for money segment , and making our brands a benchmark in customer satisfaction.

A TASTE APART





GOLD LEAF

ATLANTIC OCEAN



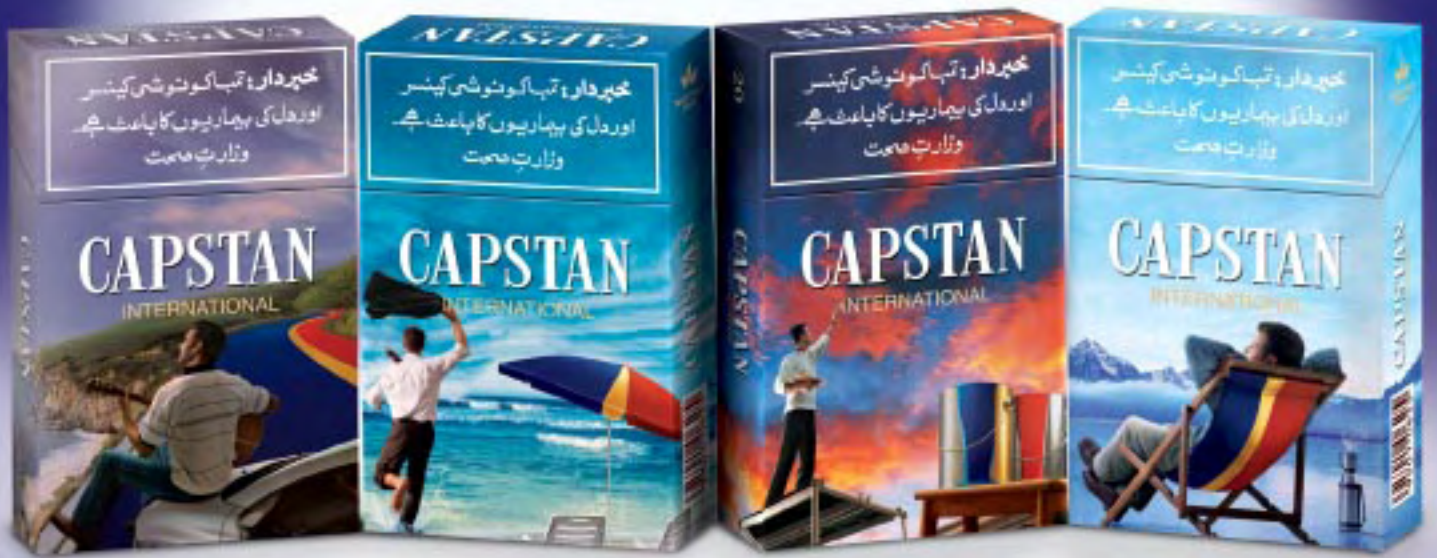
Successfully completed no. 3 day
what to measure and double check

CAPSTAN

Clothed in burgundy and stripes with a home-grown flavourful product, Capstan International has surged to a commendable medium segment share of 77%. With a premium pricing in this segment, the brand's strategic position has allowed it to absorb an enviable volume share from smokers of other brands, while being a source of up-trading to John Player Gold Leaf.

One-to-one consumer engagement and rewards programmes supported by a vibrant new consumer relevant communication pool, together with collectors' item of Limited Edition Packs have taken centre-stage in 2004.

Be Free



GOLD FLAKE

Listening, learning and responding to the vast majority of consumers, our Company took the strategic decision to leverage our leadership capabilities in the value segment and strive for similar excellence in the voluminous popular segment. Following an extremely successful test-launch, Wills Gold Flake was re-launched in a classy new pack nationally in early 2004, on a scale hitherto never witnessed before in Pakistan. Acting on our guiding principles of open-mindedness and enterprising spirit, this launch integrated all partners in the value chain to ensure a seamless transition.

The launch activities were followed up by extremely successful consumer promotions in selected markets, designed to give maximum exposure of the new pack to the target smokers. This has paid off handsomely with Wills Gold Flake volume growing over 18.6%, improving its market share by 10% and retarding the growth momentum of its competitive set. This star performance has enlarged its smoker base thus re-basing the profitability of all our trade partners.



Embassy

Despite taking an 8.3% price increase, we have managed to curtail the decline of Embassy family to 10.8%. Majority of this loss is in the Embassy Filter variant. Trading at par with the 10s variant of Gold Flake, Embassy Filter contributed to the growth of Gold Flake.

In order to arrest the declining trend of Embassy family, the Kings variant, around a third of the family volume was re-launched with rejuvenated communication and packaging in November. Initial results are very encouraging with trials from smokers of other brands. It will play a pivotal role in making the inroads to the tax-evaded sector's smoker base as true quality value for money offer with a distinctive taste.





Embassy
KINGS



Our People

The Company has always striven to sustain a Wining Organisation culture. We take great pride in the calibre of our employees and apply rigorous selection standards. We are focused on building a high performance culture where talented people work well together.

A key part of this work begins with helping to nurture an open, confident and winning environment, where all our efforts are aligned in delivering consumer satisfaction. It is our job to ensure that people have the opportunity to release their energy in a constructive and focused way. We want our employees to have a clear vision for the business and to foster enthusiasm leading to superior performance. Furthermore, we expect our leaders to engage with their teams and to develop their people.

Our culture also encourages ongoing development, so our role includes optimising personal and organisational learning in order to leverage the capability of both the business and the individual to drive the Company vision.



We offer high rewards, make substantial investments in training and development and build truly international careers.

We believe that people stay with us because they have a passion for the business. They are excited by the diversity of opportunities we offer to make the most of their talents and broaden their portfolio of skills but

most importantly, they derive personal fulfillment from what they do.



Our vision is to achieve true leadership of this industry. There are genuine issues surrounding our products and it's up to us to take the lead in looking for innovative solutions and we're determined to do that. We're under no illusions that this will be easy, but we are totally committed to making that journey.



Celebrate the Triumph of the Human Spirit

THE HUMAN SPIRIT IS THE KEY TO SUCCESS

...and the key to success is the human spirit. It is the human spirit that drives us to achieve our goals, to overcome our challenges, and to create a better world for ourselves and for others.

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Our Achievements

Journey Towards Excellence

Pakistan Tobacco Company (PTC) got ISO 9001 and 14001 certification in 2002. Until now we have successfully completed 5 surveillance audits and in November 2004, we were recertified again with 'ZERO NON CONFORMITY' and ZERO OBSERVATION'. This clearly speaks of our commitment towards excellence.

ISO - 9001 is a Quality Management System standard, which emphasises on quality and ISO 14001 is a series of standards that were formulated in an effort to harmonise the environmental disciplines for industries and services all over the world.

We achieved certification by adopting a very methodical approach i.e. formulation of teams, extensive documentation, review of documents, internal audits, selection of renowned accreditation body, pre audits and lastly reviews for corrective actions highlighted in Pre Audit.



By achieving ISO 9001 & 14001 standards we enhanced the Company's image. This ensures continuous quality & environmental improvements and will pave the way for export of our products.

Implementing BATLeaf

PTC launched a fully integrated electronic system for agronomy management and leaf purchasing called BATLeaf. The system facilitates quick quality assessment, crop estimation and inventory control, through handheld data capturing terminals. The system led to a significant reduction in buying days and better logistics management through electronic data keeping facility. In addition to being a tool for management of farmers' extension services, BATLeaf also helps the Company in timely supply of tobacco bales to the factories and efficient production.

BAT 2004 EHS Excellence Award

Pakistan Tobacco Company strongly believes that sustainable community development is essential to the continuity of our businesses. Be it the field of plantation, health care or national calamities, PTC feels pride in taking the lead.

We won the Community award for six wide-ranging community projects covering literacy, adult education, child labour and health issues. Many people have so far completed wide-ranging courses provided by PTC Learning Resource Centers. Meanwhile thousands of farmers in remote tobacco growing areas have been given free basic medical health care through the Mobile Doctors Programme. In addition, PTC's mobile dispensary operating from both Akora Khattak and Jhelum for the surrounding communities serves a large number of people every day.



The Company plants over 10,000 trees per day under the banner of its afforestation program. Being a responsible company, PTC consciously decided to embark on programmes of creating Environment, Health & Safety (EH&S) awareness amongst other industries in the area and involved the Company's main stakeholders and business partners (the CBA) in realisation of this idea.

Best Corporate Report Award

PTC was recognised by leading professional accounting bodies in Pakistan (ICAP & ICMAP) for excellence in its reporting standards. This is awarded

to companies adhering to transparent and clear reporting procedures and good corporate governance. PTC won this recognition for the second year in a row.



Implementation of SAP

The Company is immensely proud of the implementation of a world class ERP System - SAP for all its procedures at all locations.

The team is highly appreciative of the efforts of the project members, who completed the task in reasonable good time.



DELIVERING VALUE
MUTUAL BENEFIT



Long term shareholder value
Engaging constructively
Adding value to the community
Beneficial partnerships
Inspiring working environments

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Form of Proxy

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2004 and the related profit and loss account, 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 except for the change referred to in note 2.1.2 to the financial statements, with which we concur;
 - (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, 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, 2004 and of the profit, 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.



A.F. FERGUSON & CO.
Chartered Accountants

Islamabad: March 01, 2005

Profit & Loss Account

For the year ended December 31, 2004

	Note	2004	2003
(Rs 000s)			
TURNOVER		25,452,634	22,572,247
Cost of sales	3	21,970,013	19,700,706
GROSS PROFIT		3,482,621	2,871,541
Marketing expenses	4	1,442,356	1,466,095
Administration expenses	5	595,637	395,178
		2,037,993	1,861,273
OPERATING PROFIT		1,444,628	1,010,268
Other income	6	14,590	6,717
Other expenses	7	366,637	310,335
		1,092,581	706,650
Financial charges	8	36,542	91,955
PROFIT BEFORE TAXATION		1,056,039	614,695
Provision for taxation	9	390,812	293,614
PROFIT AFTER TAXATION		665,227	321,081
Earnings per share (Rupees)	10	2.60	1.26

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



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO



Balance Sheet

As at December 31, 2004

	Note	2004	2003
		(Rs 000s)	
PROPERTY, PLANT AND EQUIPMENT	13	3,564,407	3,410,888
INVESTMENT IN SUBSIDIARY COMPANY	14	5,000	5,000
LONG TERM LOANS	15	16,324	16,481
LONG TERM DEPOSITS AND PREPAYMENTS	16	4,433	6,934
CURRENT ASSETS			
Stocks	17	3,074,052	3,227,503
Stores and spares	18	121,464	127,381
Trade debts	19	12,486	145,749
Loans and advances	20	32,273	62,826
Prepayments and other receivables	21	155,129	243,875
Income tax refundable		-	4,050
Cash and bank balances	22	39,197	48,069
		3,434,601	3,859,453
LESS: CURRENT LIABILITIES			
Creditors, accrued and other liabilities	23	2,061,339	2,284,001
Short term finances	24	996,579	1,335,539
Current portion of long term loans	26	-	200,000
Income tax payable		79,549	-
		3,137,467	3,819,540
NET CURRENT ASSETS		297,134	39,913
		3,887,298	3,479,216
FINANCED BY:			
SHARE CAPITAL			
Authorised capital			
300,000,000 ordinary shares of Rs 10 each		3,000,000	3,000,000
Issued, subscribed and paid-up capital	25	2,554,938	2,554,938
UNAPPROPRIATED PROFIT		707,885	553,646
SHAREHOLDERS' EQUITY		3,262,823	3,108,584
DEFERRED TAXATION	27	624,475	370,632
COMMITMENTS AND CONTINGENCIES	28		
		3,887,298	3,479,216

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



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO

Cash Flow Statement

For the year ended December 31, 2004

	2004	2003
	(Rs 000s)	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	25,585,897	22,519,584
Cash paid to Government for cigarette and tobacco excise duty, sales tax and other levies	(16,021,304)	(14,309,453)
Cash paid to suppliers	(6,450,403)	(5,534,395)
Cash paid to employees and retirement funds	(1,465,490)	(1,266,329)
Income tax paid	(53,370)	(46,299)
Other cash receipts / (payments)	42,369	(28,693)
	<u>1,637,699</u>	<u>1,334,415</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of tangible fixed assets	(597,702)	(854,107)
Proceeds from sale of fixed assets	38,027	23,585
	<u>(559,675)</u>	<u>(830,522)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long term loans	(200,000)	(370,000)
Dividend paid	(507,318)	(203,960)
Financial charges paid	(42,656)	(120,863)
Long term loans, deposits and prepayments	2,658	1,479
Cash paid to subsidiary company	(620)	(539)
	<u>(747,936)</u>	<u>(693,883)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	330,088	(189,990)
CASH AND CASH EQUIVALENTS AT JANUARY 1	<u>(1,287,470)</u>	<u>(1,097,480)</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31	<u>(957,382)</u>	<u>(1,287,470)</u>
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	39,197	48,069
Short term finances	(996,579)	(1,335,539)
	<u>(957,382)</u>	<u>(1,287,470)</u>



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO



Statement of Changes in Equity

For the year ended December 31, 2004

	Share capital	Unappropriated profit	(Rs 000s) Total
BALANCE AT DECEMBER 31, 2002	2,554,938	232,565	2,787,503
Profit for the year 2003	–	321,081	321,081
Proposed dividend	–	(255,494)	(255,494)
BALANCE AT DECEMBER 31, 2003 AS PREVIOUSLY STATED	<u>2,554,938</u>	<u>298,152</u>	<u>2,853,090</u>
Change in accounting policy for dividend (Note 2.1.2)	–	255,494	255,494
BALANCE AT DECEMBER 31, 2003 AS RESTATED	<u>2,554,938</u>	<u>553,646</u>	<u>3,108,584</u>
Final dividend @ 10% (2002: nil) relating to the year ended December 31, 2003	–	(255,494)	(255,494)
Profit for the year 2004	–	665,227	665,227
Interim dividend @ 10% (2003: nil) relating to the year ended December 31, 2004	–	(255,494)	(255,494)
BALANCE AT DECEMBER 31, 2004	<u><u>2,554,938</u></u>	<u><u>707,885</u></u>	<u><u>3,262,823</u></u>

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



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO

Notes to and Forming Part of the Financial Statements

For the year ended December 31, 2004

1. THE COMPANY AND ITS OPERATIONS

Pakistan Tobacco Company Limited is incorporated in Pakistan and is listed on the three stock exchanges of Pakistan. It is engaged in the manufacture and sale of cigarettes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention and in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.1.2 The SECP amended the Fourth Schedule to the Companies Ordinance, 1984 during the year. This has resulted in the change in accounting policy pertaining to the recognition of dividends proposed after the balance sheet date but before the financial statements are authorised for issue. Previously, such dividends were accounted for as a liability at the balance sheet date. From the current year, such dividend has not been recognised as a liability at the balance sheet date. The change in accounting policy has been accounted for retrospectively and the comparative figures have been restated.

2.2 Taxation

Provision for current taxation is based on taxable income on current rates of taxation after taking into account tax rebates and tax credits available or based on 0.5% of turnover less related excise duty and sales tax, whichever is higher.

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised.

2.3 Provisions

Provisions are recognised when the Company has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



Notes to the Financial Statements

2.4 Retirement benefits

The Company operates:

- i) approved funded Pension scheme for Management and certain grades of Business Support Officers and gratuity scheme for all employees. Actuarial valuation of these schemes is carried out each year and the latest valuation was carried out as at December 31, 2004. The details of the valuation are summarised in note 29. The actuarial gains / losses are fully recognised in the year in which they arise.
- ii) approved contributory Provident Fund for all employees for which contributions are charged to the income for the year. An amount of Rs 24.301 million (2003: 25.476 million) has been charged to the profit and loss account during the year in respect of this scheme.

2.5 Property, plant and equipment

These are stated at cost less accumulated depreciation except freehold land, capital work-in-progress and items in transit which are stated at cost. Depreciation is charged to the profit and loss account using the straight line method at the following annual rates:

Buildings on freehold and leasehold land and private railway sidings	3%
Plant and machinery	7%
Air conditioners included in plant and machinery	25%
Office and household machinery and 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 upto the month when asset is disposed / written off.

Repairs and maintenance costs are charged to the profit and loss account in the year in which these are incurred. Major renewals and improvements are capitalised.

Profits and losses on disposal of fixed assets are taken to the profit and loss account.

2.6 Investment in subsidiary company

This is stated at cost less impairment loss, if any.

2.7 Stocks

These are stated at the lower of moving average cost and net realisable value. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred to make the sale.

2.8 Stores and spares

These are valued at moving average cost less allowance for obsolete and slow moving items. Items in transit are valued at cost comprising invoice value and other charges paid thereon.

2.9 Revenue recognition

Sales are recorded on despatch of goods to customers.

2.10 Borrowing cost

All borrowing costs are expensed as incurred.

2.11 Foreign currency transactions

Transactions in foreign currencies are recorded in the books at the rates of exchange prevailing on the date of the transaction. Assets and liabilities in foreign currencies are stated in rupees at the rates of exchange ruling on the balance sheet date. All exchange differences are included in the profit and loss account.

2.12 Related party transactions

All transactions with related parties are conducted on an arm's length basis using pricing methods, as admissible.

The prices agreed between associated companies for sale of materials and manufactured goods are based on normal commercial practices which would obtain between independent businesses. Intra Group charges for sale and purchase of goods and services and royalties are also based on the principles of normal commercial practice between independent businesses.

2.13 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially recognised at cost, which is the fair value of the consideration given and received. These are subsequently measured at fair value, amortised cost or cost, as the case may be.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and short term finances under mark-up arrangements with banks.

2.15 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received.



Notes to the Financial Statements

	2004	2003
	(Rs 000s)	
3. COST OF SALES		
Raw material consumed		
Opening stock of raw materials and work in process	2,902,957	2,910,773
Raw material purchases and expenses (Note 3.1)	4,321,327	4,068,251
Closing stock of raw materials and work in process	<u>(2,678,084)</u>	<u>(2,902,957)</u>
	4,546,200	4,076,067
Government taxes and levies		
Cigarette and tobacco excise duty and sales tax	15,880,058	14,120,672
Customs duty and surcharges	206,289	201,177
Provincial and municipal taxes and other excise duties	71,342	74,736
	<u>16,157,689</u>	<u>14,396,585</u>
	20,703,889	18,472,652
Production overheads		
Salaries, wages and benefits	648,493	608,578
Stores, spares and machine repairs	283,436	272,430
Fuel and power	100,054	93,846
Insurance	19,464	18,941
Repairs and maintenance	21,331	15,905
Postage, telephone and stationery	8,549	8,607
Depreciation	226,389	196,226
Sundries	29,830	29,299
	<u>1,337,546</u>	<u>1,243,832</u>
Cost of goods manufactured	22,041,435	19,716,484
Cost of finished goods		
Opening stock	324,546	308,768
Closing stock	<u>(395,968)</u>	<u>(324,546)</u>
	<u>(71,422)</u>	<u>(15,778)</u>
	<u>21,970,013</u>	<u>19,700,706</u>
3.1 RAW MATERIAL PURCHASES AND EXPENSES		
Materials	3,657,756	3,454,489
Royalty	219,827	208,964
Salaries, wages and benefits	192,740	165,536
Stores, spares and machine repairs	63,304	55,113
Fuel and power	53,153	53,353
Property and vehicle rentals	17,087	15,674
Insurance	7,745	7,217
Repairs and maintenance	4,675	4,297
Postage, telephone and stationery	4,428	4,177
Depreciation	83,941	78,362
Sundries	16,671	21,069
	<u>4,321,327</u>	<u>4,068,251</u>

	2004	2003
	(Rs 000s)	
4. MARKETING EXPENSES		
Salaries, wages and benefits	157,875	148,387
Selling expenses	1,038,358	1,091,225
Freight	96,991	85,021
Property and vehicle rentals	6,303	6,760
Insurance	9,434	12,046
Repairs and maintenance	48,683	42,321
Postage, telephone and stationery	9,684	10,583
Travelling	35,088	35,076
Depreciation	39,940	34,676
	<u>1,442,356</u>	<u>1,466,095</u>
5. ADMINISTRATION EXPENSES		
Salaries, wages and benefits	270,614	201,862
Fuel and power	3,331	2,758
Property and vehicle rentals	16,399	14,544
Insurance	2,270	2,025
Repairs and maintenance	13,117	19,986
Postage, telephone, stationery and communication	11,432	12,157
Legal and professional charges	5,795	5,906
Provincial and municipal taxes	735	579
Donations (Note 5.1)	7,285	3,705
Information technology / SAP implementation	137,072	37,232
Travelling	26,877	23,064
Depreciation	39,940	34,676
Directors' fee (Note 5.2)	230	310
Sundries	56,539	32,566
Auditors' remuneration and expenses		
Statutory audit	620	590
Special certifications, audit of consolidated accounts and staff funds, review of half yearly accounts	1,600	1,580
Tax compliance and advisory services	1,570	1,516
Out-of-pocket expenses	211	122
	<u>4,001</u>	<u>3,808</u>
	<u>595,637</u>	<u>395,178</u>

5.1 Recipients of donations do not include any body in whom a director or his spouse had any interest.

5.2 Directors' fee of Rs 230 thousand (2003: Rs 310 thousand) is in respect of five (2003: five) non-executive directors for attending board meetings during the year.



Notes to the Financial Statements

	2004	2003
	(Rs 000s)	
6. OTHER INCOME		
Insurance commission	6,752	3,577
Miscellaneous	7,838	3,140
	<u>14,590</u>	<u>6,717</u>
7. OTHER EXPENSES		
Workers' profit participation fund / WWF / other	64,127	32,352
Loss on fixed assets sold / written off	15,946	88,906
Staff separation cost	286,564	189,077
	<u>366,637</u>	<u>310,335</u>
8. FINANCIAL CHARGES		
On short term finances	20,057	76,943
Bank charges and fees	15,277	13,589
Interest on workers' profit participation fund	1,208	1,423
	<u>36,542</u>	<u>91,955</u>
9. PROVISION FOR TAXATION		
Current - for the year	136,969	43,614
Deferred - for the year	253,019	243,183
- for prior years	824	6,817
	<u>253,843</u>	<u>250,000</u>
	<u>390,812</u>	<u>293,614</u>
9.1 Reconciliation of tax charge for the year		
	%	%
Applicable tax rate	35.00	35.00
Add: Tax impact of minimum tax payable @ 0.5% of net turnover due to tax losses	-	7.10
Tax effect of amounts that are not deductible for tax purposes	1.92	4.56
Tax impact of provision for prior years	0.08	1.10
Average effective tax rate charged to income	<u>37.00</u>	<u>47.76</u>

2004 2003
(Rs 000s)

10. EARNINGS PER SHARE

Profit after tax	665,227	321,081
Number of ordinary shares (in thousands)	255,494	255,494
Earnings per share (Rupees)	2.60	1.26

11. DIVIDEND

Final dividend in respect of the year ended December 31, 2004 of Rs 1.2 per share (2003: Rs 1 per share) amounting to a total dividend of Rs 306.593 million (2003: Rs 255.494 million) has been proposed out of the unappropriated profit at the Board of Directors meeting on March 1, 2005. These financial statements do not reflect this dividend payable.

12. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

(Rs 000s)

	Chief Executive		Directors		Executives		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Managerial remuneration	47,888	14,622	66,100	45,896	257,430	180,858	371,418	241,376
Leave fare assistance	1,285	1,308	1,186	1,563	2,202	3,567	4,673	6,438
Retirement benefits	–	–	4,281	4,839	40,326	38,894	44,607	43,733
Housing and utilities	4,574	3,792	7,039	8,278	60,062	59,959	71,675	72,029
Medical expenses	134	84	415	347	11,898	10,046	12,447	10,477
	53,881	19,806	79,021	60,923	371,918	293,324	504,820	374,053
* Number of persons	1	1	6	8	131	130	138	139

* These represent employees who were on payroll of the Company during the year.

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

12.2 The definition of executive under the Companies Ordinance, 1984 was revised during the year with respect to the minimum basic salary requirement from Rs 100,000 to Rs 500,000 in a financial year. The 2003 figures have been restated for the purpose of comparison.



Notes to the Financial Statements

2004 2003
(Rs 000s)

13. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets (Note 13.1)	3,328,454	3,037,571
Capital work in progress (Note 13.2)	<u>235,953</u>	<u>373,317</u>
	<u>3,564,407</u>	<u>3,410,888</u>

13.1 Operating fixed assets

(Rs 000s)

	Cost			Depreciation				Cost less depreciation	
	At 01.01.2004	Additions	Deletions	At 31.12.2004	At 01.01.2004	Charge for the year	On deletions	At 31.12.2004	At 31.12.2004
Freehold land	6,834	–	–	6,834	–	–	–	–	6,834
Buildings on freehold land	314,644	20,494	(1,102)	334,036	76,550	9,147	(284)	85,413	248,623
Buildings on leasehold land	22,643	674	–	23,317	11,822	846	–	12,668	10,649
Private railway sidings	349	–	–	349	321	2	–	323	26
Plant and machinery	3,680,201	530,553	(88,432)	4,122,322	1,204,312	263,621	(55,455)	1,412,478	2,709,844
Office and house-hold machinery and equipment	246,339	53,532	(20,566)	279,305	126,047	38,813	(17,782)	147,078	132,227
Furniture and fittings	60,075	1,353	–	61,428	27,825	7,013	–	34,838	26,590
Vehicles	345,785	128,459	(60,112)	414,132	192,422	70,768	(42,718)	220,472	193,660
Total	<u>4,676,870</u>	<u>735,065</u>	<u>(170,212)</u>	<u>5,241,723</u>	<u>1,639,299</u>	<u>390,210</u>	<u>(116,239)</u>	<u>1,913,270</u>	<u>3,328,454</u>
2003	4,386,497	568,431	(278,058)	4,676,870	1,460,926	343,940	(165,567)	1,639,299	3,037,571

2004 2003
(Rs 000s)

13.2 Capital work in progress

Civil works and buildings	–	4,979
Plant and machinery	195,965	225,494
Advances to suppliers	37,412	135,878
Machinery and fixtures in transit / storage	<u>2,576</u>	<u>6,966</u>
	<u>235,953</u>	<u>373,317</u>

13.3 Sale of tangible fixed assets

Details of disposal of fixed assets other than regular auction are as follows:

	Original Cost	Accumulated Depreciation	Book Value	(Rs 000s) Sale Proceeds	Particulars of buyers	Mode of Disposal
Computer equipment	317	232	85	147	IGI Insurance Company	Insurance claim
	85	17	68	56	IGI Insurance Company	Insurance claim
Vehicles	629	566	63	619	Malik Zulfikar Ali - Islamabad	Negotiation
	2,435	2,192	243	1,633	Javed Liaqat - Rawalpindi	Negotiation
	599	539	60	60	Pakistan Cricket Board - Lahore	Negotiation
	1,367	1,231	136	864	Raja Muhammad Fayaz - Rawalpindi	Negotiation
	1,368	1,231	137	760	Raja Muhammad Fayaz - Rawalpindi	Negotiation
	682	614	68	489	Waheed Akhtar - Rawalpindi	Negotiation
	769	692	77	77	Pakistan Cricket Board - Lahore	Negotiation
	660	594	66	609	Nadeem Shahzad Ch. - Islamabad	Negotiation
	660	594	66	571	Ch. Muhammad Saleem - Rawalpindi	Negotiation
	611	549	62	561	Ittikhar Ahmed - Rawalpindi	Negotiation
	677	609	68	638	Ch. Muhammad Saleem - Rawalpindi	Negotiation
	989	890	99	770	Jamshed Alam Khan - Rawalpindi	Negotiation
	699	583	116	595	Ittikhar Ahmed - Rawalpindi	Negotiation
	705	543	162	639	Dr. Junsaid Alam Khan - Rawalpindi	Negotiation
	991	723	268	893	Atta Ur Rahman - Distt Dir	Negotiation
	1,345	813	532	964	Ch. Muhammad Waseem - Rawalpindi	Negotiation
	3,800	2,612	1,188	2,573	Habib Ahmed - Islamabad	Negotiation
	660	594	66	615	AIG New Hampshire Insurance Co.	Insurance claim
	585	527	58	540	AIG New Hampshire Insurance Co.	Insurance claim
	4,456	2,042	2,414	3,500	AIG New Hampshire Insurance Co.	Insurance claim
	83	29	54	75	AIG New Hampshire Insurance Co.	Insurance claim
	367	206	161	270	AIG New Hampshire Insurance Co.	Insurance claim
	376	157	219	285	AIG New Hampshire Insurance Co.	Insurance claim
	774	226	548	690	AIG New Hampshire Insurance Co.	Insurance claim
	1,176	343	833	1,166	AIG New Hampshire Insurance Co.	Insurance claim
	396	74	322	386	AIG New Hampshire Insurance Co.	Insurance claim
	694	625	69	116	Rashid M. Khan - Ex-Employee	As per Company Policy
	1,024	469	555	716	Abdul Shakoor - Ex-Employee	As per Company Policy
	633	570	63	204	Amjad Saeed - Ex-Employee	As per Company Policy
	750	31	719	667	Umar Ashraf - Ex-Employee	As per Company Policy
	991	892	99	366	Feroza Shera - Ex-Employee	As per Company Policy
	1,309	954	355	573	Najmus Saqib Hameed - Ex-Chairman	As per Company Policy
1,189	817	372	637	Aslam Khaliq - Ex-Employee	As per Company Policy	
1,245	752	493	602	Najmus Saqib Hameed - Ex-Chairman	As per Company Policy	
3,950	1,481	2,469	1,216	Aslam Khaliq - Ex-Employee	As per Company Policy	
1,169	414	755	451	Aslam Khaliq - Ex-Employee	As per Company Policy	
750	328	422	534	Haseeb A. Wali - Ex-Employee	As per Company Policy	
709	638	71	275	Tajamal Shah - Employee	As per Company Policy	
1,024	448	576	591	Kashif Aziz Khawaja - Employee	As per Company Policy	
750	375	375	514	Amjad Ali - Employee	As per Company Policy	
705	529	176	308	Shahab Shams - Employee	As per Company Policy	
991	892	99	337	Mustanser Ali Khan - Employee	As per Company Policy	
952	853	99	427	Ahmed Nawaz - Employee	As per Company Policy	
705	602	103	373	Saad Fazal Ur Rehman - Employee	As per Company Policy	



Notes to the Financial Statements

14. INVESTMENT IN SUBSIDIARY COMPANY

This represents 500,001 (2003: 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 based on audited accounts for the year ended December 31, 2004 (2003: Rs 10 per share).

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

2004 2003
(Rs 000s)

15. LONG TERM LOANS

Considered good

Loans due from directors and executives	22,101	21,668
Less: Receivable within one year	<u>5,777</u>	<u>5,187</u>
	<u>16,324</u>	<u>16,481</u>

15.1 Reconciliation of loans due from directors and executives:

Opening balance	21,668	12,595
Add: Disbursements during the year	11,850	16,384
Less: Repayments during the year	<u>(11,417)</u>	<u>(7,311)</u>
Closing balance	<u>22,101</u>	<u>21,668</u>

15.2 The above comprises interest free loans amounting to Rs 0.189 million (2003: Rs 0.308 million) and Rs 21.912 million (2003: Rs 21.360 million) given to the directors and executives respectively for purchase of household furniture, appliances, cars and motorcycles, repayable over 5 to 10 years in equal installments. Loans amounting to Rs 12.963 million (2003: Rs 1.662 million) were outstanding for more than three years.

15.3 The maximum amounts due from the directors and executives at the end of any month during the year were Rs 0.201 million (2003: Rs 0.362 million) and Rs 22.042 million (2003: Rs 21.360 million) respectively.

2004 2003
(Rs 000s)

16. LONG TERM DEPOSITS AND PREPAYMENTS

Security deposits	1,972	1,817
Prepayments	<u>2,461</u>	<u>5,117</u>
	<u>4,433</u>	<u>6,934</u>

17. STOCKS

Raw materials	2,552,527	2,850,554
Raw materials in transit	106,246	34,045
Work in process	19,311	18,358
Finished goods	<u>395,968</u>	<u>324,546</u>
	<u>3,074,052</u>	<u>3,227,503</u>

18. STORES AND SPARES

Stores	1,918	3,516
Machine spares - Cigarette production	116,795	121,427
- Printing and leaf redrying	<u>2,751</u>	<u>2,438</u>
	<u>121,464</u>	<u>127,381</u>

19. TRADE DEBTS

These are unsecured, considered good and are net of provision for doubtful amounts of Rs 2.322 million (2003: Rs 2.322 million). These include amounts due from associated companies BAT Germany Rs nil (2003: Rs 119.854 million) and BAT Singapore Rs nil (2003: Rs 18.964 million).

2004 2003
(Rs 000s)

20. LOANS AND ADVANCES

Considered good		
Loans due from directors and executives (Note 15)	5,777	5,187
Advances due from employees (Note 20.1)	5,195	8,559
Advances due from others	<u>21,301</u>	<u>49,080</u>
	<u>32,273</u>	<u>62,826</u>



Notes to the Financial Statements

20.1 The above includes Rs 4.693 million (2003: Rs 7.607 million) due from executives of the Company.

20.2 The maximum amount due from executives of the Company at the end of any month during the year was Rs 23.475 million (2003: Rs 23.795 million).

	2004	2003
	(Rs 000s)	
21. PREPAYMENTS AND OTHER RECEIVABLES		
Prepayments	36,003	41,970
Margin against guarantees	6,318	23,175
Due from subsidiary company	23,286	22,666
Due from associated companies (Note 21.1)	25,655	11,919
Claims	14,765	13,400
Employees' provident fund	30,764	14,621
Management provident fund	-	23,486
Payments on behalf of Employees' gratuity and pension fund	-	77,110
Others	18,338	15,528
	<u>155,129</u>	<u>243,875</u>

21.1 The amount due from associated companies comprises:

BAT - Bangladesh	11,349	9,275
BAT - Regional Office Hong Kong	4,019	-
BAT - Singapore	2,718	-
BAT - UK	2,369	-
BAT - Nigeria	2,322	673
Ceylon Tobacco Company - Sri Lanka	1,185	719
BAT - Australia	629	-
BAT - New Zealand	226	-
BAT - Indonesia	223	106
BAT - Benin	220	-
BAT - Dubai	209	787
BAT - South Korea	138	138
BAT - Uzbekistan	48	-
BAT - Uganda	-	221
	<u>25,655</u>	<u>11,919</u>

2004 2003
(Rs 000s)

22. CASH AND BANK BALANCES

On hand	892	1,381
In transit	1,405	4,018
At banks on current accounts	29,654	34,005
	<u>31,951</u>	<u>39,404</u>
Security deposits - held in special account	7,246	8,665
	<u>39,197</u>	<u>48,069</u>

23. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	674,261	957,129
Excise duties / Provincial Taxes	809,450	720,220
Sales tax	266,723	219,568
Accrued liabilities	230,904	255,302
Mark-up on short term finances	5,041	11,155
Security deposits	7,246	8,665
Workers' profit participation fund (Note 23.1)	55,989	32,352
Staff pension fund	1,605	13,780
Employees' gratuity fund	2,512	61,906
Management provident fund	14	-
Unclaimed dividend	7,594	3,924
	<u>2,061,339</u>	<u>2,284,001</u>

23.1 Workers' profit participation fund

Balance at January 1	32,352	38,418
Allocation for the year	55,989	32,352
Interest on funds utilised in Company's business	1,208	1,423
Payment to the fund during the year	(33,560)	(39,841)
Balance at December 31	<u>55,989</u>	<u>32,352</u>

23.2 Creditors include Rs 194.378 million (2003: Rs 208.437 million) and Rs 75.112 million (2003: Rs 52.070 million) payable to the holding company and associated companies respectively.



Notes to the Financial Statements

24. SHORT TERM FINANCES - SECURED

Short term finances are under mark-up arrangements with banks and are secured by hypothecation of stocks of raw materials and finished goods. The mark-up ranges between 1.75% to 6.45% (2003: 2.15% to 4.25%) per annum and is payable quarterly. Total facility available under mark-up arrangements amounts to Rs 2,380 million (2003: Rs 2,382 million) out of which the amount unavailed at the year end was Rs 1,383 million (2003: Rs 1,046 million).The facilities are renewable annually.

2004	2003
(Rs 000s)	

25. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

255,493,792 ordinary shares of Rs 10 each including
25,136,724 bonus shares

<u>2,554,938</u>	<u>2,554,938</u>
------------------	------------------

British American Tobacco (Investments) Limited (BAT) held 241,045,141 ordinary shares of Rs 10 each at December 31, 2004 (2003: 241,045,141 shares).

2004	2003
(Rs 000s)	

26. LONG TERM LOANS - SECURED

Term finance from banks (Note 26.1)
Less: shown under current liabilities

-	200,000
<u>-</u>	<u>200,000</u>
<u>-</u>	<u>-</u>

26.1 Term finance facility of Rs 200 million has been paid back in June 2004.

27. DEFERRED TAXATION

The deferred tax liability of Rs 624.475 million (2003: Rs 370.632 million) represents tax liability of Rs 624.475 million (2003: Rs 572.968 million) related to timing differences between accounting and tax depreciation and potential tax benefit of Rs nil (2003: Rs 202.336 million) related to unused Tax losses.

28. COMMITMENTS AND CONTINGENCIES

- 28.1 Capital expenditure commitments outstanding at December 31, 2004 amounted to Rs nil (2003: Rs 118.990 million).
- 28.2 Letters of credit outstanding at December 31, 2004 amounted to Rs 447,679 million (2003: Rs 325.332 million).
- 28.3 Claims not acknowledged as debt amounted to Rs 69,168 million (2003: Rs 123.767 million).
- 28.4 Guarantees issued by banks on behalf of the Company amounted to Rs 60.543 million (2003: Rs 50.393 million).



Notes to the Financial Statements

29. EMPLOYEES' DEFINED BENEFIT FUNDED PENSION AND GRATUITY SCHEMES

The details of actuarial valuation carried out as at December 31, 2004 and December 31, 2003 are as follows:

	2004		2003	
	Pension (Rs 000s)	Gratuity	Pension (Rs 000s)	Gratuity
Expense				
Service cost	20,381	14,987	29,686	13,083
Interest cost	51,290	12,108	61,901	17,430
Expected return on assets	(50,487)	(8,502)	(60,930)	(15,894)
Actuarial (gains) / losses	6,277	6,095	(2,044)	5,973
Settlement loss	-	-	14,413	74,059
Members' contribution	-	-	(9,335)	-
	<u>27,461</u>	<u>24,688</u>	<u>33,691</u>	<u>94,651</u>
Liability				
Balance at January 1	13,780	61,906	11,279	17,832
Charge for the year	27,461	24,688	33,691	94,651
Amount paid during the year	(39,636)	(23,905)	(31,190)	(50,577)
Special payment	-	(60,177)	-	-
Balance at December 31	<u>1,605</u>	<u>2,512</u>	<u>13,780</u>	<u>61,906</u>
Reconciliation				
Present value of defined benefit obligations	965,451	215,533	868,626	205,825
Less: fair value of plan assets	963,846	213,021	854,846	143,919
Liability recognised in the accounts	<u>1,605</u>	<u>2,512</u>	<u>13,780</u>	<u>61,906</u>
Actual return on plan assets	<u>120,766</u>	<u>24,196</u>	<u>123,357</u>	<u>22,334</u>

The Projected Unit Credit Method using the following significant assumptions was used for the valuation of these schemes:

	2004	2003
- Discount rate	8%	6%
- Expected rate of increase in salary level	8%	6%
- Expected yearly increase in post retirement pension	3%	2%
- Expected rate of return on plan assets	8%	6%

30. FINANCIAL INSTRUMENTS

30.1 Financial assets and liabilities

(Rs 000s)

	2004			2003		
	Exposed to interest rate risk	Not exposed to interest rate risk	Total	Exposed to interest rate risk	Not exposed to interest rate risk	Total
Financial Assets						
Maturity upto one year:						
Trade debts	-	12,486	12,486	-	145,749	145,749
Loans, deposits and other receivables	-	151,399	151,399	-	264,731	264,731
Cash and bank balances	7,246	31,951	39,197	8,665	39,404	48,069
Maturity after one year:						
Investment in subsidiary company	-	5,000	5,000	-	5,000	5,000
Loans, deposits and other receivables	-	18,296	18,296	-	18,298	18,298
Total	7,246	219,132	226,378	8,665	473,182	481,847
Financial Liabilities						
Maturity upto one year:						
Term loans	-	-	-	200,000	-	200,000
Short term finances	996,579	-	996,579	1,335,539	-	1,335,539
Creditors, accrued and other liabilities	-	2,061,339	2,061,339	-	2,284,001	2,284,001
Total	996,579	2,061,339	3,057,918	1,535,539	2,284,001	3,819,540
Off Balance Sheet items						
Letters of credit	-	447,679	447,679	-	325,332	325,332
Other commitments	-	-	-	-	118,990	118,990
Bank guarantees	-	60,543	60,543	-	50,393	50,393
Total	-	508,222	508,222	-	494,715	494,715



Notes to the Financial Statements

30.2 Credit risk

Since major part of sales of the Company is against advance payment, the credit risk is minimal.

30.3 Interest rate risk

Financial liabilities include Rs 997 million which are subject to floating interest ranging between 1.75% to 6.45% (2003: 2.15% to 4.25%) per annum.

30.4 Foreign exchange risk

Financial assets of equivalent Rs 48.679 million (2003 : Rs 162.570 million) and financial liabilities of equivalent Rs 223.056 million (2003 : 299.703 million) were in foreign currency which were exposed to foreign currency risk.

Forward foreign currency contracts are used to manage foreign currency risk related to payments for import of goods and equipment, wherever considered appropriate.

30.5 Fair value of financial assets and liabilities

The carrying values of financial assets and liabilities approximate their fair values except investment in subsidiary company which is stated at cost.

31. TRANSACTIONS WITH RELATED PARTIES

Aggregate transactions with related parties during the year were as follows:

	2004	2003
	(Rs 000s)	
Sale of goods		
Holding company	33,391	25,996
Associated companies	3,328,472	3,080,282
Purchase of goods and services		
Holding company	203,523	85,097
Associated companies	394,140	424,265
Royalty expense		
Holding company	219,827	208,964
Payments on behalf of subsidiary company	620	539

32. GENERAL

32.1 Capacity and production

Against an estimated manufacturing capacity of 28,174 (2003: 27,942) million cigarettes, actual production was 27,001 (2003: 24,639) million cigarettes. There was no production through any outside manufacturing source as actual production was sufficient to meet market demand.

32.2 Number of employees

Total number of employees at the end of the year was 1,745 (2003: 2,071).

32.3 Corresponding figures

Corresponding figures have been rearranged, where necessary, for the purpose of comparison.

32.4 Date of authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on March 01, 2005.



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO



Pattern of Shareholding

As at December 31, 2004

	<u>No. of Shares</u>
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	4,097,720
Directors, CEO and their spouses and minor children	62,797
Executives	200
Public Sector companies and corporations	986,547
Banks, Development Finance Institutions, Non-Banking	
Finance Institutions, Insurance companies, Modaraba and Mutual Funds	751,822
Others	3,674,591
Individuals	4,076,692
	<u>255,493,792</u>

Categories of Shareholders

	<u>Number</u>	<u>Shares Held</u>	<u>%</u>
Individuals	3,730	4,076,692	1.6
Investment Companies	6	141,860	0.1
Insurance Companies	13	1,324,881	0.5
Joint Stock Companies	50	3,308,481	1.3
Financial Institutions	12	4,365,306	1.7
Modarabas	2	1,122	0.0
Government Organisations	2	32	0.0
Foreign Investors	9	241,856,948	94.7
Co-operative Societies	1	2,161	0.0
Charitable Trusts & Others	6	416,309	0.2
Total	<u>3,831</u>	<u>255,493,792</u>	<u>100.0</u>

	<u>No. of Shares</u>
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.	4,078,440
Investment Corporation of Pakistan	19,280
Directors, CEO and their spouses and minor children (name wise details)	
Aslam Khaliq	8
Kunwar Idris	65
Ali Kuli Khan Khattak	100
Brendan James Brady	500
Stephen Wayne Daintith	2,000
Mueen Afzal	2,124
Fatehali Walimuhammad Vellani	
Executives	
Naveed Aftab Ahmad	200
Shareholders holding 10% or more voting interest	
British American Tobacco (Investments) Limited	241,045,141

Pattern of Shareholding As at December 31, 2004

No. of Shareholders	Categories				Total Shares
1,433	From	1	To	100	46,498
1,356	From	101	To	500	392,151
488	From	501	To	1,000	343,138
435	From	1,001	To	5,000	961,054
51	From	5,001	To	10,000	391,865
13	From	10,001	To	15,000	167,463
12	From	15,001	To	20,000	219,204
10	From	20,001	To	25,000	232,010
2	From	25,001	To	30,000	59,000
1	From	30,001	To	35,000	31,400
4	From	35,001	To	40,000	149,868
2	From	45,001	To	50,000	94,966
2	From	50,001	To	55,000	102,661
2	From	55,001	To	60,000	114,050
1	From	60,001	To	65,000	60,961
1	From	65,001	To	70,000	70,000
1	From	70,001	To	75,000	70,140
1	From	85,001	To	90,000	86,509
1	From	110,001	To	115,000	110,500
1	From	120,001	To	125,000	121,000
1	From	145,001	To	150,000	148,716
1	From	165,001	To	170,000	167,633
1	From	175,001	To	180,000	178,387
1	From	195,001	To	200,000	200,000
1	From	205,001	To	210,000	207,667
1	From	220,001	To	225,000	221,000
1	From	265,001	To	270,000	268,034
1	From	360,001	To	365,000	362,374
1	From	440,001	To	445,000	440,500
1	From	550,001	To	555,000	554,195
1	From	795,001	To	800,000	798,282
1	From	2,995,001	To	3,000,000	2,999,500
1	From	4,075,001	To	4,080,000	4,077,925
1	From	241,045,001	To	241,050,000	241,045,141
<u>3,831</u>					<u>255,493,792</u>



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Directors' Report

The Directors have pleasure in presenting report together with the Audited Accounts of the Company for the year ended December 31, 2004.

Due to restrictions imposed on manufacture of Pakistani brand cigarettes in Azad Kashmir, and non-existence of an opportunity for export, no cigarette production activity took place during the year.

The Company is a wholly owned subsidiary of Pakistan Tobacco Company Limited.

On behalf of the board



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director

Auditors' Report to the Members

We have audited the annexed balance sheet of Phoenix (Private) Limited as at December 31, 2004 and the related cash flow statement 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 together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984, and is in agreement with the books of account and is 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 and cash flow statement 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, 2004 and its cash flows for the year then ended; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



A.F. FERGUSON & CO.
Chartered Accountants

Islamabad: March 01, 2005



Balance Sheet

As at December 31, 2004

	Note	2004	2003
		(Rs 000s)	
PROPERTY, PLANT AND EQUIPMENT	3	28,308	27,688
PRELIMINARY EXPENSES	4	1	1
CURRENT ASSETS			
Balance with bank in current account		4	4
LESS: CURRENT LIABILITIES			
Creditors, accrued and other liabilities	5	23,313	22,693
NET CURRENT (LIABILITIES)		(23,309)	(22,689)
		5,000	5,000
FINANCED BY:			
SHARE CAPITAL			
Authorised capital			
5,000,000 ordinary shares of Rs 10 each		50,000	50,000
Issued, subscribed and paid-up capital	6	5,000	5,000
		5,000	5,000

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



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director

Cash Flow Statement

For the year ended December 31, 2004

	2004	2003
	(Rs 000s)	
CASH FLOW FROM INVESTING ACTIVITIES		
Capital Work-in-Progress	(620)	(539)
CASH FLOW FROM FINANCING ACTIVITIES		
Cash received from Pakistan Tobacco Company Limited	<u>620</u>	<u>539</u>
CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS AT JANUARY 1	<u>4</u>	<u>4</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31	<u><u>4</u></u>	<u><u>4</u></u>



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director



Notes to and Forming Part of the Financial Statements

For the year ended December 31, 2004

1. THE COMPANY AND ITS OPERATIONS

Phoenix (Private) Limited was incorporated on March 9, 1992 in Azad Kashmir as a wholly owned subsidiary of Pakistan Tobacco Company Limited. The object for which the Company has been incorporated is to operate and manage an industrial undertaking in Azad Kashmir to manage and deal in tobacco products. The Company has not yet commenced its commercial operations. Therefore, the Profit & Loss account has not been prepared.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Tangible fixed assets

Freehold land and capital work-in-progress are stated at cost.

	2004	2003
	(Rs 000s)	
3. PROPERTY, PLANT AND EQUIPMENT		
Freehold land	3,364	3,364
Capital work-in-progress:		
Civil and electrical works	12,561	12,561
Plant and machinery	9,121	9,121
Advances to suppliers	2	2
Pre-operating expenses	3,260	2,640
	24,944	24,324
	28,308	27,688

	2004	2003
	(Rs 000s)	
4. PRELIMINARY EXPENSES		
Legal fees	16	16
Registration fees	<u>81</u>	<u>81</u>
	97	97
Preliminary expenses transferred to Pakistan Tobacco Company Limited	<u>(96)</u>	<u>(96)</u>
	<u><u>1</u></u>	<u><u>1</u></u>
5. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Due to Pakistan Tobacco Company Limited	23,286	22,666
Others	<u>27</u>	<u>27</u>
	<u><u>23,313</u></u>	<u><u>22,693</u></u>

6. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

500,001 ordinary shares (2003: 500,001 ordinary shares) of Rs 10 each. All shares of the Company are held by Pakistan Tobacco Company Limited.

7. FINANCIAL ASSETS AND LIABILITIES

	Not exposed to interest rate risk Maturity upto one year	
	2004	2003
	(Rs 000s)	
FINANCIAL ASSETS		
Cash and bank balances	<u>4</u>	<u>4</u>
	<u><u>4</u></u>	<u><u>4</u></u>
FINANCIAL LIABILITIES		
Creditors, accrued and other liabilities	<u>23,313</u>	22,693
	<u><u>23,313</u></u>	<u><u>22,693</u></u>



Notes to the Financial Statements

7.1 Fair value of financial assets and liabilities

The carrying values of financial assets and liabilities approximate their fair values.

8. CORRESPONDING FIGURES

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison.

9. DATE OF AUTHORISATION

These financial statements have been authorised for issue by the Board of Directors of the Company on March 01, 2005.



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director

Pattern of Shareholding As at December 31, 2004

No. of Shareholders	Categories				Total Shares
3	From	1	To	5,000	15,000
1	From	450,000	To	490,000	485,001
Total 4					500,001

Categories of Shareholders	Number	Shares Held	%
Individuals-nominees of Pakistan Tobacco Company Limited	3	15,000	3.0
Joint Stock Companies	1	485,001	97.0
	4	500,001	100.0



Auditors' Report to the Members

We have examined the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan Tobacco Company Limited (PTC) and its subsidiary company as at December 31, 2004 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year ended December 31, 2004. These financial statements are the responsibility of PTC's management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was made 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 examined by us present fairly the financial position of Pakistan Tobacco Company Limited and its subsidiary company consolidated therein as at December 31, 2004 and the results of their operations for the year then ended.



A.F. FERGUSON & CO.
Chartered Accountants

Islamabad: March 01, 2005

Consolidated Profit & Loss Account

For the year ended December 31, 2004

	Note	2004	2003
(Rs 000s)			
TURNOVER		25,452,634	22,572,247
Cost of sales	3	21,970,013	19,700,706
GROSS PROFIT		3,482,621	2,871,541
Marketing expenses	4	1,442,356	1,466,095
Administration expenses	5	595,637	395,178
		2,037,993	1,861,273
OPERATING PROFIT		1,444,628	1,010,268
Other income	6	14,590	6,717
Other expenses	7	366,637	310,335
		1,092,581	706,650
Financial charges	8	36,542	91,955
PROFIT BEFORE TAXATION		1,056,039	614,695
Provision for taxation	9	390,812	293,614
PROFIT AFTER TAXATION		665,227	321,081
Earnings per share (Rupees)	10	2.60	1.26

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



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO



Consolidated Balance Sheet

As at December 31, 2004

	Note	2004	2003
(Rs 000s)			
PROPERTY, PLANT AND EQUIPMENT	13	3,592,715	3,438,576
LONG TERM LOANS	14	16,324	16,481
LONG TERM DEPOSITS AND PREPAYMENTS	15	4,433	6,934
CURRENT ASSETS			
Stocks	16	3,074,052	3,227,503
Stores and spares	17	121,464	127,381
Trade debts	18	12,486	145,749
Loans and advances	19	32,273	62,826
Prepayments and other receivables	20	131,844	221,210
Income tax refundable		-	4,050
Cash and bank balances	21	39,201	48,073
		<u>3,411,320</u>	<u>3,836,792</u>
LESS: CURRENT LIABILITIES			
Creditors, accrued and other liabilities	22	2,061,366	2,284,028
Short term finances	23	996,579	1,335,539
Current portion of long term loans	25	-	200,000
Income tax payable		79,549	-
		<u>3,137,494</u>	<u>3,819,567</u>
NET CURRENT ASSETS		<u>273,826</u>	<u>17,225</u>
FINANCED BY:		<u>3,887,298</u>	<u>3,479,216</u>
SHARE CAPITAL			
Authorised capital			
300,000,000 ordinary shares of Rs 10 each		<u>3,000,000</u>	<u>3,000,000</u>
Issued, subscribed and paid-up capital	24	2,554,938	2,554,938
UNAPPROPRIATED PROFIT		<u>707,885</u>	<u>553,646</u>
SHAREHOLDERS' EQUITY		<u>3,262,823</u>	<u>3,108,584</u>
DEFERRED TAXATION	26	624,475	370,632
COMMITMENTS AND CONTINGENCIES	27		
		<u>3,887,298</u>	<u>3,479,216</u>

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



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO

Consolidated Cash Flow Statement For the year ended December 31, 2004

	2004	2003
	(Rs 000s)	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	25,585,897	22,519,584
Cash paid to Government for cigarette and tobacco excise duty, sales tax and other levies	(16,021,304)	(14,309,453)
Cash paid to suppliers	(6,450,403)	(5,534,395)
Cash paid to employees and retirement funds	(1,465,490)	(1,266,329)
Income tax paid	(53,370)	(46,299)
Other cash receipts / (payments)	42,369	(28,693)
	<u>1,637,699</u>	<u>1,334,415</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of tangible fixed assets	(598,322)	(854,646)
Proceeds from sale of fixed assets	38,027	23,585
	<u>(560,295)</u>	<u>(831,061)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long term loans	(200,000)	(370,000)
Dividend paid	(507,318)	(203,960)
Financial charges paid	(42,656)	(120,863)
Long term loans, deposits and prepayments	2,658	1,479
	<u>(747,316)</u>	<u>(693,344)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	330,088	(189,990)
CASH AND CASH EQUIVALENTS AT JANUARY 1	<u>(1,287,466)</u>	<u>(1,097,476)</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31	<u>(957,378)</u>	<u>(1,287,466)</u>
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	39,201	48,073
Short term finances	(996,579)	(1,335,539)
	<u>(957,378)</u>	<u>(1,287,466)</u>



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO



Consolidated Statement of Changes in Equity

For the year ended December 31, 2004

	Share capital	Unappropriated profit	(Rs 000s) Total
BALANCE AT DECEMBER 31, 2002	2,554,938	232,565	2,787,503
Profit for the year 2003	-	321,081	321,081
Proposed dividend	-	(255,494)	(255,494)
BALANCE AT DECEMBER 31, 2003 AS PREVIOUSLY STATED	2,554,938	298,152	2,853,090
Change in accounting policy for dividend (Note 2.1.2)	-	255,494	255,494
BALANCE AT DECEMBER 31, 2003 AS RESTATED	2,554,938	553,646	3,108,584
Final dividend @ 10% (2002: nil) relating to the year ended December 31, 2003	-	(255,494)	(255,494)
Profit for the year 2004	-	665,227	665,227
Interim dividend @ 10% (2003: nil) relating to the year ended December 31, 2004	-	(255,494)	(255,494)
BALANCE AT DECEMBER 31, 2004	2,554,938	707,885	3,262,823

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



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO

Notes to and Forming Part of the Consolidated Financial Statements For the year ended December 31, 2004

1. LEGAL STATUS AND 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 is incorporated in Pakistan and is listed on the three stock exchanges of Pakistan. It is engaged in the manufacture and sale of cigarettes.

Phoenix (Private) Limited is incorporated in Azad Kashmir, Pakistan to manage and deal in tobacco products and has not yet commenced the commercial production.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention and in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.1.2 The SECP amended the Fourth Schedule to the Companies Ordinance, 1984 during the year. This has resulted in the change in accounting policy pertaining to the recognition of dividends proposed after the balance sheet date but before the financial statements are authorised for issue. Previously, such dividends were accounted for as a liability at the balance sheet date. From the current year, such dividend has not been recognised as a liability at the balance sheet date. The change in accounting policy has been accounted for retrospectively and the comparative figures have been restated.

2.2 Taxation

Provision for current taxation is based on taxable income on current rates of taxation after taking into account tax rebates and tax credits available or based on 0.5% of turnover less related excise duty and sales tax, whichever is higher.

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised.

2.3 Provisions

Provisions are recognised when the Company has a present obligation as a result of past events,

Notes to the Consolidated Financial Statements

it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.4 Retirement benefits

The Company operates:

- i) approved funded Pension scheme for Management and certain grades of Business Support Officers and gratuity scheme for all employees. Actuarial valuation of these schemes is carried out each year and the latest valuation was carried out as at December 31, 2004. The details of the valuation are summarised in note 28. The actuarial gains / losses are fully recognised in the year in which they arise.
- ii) approved contributory Provident Fund for all employees for which contributions are charged to the income for the year. An amount of Rs 24.301 million (2003: 25.476 million) has been charged to the profit and loss account during the year in respect of this scheme.

2.5 Property, plant and equipment

These are stated at cost less accumulated depreciation except freehold land, capital work-in-progress and items in transit which are stated at cost. Depreciation is charged to the profit and loss account using the straight line method at the following annual rates:

Buildings on freehold and leasehold land and private railway sidings	3%
Plant and machinery	7%
Air conditioners included in plant and machinery	25%
Office and household machinery and 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 upto the month when asset is disposed / written off.

Repairs and maintenance costs are charged to the profit and loss account in the year in which these are incurred. Major renewals and improvements are capitalised.

Profits and losses on disposal of fixed assets are taken to the profit and loss account.

2.6 Stocks

These are stated at the lower of moving average cost and net realisable value. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred to make the sale.

2.7 Stores and spares

These are valued at moving average cost less allowance for obsolete and slow moving items. Items in transit are valued at cost comprising invoice value and other charges paid thereon.

2.8 Revenue recognition

Sales are recorded on despatch of goods to customers.

2.9 Borrowing cost

All borrowing costs are expensed as incurred.

2.10 Foreign currency transactions

Transactions in foreign currencies are recorded in the books at the rates of exchange prevailing on the date of the transaction. Assets and liabilities in foreign currencies are stated in rupees at the rates of exchange ruling on the balance sheet date. All exchange differences are included in the profit and loss account.

2.11 Related party transactions

All transactions with related parties are conducted on an arm's length basis using pricing methods, as admissible.

The prices agreed between associated companies for sale of materials and manufactured goods are based on normal commercial practices which would obtain between independent businesses. Intra Group charges for sale and purchase of goods and services and royalties are also based on the principles of normal commercial practice between independent businesses.

2.12 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially recognised at cost, which is the fair value of the consideration given and received. These are subsequently measured at fair value, amortised cost or cost, as the case may be.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and short term finances under mark-up arrangements with banks.

2.14 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received.



Notes to the Consolidated Financial Statements

	2004	2003
	(Rs 000s)	
3. COST OF SALES		
Raw material consumed		
Opening stock of raw materials and work in process	2,902,957	2,910,773
Raw material purchases and expenses (Note 3.1)	4,321,327	4,068,251
Closing stock of raw materials and work in process	<u>(2,678,084)</u>	<u>(2,902,957)</u>
	4,546,200	4,076,067
Government taxes and levies		
Cigarette and tobacco excise duty and sales tax	15,880,058	14,120,672
Customs duty and surcharges	206,289	201,177
Provincial and municipal taxes and other excise duties	71,342	74,736
	<u>16,157,689</u>	<u>14,396,585</u>
	20,703,889	18,472,652
Production overheads		
Salaries, wages and benefits	648,493	608,578
Stores, spares and machine repairs	283,436	272,430
Fuel and power	100,054	93,846
Insurance	19,464	18,941
Repairs and maintenance	21,331	15,905
Postage, telephone and stationery	8,549	8,607
Depreciation	226,389	196,226
Sundries	29,830	29,299
	<u>1,337,546</u>	<u>1,243,832</u>
Cost of goods manufactured	22,041,435	19,716,484
Cost of finished goods		
Opening stock	324,546	308,768
Closing stock	<u>(395,968)</u>	<u>(324,546)</u>
	<u>(71,422)</u>	<u>(15,778)</u>
	<u>21,970,013</u>	<u>19,700,706</u>
3.1 RAW MATERIAL PURCHASES AND EXPENSES		
Materials	3,657,756	3,454,489
Royalty	219,827	208,964
Salaries, wages and benefits	192,740	165,536
Stores, spares and machine repairs	63,304	55,113
Fuel and power	53,153	53,353
Property and vehicle rentals	17,087	15,674
Insurance	7,745	7,217
Repairs and maintenance	4,675	4,297
Postage, telephone and stationery	4,428	4,177
Depreciation	83,941	78,362
Sundries	16,671	21,069
	<u>4,321,327</u>	<u>4,068,251</u>

	2004	2003
	(Rs 000s)	
4. MARKETING EXPENSES		
Salaries, wages and benefits	157,875	148,387
Selling expenses	1,038,358	1,091,225
Freight	96,991	85,021
Property and vehicle rentals	6,303	6,760
Insurance	9,434	12,046
Repairs and maintenance	48,683	42,321
Postage, telephone and stationery	9,684	10,583
Travelling	35,088	35,076
Depreciation	39,940	34,676
	<u>1,442,356</u>	<u>1,466,095</u>
5. ADMINISTRATION EXPENSES		
Salaries, wages and benefits	270,614	201,862
Fuel and power	3,331	2,758
Property and vehicle rentals	16,399	14,544
Insurance	2,270	2,025
Repairs and maintenance	13,117	19,986
Postage, telephone, stationery and communication	11,432	12,157
Legal and professional charges	5,795	5,906
Provincial and municipal taxes	735	579
Donations (Note 5.1)	7,285	3,705
Information technology / SAP implementation	137,072	37,232
Travelling	26,877	23,064
Depreciation	39,940	34,676
Directors' fee (Note 5.2)	230	310
Sundries	56,539	32,566
Auditors' remuneration and expenses		
Statutory audit	620	590
Special certifications, audit of consolidated accounts and staff funds, review of half yearly accounts	1,600	1,580
Tax compliance and advisory services	1,570	1,516
Out-of-pocket expenses	211	122
	<u>4,001</u>	<u>3,808</u>
	<u>595,637</u>	<u>395,178</u>

5.1 Recipients of donations do not include any body in whom a director or his spouse had any interest.

5.2 Directors' fee of Rs 230 thousand (2003: Rs 310 thousand) is in respect of five (2003: five) non-executive directors for attending board meetings during the year.



Notes to the Consolidated Financial Statements

	2004	2003
	(Rs 000s)	
6. OTHER INCOME		
Insurance commission	6,752	3,577
Miscellaneous	7,838	3,140
	<u>14,590</u>	<u>6,717</u>
7. OTHER EXPENSES		
Workers' profit participation fund / WWF / other	64,127	32,352
Loss on fixed assets sold / written off	15,946	88,906
Staff separation cost	286,564	189,077
	<u>366,637</u>	<u>310,335</u>
8. FINANCIAL CHARGES		
On short term finances	20,057	76,943
Bank charges and fees	15,277	13,589
Interest on workers' profit participation fund	1,208	1,423
	<u>36,542</u>	<u>91,955</u>
9. PROVISION FOR TAXATION		
Current - for the year	136,969	43,614
Deferred - for the year	253,019	243,183
- for prior years	824	6,817
	<u>253,843</u>	<u>250,000</u>
	<u>390,812</u>	<u>293,614</u>
9.1 Reconciliation of tax charge for the year	%	%
Applicable tax rate	35.00	35.00
Add: Tax impact of minimum tax payable @ 0.5% of net turnover due to tax losses	-	7.10
Tax effect of amounts that are not deductible for tax purposes	1.92	4.56
Tax impact of provision for prior years	0.08	1.10
Average effective tax rate charged to income	<u>37.00</u>	<u>47.76</u>

2004 2003
(Rs 000s)

10. EARNINGS PER SHARE

Profit after tax	665,227	321,081
Number of ordinary shares	255,494	255,494
Earnings per share (Rupees)	2.60	1.26

11. DIVIDEND

Final dividend in respect of the year ended December 31, 2004 of Rs 1.2 per share (2003: Rs 1 per share) amounting to a total dividend of Rs 306.593 million (2003: Rs 255.494 million) has been proposed out of the unappropriated profit at the Board of Directors meeting on March 1, 2005. These financial statements do not reflect this dividend payable.

12. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

(Rs 000s)

	Chief Executive		Directors		Executives		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Managerial remuneration	47,888	14,622	66,100	45,896	257,430	180,858	371,418	241,376
Leave fare assistance	1,285	1,308	1,186	1,563	2,202	3,567	4,673	6,438
Retirement benefits	–	–	4,281	4,839	40,326	38,894	44,607	43,733
Housing and utilities	4,574	3,792	7,039	8,278	60,062	59,959	71,675	72,029
Medical expenses	134	84	415	347	11,898	10,046	12,447	10,477
	<u>53,881</u>	<u>19,806</u>	<u>79,021</u>	<u>60,923</u>	<u>371,918</u>	<u>293,324</u>	<u>504,820</u>	<u>374,053</u>
* Number of persons	1	1	6	8	131	130	138	139

* These represent employees who were on payroll of the Company during the year.

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

12.2 The definition of executive under the Companies Ordinance, 1984 was revised during the year with respect to the minimum basic salary requirement from Rs 100,000 to Rs 500,000 in a financial year. The 2003 figures have been restated for the purpose of comparison.



Notes to the Consolidated Financial Statements

2004 2003
(Rs 000s)

13. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets (Note 13.1)	3,331,817	3,040,935
Capital work in progress (Note 13.2)	<u>260,898</u>	<u>397,641</u>
	<u>3,592,715</u>	<u>3,438,576</u>

13.1 Operating fixed assets

(Rs 000s)

	Cost			Depreciation			Cost less depreciation		
	At 01.01.2004	Additions	Deletions	At 31.12.2004	At 01.01.2004	Charge for the year	On deletions	At 31.12.2004	At 31.12.2004
Freehold land	10,198	–	–	10,198	–	–	–	–	10,198
Buildings on freehold land	314,644	20,494	(1,102)	334,036	76,550	9,147	(284)	85,413	248,623
Buildings on leasehold land	22,643	674	–	23,317	11,822	846	–	12,668	10,649
Private railway sidings	349	–	–	349	321	–	–	321	28
Plant and machinery	3,680,201	530,553	(88,432)	4,122,322	1,204,312	263,622	(55,455)	1,412,479	2,709,843
Office and house-hold machinery and equipment	246,339	53,532	(20,566)	279,305	126,047	38,813	(17,782)	147,078	132,227
Furniture and fittings	60,075	1,353	–	61,428	27,825	7,013	–	34,838	26,590
Vehicles	345,785	128,459	(60,112)	414,132	192,422	70,769	(42,718)	220,473	193,659
Total	4,680,234	735,065	(170,212)	5,245,087	1,639,299	390,210	(116,239)	1,913,270	3,331,817
2003	4,389,860	568,431	(278,058)	4,680,233	1,460,926	343,940	(165,567)	1,639,299	3,040,935

2004 2003
(Rs 000s)

13.2 Capital work in progress

Civil works and buildings	12,561	17,540
Plant and machinery	208,347	237,255
Advances to suppliers	37,414	135,880
Machinery and fixtures in transit / storage	<u>2,576</u>	<u>6,966</u>
	<u>260,898</u>	<u>397,641</u>

13.3 Sale of tangible fixed assets

Details of disposal of fixed assets other than regular auction are as follows:

	Original Cost	Accumulated Depreciation	Book Value	(Rs 000s) Sale Proceeds	Particulars of buyers	Mode of Disposal
Computer equipment	317	232	85	147	IGI Insurance Company	Insurance claim
	85	17	68	56	IGI Insurance Company	Insurance claim
Vehicles	629	566	63	619	Malik Zulfqar Ali - Islamabad	Negotiation
	2,435	2,192	243	1,633	Javed Liaqat - Rawalpindi	Negotiation
	599	539	60	60	Pakistan Cricket Board - Lahore	Negotiation
	1,367	1,231	136	864	Raja Muhammad Fayaz - Rawalpindi	Negotiation
	1,368	1,231	137	760	Raja Muhammad Fayaz - Rawalpindi	Negotiation
	682	614	68	489	Waheed Akhtar - Rawalpindi	Negotiation
	769	692	77	77	Pakistan Cricket Board - Lahore	Negotiation
	660	594	66	609	Nadeem Shahzad Ch. - Islamabad	Negotiation
	660	594	66	571	Ch. Muhammad Saleem - Rawalpindi	Negotiation
	611	549	62	561	Ittikhar Ahmed - Rawalpindi	Negotiation
	677	609	68	638	Ch. Muhammad Saleem - Rawalpindi	Negotiation
	989	890	99	770	Jamshed Alam Khan - Rawalpindi	Negotiation
	699	583	116	595	Ittikhar Ahmed - Rawalpindi	Negotiation
	705	543	162	639	Dr. Junsaid Alam Khan - Rawalpindi	Negotiation
	991	723	268	893	Atta Ur Rahman - Distt Dir	Negotiation
	1,345	813	532	964	Ch. Muhammad Waseem - Rawalpindi	Negotiation
	3,800	2,612	1,188	2,573	Habib Ahmed - Islamabad	Negotiation
	660	594	66	615	AIG New Hampshire Insurance Co.	Insurance claim
	585	527	58	540	AIG New Hampshire Insurance Co.	Insurance claim
	4,456	2,042	2,414	3,500	AIG New Hampshire Insurance Co.	Insurance claim
	83	29	54	75	AIG New Hampshire Insurance Co.	Insurance claim
	367	206	161	270	AIG New Hampshire Insurance Co.	Insurance claim
	376	157	219	285	AIG New Hampshire Insurance Co.	Insurance claim
	774	226	548	690	AIG New Hampshire Insurance Co.	Insurance claim
	1,176	343	833	1,166	AIG New Hampshire Insurance Co.	Insurance claim
	396	74	322	386	AIG New Hampshire Insurance Co.	Insurance claim
	694	625	69	116	Rashid M. Khan - Ex-Employee	As per Company Policy
	1,024	469	555	716	Abdul Shakoor - Ex-Employee	As per Company Policy
	633	570	63	204	Amjad Saeed - Ex-Employee	As per Company Policy
	750	31	719	667	Umar Ashraf - Ex-Employee	As per Company Policy
	991	892	99	366	Feroza Shera - Ex-Employee	As per Company Policy
	1,309	954	355	573	Najmus Saqib Hameed - Ex-Chairman	As per Company Policy
1,189	817	372	637	Aslam Khaliq - Ex-Employee	As per Company Policy	
1,245	752	493	602	Najmus Saqib Hameed - Ex-Chairman	As per Company Policy	
3,950	1,481	2,469	1,216	Aslam Khaliq - Ex-Employee	As per Company Policy	
1,169	414	755	451	Aslam Khaliq - Ex-Employee	As per Company Policy	
750	328	422	534	Haseeb A. Wali - Ex-Employee	As per Company Policy	
709	638	71	275	Tajamal Shah - Employee	As per Company Policy	
1,024	448	576	591	Kashif Aziz Khawaja - Employee	As per Company Policy	
750	375	375	514	Amjad Ali - Employee	As per Company Policy	
705	529	176	308	Shahab Shams - Employee	As per Company Policy	
991	892	99	337	Mustanser Ali Khan - Employee	As per Company Policy	
952	853	99	427	Ahmed Nawaz - Employee	As per Company Policy	
705	602	103	373	Saad Fazal Ur Rehman - Employee	As per Company Policy	



Notes to the Consolidated Financial Statements

2004 2003
(Rs 000s)

14. LONG TERM LOANS

Considered good

Loans due from directors and executives	22,101	21,668
Less: Receivable within one year	<u>5,777</u>	<u>5,187</u>
	<u>16,324</u>	<u>16,481</u>

14.1 Reconciliation of loans due from directors and executives:

Opening balance	21,668	12,595
Add: Disbursements during the year	11,850	16,384
Less: Repayments during the year	<u>(11,417)</u>	<u>(7,311)</u>
Closing balance	<u>22,101</u>	<u>21,668</u>

14.2 The above comprises interest free loans amounting to Rs 0.189 million (2003: Rs 0.308 million) and Rs 21.912 million (2003: Rs 21.360 million) given to the directors and executives respectively for purchase of household furniture, appliances, cars and motorcycles, repayable over 5 to 10 years in equal installments. Loans amounting to Rs 12.963 million (2003: Rs 1.662 million) were outstanding for more than three years.

14.3 The maximum amounts due from the directors and executives at the end of any month during the year were Rs 0.201 million (2003: Rs 0.362 million) and Rs 22.042 million (2003: Rs 21.360 million) respectively.

2004 2003
(Rs 000s)

15. LONG TERM DEPOSITS AND PREPAYMENTS

Security deposits	1,972	1,817
Prepayments	<u>2,461</u>	<u>5,117</u>
	<u>4,433</u>	<u>6,934</u>

16. STOCKS

Raw materials	2,552,527	2,850,554
Raw materials in transit	106,246	34,045
Work in process	19,311	18,358
Finished goods	<u>395,968</u>	<u>324,546</u>
	<u>3,074,052</u>	<u>3,227,503</u>

2004 2003
(Rs 000s)

17. STORES AND SPARES

Stores	1,918	3,516
Machine spares - Cigarette production	116,795	121,427
- Printing and leaf redrying	2,751	2,438
	<u>121,464</u>	<u>127,381</u>

18. TRADE DEBTS

These are unsecured, considered good and are net of provision for doubtful amounts of Rs 2.322 million (2003: Rs 2.322 million). These include amounts due from associated companies BAT Germany Rs nil (2003: Rs 119.854 million) and BAT Singapore Rs nil (2003: Rs 18.964 million).

2004 2003
(Rs 000s)

19. LOANS AND ADVANCES

Considered good		
Loans due from directors and executives (Note 14)	5,777	5,187
Advances due from employees (Note 19.1)	5,195	8,559
Advances due from others	21,301	49,080
	<u>32,273</u>	<u>62,826</u>

19.1 The above includes Rs 4.693 million (2003: Rs 7.607 million) due from executives of the Company.

19.2 The maximum amount due from executives of the Company at the end of any month during the year was Rs 23.475 million (2003: Rs 23.795 million).

2004 2003
(Rs 000s)

20. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments	36,003	41,970
Margin against guarantees	6,318	23,175
Due from associated companies (Note 20.1)	25,655	11,919
Claims	14,765	13,400
Employees' provident fund	30,764	14,621
Management provident fund	-	23,486
Payments on behalf of Employees' gratuity and pension funds	-	77,110
Others	18,339	15,529
	<u>131,844</u>	<u>221,210</u>

Notes to the Consolidated Financial Statements

	2004	2003
	(Rs 000s)	
20.1 The amount due from associated companies comprises:		
BAT - Bangladesh	11,349	9,275
BAT - Regional Office Hong Kong	4,019	-
BAT - Singapore	2,718	-
BAT - UK	2,369	-
BAT - Nigeria	2,322	673
Ceylon Tobacco Company - Sri Lanka	1,185	719
BAT - Australia	629	-
BAT - New Zealand	226	-
BAT - Indonesia	223	106
BAT - Benin	220	-
BAT - Dubai	209	787
BAT - South Korea	138	138
BAT - Uzbekistan	48	-
BAT - Uganda	-	221
	<u>25,655</u>	<u>11,919</u>

21. CASH AND BANK BALANCES

On hand	892	1,381
In transit	1,405	4,018
At banks on current accounts	<u>29,658</u>	<u>34,009</u>
	31,955	39,408
Security deposits - held in special account	<u>7,246</u>	<u>8,665</u>
	<u>39,201</u>	<u>48,073</u>

22. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	674,288	957,156
Excise duties / Provincial Taxes	809,450	720,220
Sales tax	266,723	219,568
Accrued liabilities	230,904	255,302
Mark-up on short term finances	5,041	11,155
Security deposits	7,246	8,665
Workers' profit participation fund (Note 22.1)	55,989	32,352
Staff pension fund	1,605	13,780
Employees' gratuity fund	2,512	61,906
Management provident fund	14	-
Unclaimed dividend	7,594	3,924
	<u>2,061,366</u>	<u>2,284,028</u>

	2004	2003
	(Rs 000s)	
22.1 Workers' profit participation fund		
Balance at January 1	32,352	38,418
Allocation for the year	55,989	32,352
Interest on funds utilised in Company's business	1,208	1,423
Payment to the fund during the year	(33,560)	(39,841)
Balance at December 31	<u>55,989</u>	<u>32,352</u>

22.2 Creditors include Rs 194.378 million (2003: Rs 208.437 million) and Rs 75.112 million (2003: Rs 52.070 million) payable to the holding company and associated companies respectively.

23. SHORT TERM FINANCES - SECURED

Short term finances are under mark-up arrangements with banks and are secured by hypothecation of stocks of raw materials and finished goods. The mark-up ranges between 1.75% to 6.45% (2003: 2.15% to 4.25%) per annum and is payable quarterly. Total facility available under mark-up arrangements amounts to Rs 2,380 million (2003: Rs 2,382 million) out of which the amount unavailed at the year end was Rs 1,383 million (2003: Rs 1,046 million). The facilities are renewable annually.

	2004	2003
	(Rs 000s)	
24. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
255,493,792 ordinary shares of Rs 10 each including 25,136,724 bonus shares	<u>2,554,938</u>	<u>2,554,938</u>

British American Tobacco (Investments) Limited (BAT) held 241,045,141 ordinary shares of Rs 10 each at December 31, 2004 (2003: 241,045,141 shares).

	2004	2003
	(Rs 000s)	
25. LONG TERM LOANS - SECURED		
Term finance from banks (Note 25.1)	-	200,000
Less: shown under current liabilities	<u>-</u>	<u>200,000</u>
	<u>-</u>	<u>-</u>

Notes to the Consolidated Financial Statements

25.1 Term finance facility of Rs 200 million has been paid back in June 2004.

26. DEFERRED TAXATION

The deferred tax liability of Rs 624.475 million (2003: Rs 370.632 million) represents tax liability of Rs 624.475 million (2003: Rs 572.968 million) related to timing differences between accounting and tax depreciation and potential tax benefit of Rs nil (2003: Rs 202.336 million) related to unused Tax losses.

27. COMMITMENTS AND CONTINGENCIES

27.1 Capital expenditure commitments outstanding at December 31, 2004 amounted to Rs nil (2003: Rs 118.990 million).

27.2 Letters of credit outstanding at December 31, 2004 amounted to Rs 447.679 million (2003: Rs 325.332 million).

27.3 Claims not acknowledged as debt amounted to Rs 69.168 million (2003: Rs 123.767 million).

27.4 Guarantees issued by banks on behalf of the Company amounted to Rs 60.543 million (2003: Rs 50.393 million).

28. EMPLOYEES' DEFINED BENEFIT FUNDED PENSION AND GRATUITY SCHEMES

The details of actuarial valuation carried out as at December 31, 2004 and December 31, 2003 are as follows:

	2004		2003	
	Pension (Rs 000s)	Gratuity	Pension (Rs 000s)	Gratuity
Expense				
Service cost	20,381	14,987	29,686	13,083
Interest cost	51,290	12,108	61,901	17,430
Expected return on assets	(50,487)	(8,502)	(60,930)	(15,894)
Actuarial (gains) / losses	6,277	6,095	(2,044)	5,973
Settlement loss	-	-	14,413	74,059
Members' contribution	-	-	(9,335)	-
	<u>27,461</u>	<u>24,688</u>	<u>33,691</u>	<u>94,651</u>
Liability				
Balance at January 1	13,780	61,906	11,279	17,832
Charge for the year	27,461	24,688	33,691	94,651
Amount paid during the year	(39,636)	(23,905)	(31,190)	(50,577)
Special payment	-	(60,177)	-	-
Balance at December 31	<u>1,605</u>	<u>2,512</u>	<u>13,780</u>	<u>61,906</u>
Reconciliation				
Present value of defined benefit obligations	965,451	215,533	868,626	205,825
Less: fair value of plan assets	963,846	213,021	854,846	143,919
Liability recognised in the accounts	<u>1,605</u>	<u>2,512</u>	<u>13,780</u>	<u>61,906</u>
Actual return on plan assets	<u>120,766</u>	<u>24,196</u>	<u>123,357</u>	<u>22,334</u>

The Projected Unit Credit Method using the following significant assumptions was used for the valuation of these schemes:

	2004	2003
- Discount rate	8%	6%
- Expected rate of increase in salary level	8%	6%
- Expected yearly increase in post retirement pension	3%	2%
- Expected rate of return on plan assets	8%	6%



Notes to the Consolidated Financial Statements

29. FINANCIAL INSTRUMENTS

29.1 Financial assets and liabilities

	2004			2003		
	Exposed to interest rate risk	Not exposed to interest rate risk	Total	Exposed to interest rate risk	Not exposed to interest rate risk	Total
(Rs 000s)						
Financial Assets						
Maturity upto one year:						
Trade debts	–	12,486	12,486	–	145,749	145,749
Loans, deposits and other receivables	–	128,113	128,113	–	242,065	242,065
Cash and bank balances	7,246	31,955	39,201	8,665	39,408	48,073
Maturity after one year:						
Loans, deposits and other receivables	–	18,296	18,296	–	18,298	18,298
Total	7,246	190,850	198,096	8,665	445,520	454,185
Financial Liabilities						
Maturity upto one year:						
Term loans	–	–	–	200,000	–	200,000
Short term finances	996,579	–	996,579	1,335,539	–	1,335,539
Creditors, accrued and other liabilities	–	2,061,366	2,061,366	–	2,284,028	2,284,028
Total	996,579	2,061,366	3,057,945	1,535,539	2,284,028	3,819,567
Off Balance Sheet items						
Letters of credit	–	447,679	447,679	–	325,332	325,332
Other commitments	–	–	–	–	118,990	118,990
Bank guarantees	–	60,543	60,543	–	50,393	50,393
Total	–	508,222	508,222	–	494,715	494,715

29.2 Credit risk

Since major part of sales of the Company is against advance payment, the credit risk is minimal.

29.3 Interest rate risk

Financial liabilities include Rs 997 million which are subject to floating interest ranging between 1.75% to 6.45% (2003: 2.15% to 4.25%) per annum.

29.4 Foreign exchange risk

Financial assets of equivalent Rs 48.679 million (2003 : Rs 162.570 million) and financial liabilities of equivalent Rs 223.056 million (2003 : 299.703 million) were in foreign currency which were exposed to foreign currency risk.

Forward foreign currency contracts are used to manage foreign currency risk related to payments for import of goods and equipment, wherever considered appropriate.

29.5 Fair value of financial assets and liabilities

The carrying values of financial assets and liabilities approximate their fair values.

30. TRANSACTIONS WITH RELATED PARTIES

Aggregate transactions with related parties during the year were as follows:

	2004	2003
	(Rs 000s)	
Sale of goods		
Holding company	33,391	25,996
Associated companies	3,328,472	3,080,282
Purchase of goods and services		
Holding company	203,523	85,097
Associated companies	394,140	424,265
Royalty expense		
Holding company	219,827	208,964



Notes to the Consolidated Financial Statements

31. GENERAL

31.1 Capacity and production

Against an estimated manufacturing capacity of 28,174 (2003: 27,942) million cigarettes, actual production was 27,001 (2003: 24,639) million cigarettes. There was no production through any outside manufacturing source as actual production was sufficient to meet market demand.

31.2 Number of employees

Total number of employees at the end of the year was 1,745 (2003: 2,071).

31.3 Corresponding figures

Corresponding figures have been rearranged, where necessary, for the purpose of comparison.

31.4 Date of authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on March 01, 2005.



Aslam Khaliq
Chairman



Jeremy David Pike
Managing Director and CEO

Special Form of Proxy

I, _____

of _____

a member of Pakistan Tobacco Company Limited, hereby appoint _____

_____ of _____

or failing him _____ of _____

or failing him either of them, may in writing appoint any other person to act as my proxy at the Fifty-Eighth Annual General Meeting of the Company to be held on the April 20, 2005 and at any and every adjournment thereof.

As witness my hand this _____ day of _____ 2005.

Signed _____

Revenue Stamp
Rs 5/-

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, Ferguson Associates (Pvt.) Ltd., State Life Building 1-A, 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 NIC 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 NIC numbers shall be mentioned on the form.
- (iii) The proxy shall produce his original NIC 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.

Witnesses as per (ii) above:

1. _____

2. _____





**PAKISTAN TOBACCO
COMPANY**