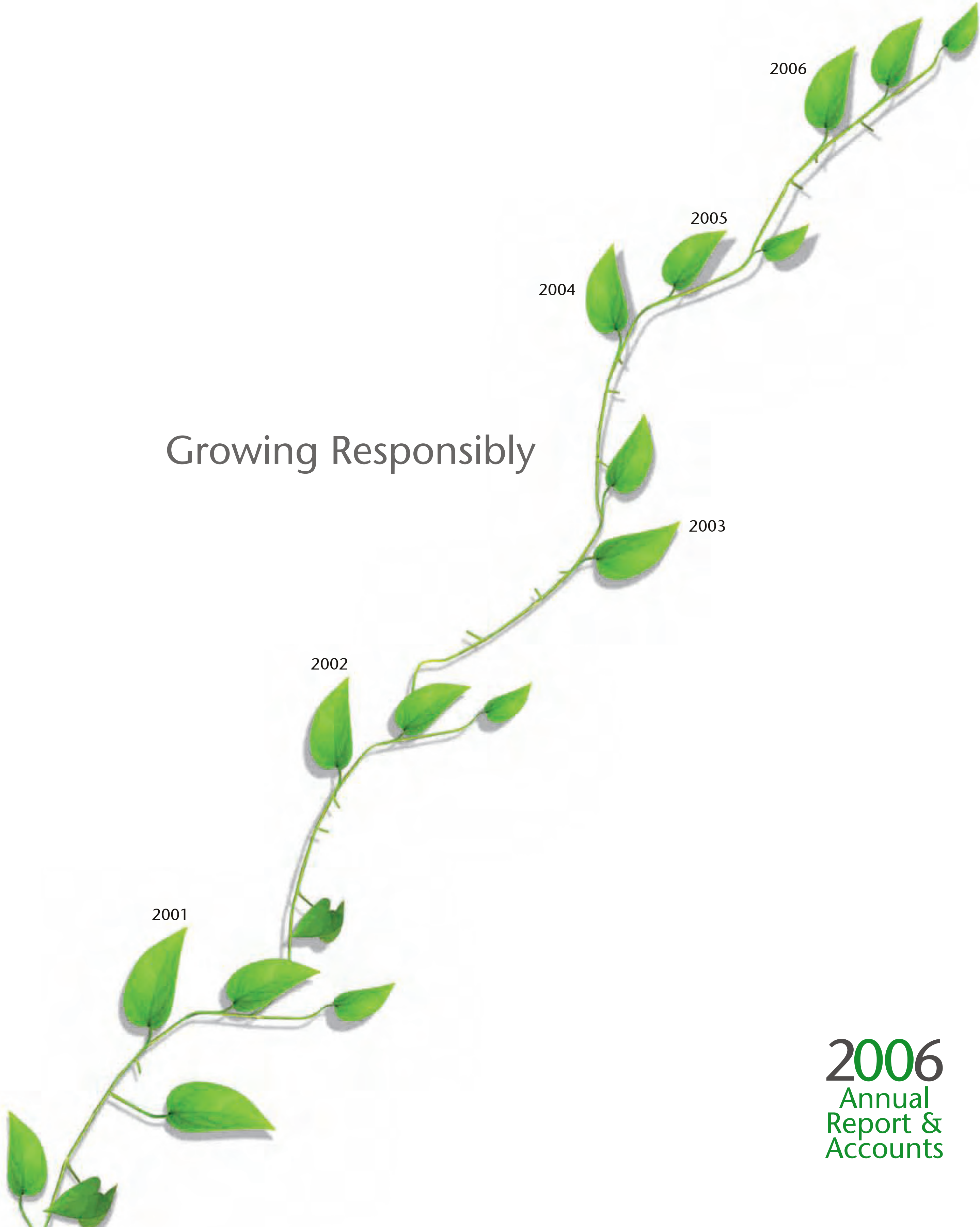
PAKISTAN TOBACCO COMPANY

Growing Responsibly



2006
Annual
Report &
Accounts

Pakistan Tobacco Company Limited
Evacuee Trust Complex
Agha Khan Road, Sector F-5/1
P.O.Box 2549, Islamabad 44000

www.ptc.com.pk

Contents

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
Web: www.ptc.com.pk

Company Secretary

Ayesha Rafique
Company Secretary
E-mail: ayesha_rafique@bat.com

Bankers

ABN – AMRO Bank
Citibank N.A.
Deutsche Bank
Habib Bank
Hong Kong & Shanghai Banking Corp.
MCB Bank
National Bank of Pakistan
Standard Chartered Bank

Auditors

A.F. Ferguson & Co.
Chartered Accountants
3rd Floor, PIA Building
49 Blue Area, P.O. Box 3021
Islamabad-44000
Telephone: (051) 2273457-60
Fax: (051) 2277924

Share Registrar

Ferguson Associates (Pvt.) Ltd.
State Life Building No.2A, 4th Floor
I.I. Chundrigar Road Karachi

Factories

Akora Khattak Factory
P.O. Akora Khattak
Tehsil and 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 No. 57-A/6, Satellite Town
Rawalpindi
Telephone: (051) 4582390-1
Fax: (051) 4582392

Central Punjab
128/129-G, Commercial Area
Phase-1, Defence Housing Authority
Lahore
Telephone: (042) 5899351-4
Fax: (042) 5899356

Southern Punjab
House No. 93, Street No. 3,
Meharban Colony, MDA Chowk, Multan
Telephone: (061) 4512553, 4584376
Fax: (061) 4542921

Sind & Baluchistan
8th Floor, N.I.C. Building
Abbasi Shaheed Road, Karachi
Telephone: (021) 5635490-5
Fax: (021) 5635500

Pakistan Tobacco Company

Corporate Objectives

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

Our Vision

First Choice for Everyone.

Our Mission

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

Strategic Objectives

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

Business Principles

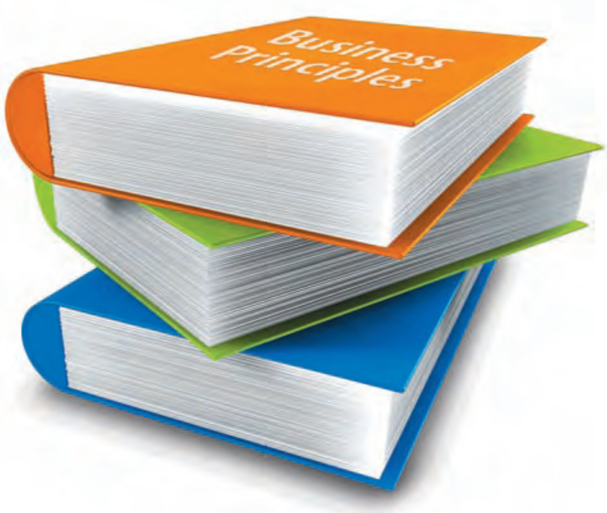
Our company follows three fundamental Business Principles: Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct. Each principle is supported by a series of core beliefs, which are explained below:

Mutual Benefit

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

Core Beliefs

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



Responsible Product Stewardship:

The principle of Responsible Product Stewardship is the basis on which we meet consumer demand for a legal product that, put simply, is a cause of serious diseases. Therefore, our products and brands should be developed, manufactured and marketed in a responsible manner. We aspire to develop tobacco products with critical mass appeal that will, over time, be recognised by scientific and regulatory authorities as posing substantially reduced risks to health.

Core Beliefs

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

Good Corporate Conduct:

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

Core Beliefs

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

Guiding Principles

We nurture four guiding principles that represents **Strength from Diversity, Open Minded, Freedom through Responsibility, Enterprising Spirit**. Our guiding principles describe the organisation we are and the type of organisation we want to be. They represent the common values at the heart of our success.

Strength from Diversity

Strength from Diversity reflects the cultural mix within the Group and a working environment that respects employees' individual differences. It also reflects our vision of harnessing diversity – of people, cultures, viewpoints, brands, markets and ideas – to create opportunities and strengthen performance.

For this reason, we are interested in what will differentiate you from others – what makes you unique.

Open Minded

Open Minded reflects our openness to change, opportunities and new ideas, including ways of addressing regulatory issues and changing social expectations. We seek to listen without prejudice, actively and genuinely considering other viewpoints.

Freedom through Responsibility

Freedom through Responsibility describes how we make decisions: as close to the consumer as possible. It also affirms our belief that decision-makers should accept responsibility for their own decisions.

Enterprising Spirit

Enterprising Spirit has been a characteristic of our business for more than a century. It is reflected in our ability to grow our business and its value within challenging environments – in the confidence to seek out opportunities for success, to strive for innovation and to accept considered risk-taking as part of doing business.

Pakistan Tobacco Company

Aslam Khaliq
Chairman and
Non-Executive Director

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 on his return was appointed as GM,Leaf.

In 1996, he was appointed as 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 is also member of the boards of Lahore University of Management Sciences (LUMS), OGDCL, NADRA, Pakistan Intellectual Property Rights Organization (PIPRO), Indus Valley School of Arts and Architecture, Jahangir Siddiqui Capital Markets Limited and Honorary Counsel of the Republic of Bulgaria.

Toh Ah Wah
Managing Director and
Chief Executive

William Toh Ah Wah has been Chief Executive Officer of Pakistan Tobacco Company since November 2005.

William joined British American Tobacco (BAT) after the merger between British American Tobacco and Rothmans International in November 1999 as the Business Development Director for China. In October 2003 William moved to New Zealand as Managing Director of British American Tobacco, New Zealand.

Before joining BAT, William was the Managing Director of Greater China with Rothmans International, based in Hong Kong.

He began his career with Rothmans, Malaysia as a Management Trainee in 1981. He spent 10.5 years of his career with the company in Malaysia, 5 years as State Sales Manager and 4 years as Marketing Manager before he was seconded overseas for his first posting in China in 1991.

Mobasher Raza
Deputy Managing Director
and Finance Director

Mobasher Raza has been with the Company for the last 27 years. He joined the Company as Management Trainee in 1979 and held various key positions in the Finance function within PTC as well as with other Group Companies.

His international assignments include Internal Auditor for British American Tobacco UK, Finance Director Nigerian Tobacco Company Limited and Head of Finance Tvornica duhana Zadar (British American Tobacco subsidiary in Croatia). He returned to PTC in 2002 as Chief Financial Officer and was appointed as Finance Director in 2003. He is currently the Vice Chairman of Cigarette Manufacturers' Association and held the Chairman's office in 2005-06. He is also a member of OICCI Taxation Committee since 2003.

In November 2006, he was appointed as Deputy Managing Director of the Company in addition to his role as Finance Director.

Ahmed Zeb
Supply Chain Director

Ahmed Zeb joined the Company as a Management Trainee in the Production Department in 1976. Having worked in various capacities in the Production Function, which included Factory Manager and Chief Engineer and a cross functional marketing tenure of 2 years, he was seconded to BAT in 1997, in Uganda, he worked as Head of Operations and Projects for the East Africa cluster. Thereafter, he was posted to Sri Lanka (Ceylon Tobacco Company) as Operations Director. He returned to Pakistan Tobacco Company in August 2004 and was appointed as Production Director. He joined the Board in August 2005.

He has gone through an extensive range of International Management and Leadership Development Programmes over his service period.

He assumed the role of Supply Chain Director in year 2006.

Feroze Ahmed
IT Director

Feroze Ahmed joined PTC in October 2003 from Reckitt Benckiser plc, UK where he served as the Information Services Director for Eastern Europe, Africa & Middle East, South Asia and East Asia and as a member of the Global IT Leadership team.

His career includes posts of Regional IT Director for Africa & Middle East, East Asia and South Asia based in South Africa, Singapore and Pakistan respectively. He served as a member of the Board of Directors in Reckitt & Colman, South Africa. He is a member of the Institute of Directors (IoD), UK.

In PTC, Feroze joined as the Head of IT in October 2003, was promoted to IT Director in October 2004. He joined the Board of Directors in October 2005. As of January 2007, Feroze has taken over as the Director IT for South Asia.

Mirza Rehan Baig
Marketing Director

Rehan Baig joined Pakistan Tobacco Company as an International Secondee from Dubai in July 2005 as Head of Brand Marketing. After serving for just over a year, he took over the role of Marketing Director in October 2006.

Rehan began his career with British American Tobacco (BAT) in 2000 as Brand Manager for the countries of the Gulf Cooperation Council based in Dubai. In 2002, Rehan relocated to Beirut as Regional Manager and was later promoted to Head of Trade Marketing and served as a member of the Levant / Yemen Executive Committee. He then moved back to Dubai as a Marketing Development Manager in 2004.

Prior to joining BAT, Rehan had spent over 3 years on the BAT business working for Grey Worldwide advertising and covering the Middle East North Africa markets.

Pakistan Tobacco Company

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

Lt. General (Retd.) Ali Kuli Khan hails from Peshawar and belongs to a renowned industrial family. He was educated at Aitichison College Lahore and graduated from the Royal Military Academy Sandhurst in 1964.

He was commissioned in the Pakistan Army in 1964. General Ali and his late father are the only instance in the Pakistan Army where father and son both have risen to the rank of Lieutenant Generals. Important assignments during his brilliant career were Commandant Staff College in Quetta, Chief of General Staff and Director General Military Intelligence.

He also sits on the boards of Bannu Woolen Mills Limited, Janana De Malucho Textile Mills Limited, Liaquat National Hospital, Universal Insurance Company Limited, General Tyre & Rubber Company of Pakistan Limited, Ghandhara Nissan Limited, Ghandhara Industries Limited, Gammon Pakistan Limited.

Brendan James Brady
Non-Executive Director

With over 15 years in the tobacco industry, Brendan has had a variety of roles including regional responsibilities for Asia Pacific, 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.

Fatehali Walimuhammad Vellani
Non-Executive Director

Fatehali Walimuhammad Vellani is the senior partner of the law firm, Vellani & Vellani and has been in practice as an advocate since 1956. He has a B.A. in Economics from the University of Wales (UK) and is a Barrister of the Middle Temple (London).

Vellani is a member of the board of directors in several public listed companies in Pakistan with foreign investment from leading transnational companies abroad.

In Pakistan Tobacco Company Limited Mr. Vellani has remained a member of the Board of Directors since 1973 and is presently chairman of the Audit Committee of the Board and a member of the Board Compensation Committee.

Istaqbal Mehdi
Non-Executive Director

Istaqbal Mehdi is the Managing Director / CEO of Pak Kuwait. Prior to this role, he was the President of Zarai Traqiati Bank of Pakistan.

Mehdi held executive positions in several national organisations 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.

He is also member of the boards of various companies including Fauji Fertilizer Bin Qasim Ltd, Fauji Fertilizer Company Limited, Meezan Bank Limited, General Tyre & Rubber Company of Pakistan, Pakistan State Oil, Shell Gas, National Commodity Exchange Limited, Al-Meezan Mutual Fund and Pakistan Textile City Limited.

Kunwar Idris
Non-Executive Director

Kunwar Idris joined the Civil Service of Pakistan in 1957 and retired in 1994. In a career spanning 36 years besides holding administrative posts like Chief Secretary, Home Secretary of Sindh and District Magistrate / Commissioner of Karachi, he was also Secretary to the Government of Pakistan in the Ministries of Petroleum and Production. In the earlier years of his career he was Assistant Commissioner and Political Agent in the North-West Frontier Tribal Areas. He was also Chairman / Chief Executive of Pakistan Automobile Corporation and Bankers Equity during the eighties.

Since retirement from public service, besides Pakistan Tobacco Company Limited, Mr. Idris is associated with the boards of Hinopak Motors, Orix Investment Bank, and Al-Ghazi Tractors - all three have foreign investments. He is also Chairman of Pakistan Automotive Manufacturers Association.

He writes a column for DAWN on Sundays mostly on current affairs.

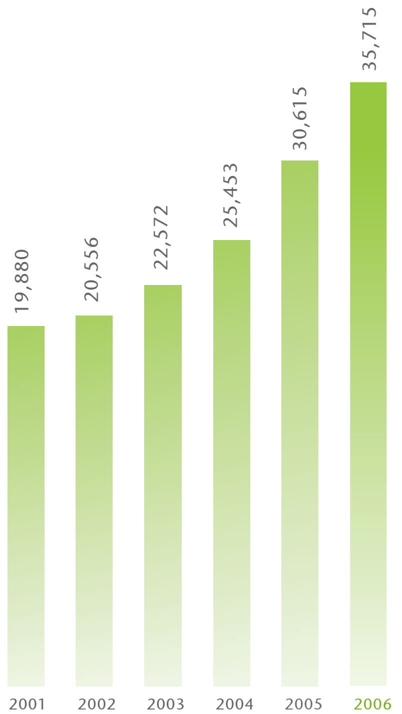
Mueen Afzal
Non-Executive Director

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 the Provincial and Central Government. He also served as Secretary General, Finance and Economic Affairs with the Government from 1999 to 2002.

He is also on the boards of various reputed organizations / institutions which include Pakistan International Airline (PIA), ICI Pakistan Limited, Murree Brewery Company Limited, Beaconhouse National University Foundation, Al-Shifa Trust, Pakistan Poverty Alleviation Fund, Pakistan Philanthropy Centre, Sanjan Nagar Trust and Azgard Nine (Pvt.) Limited etc.

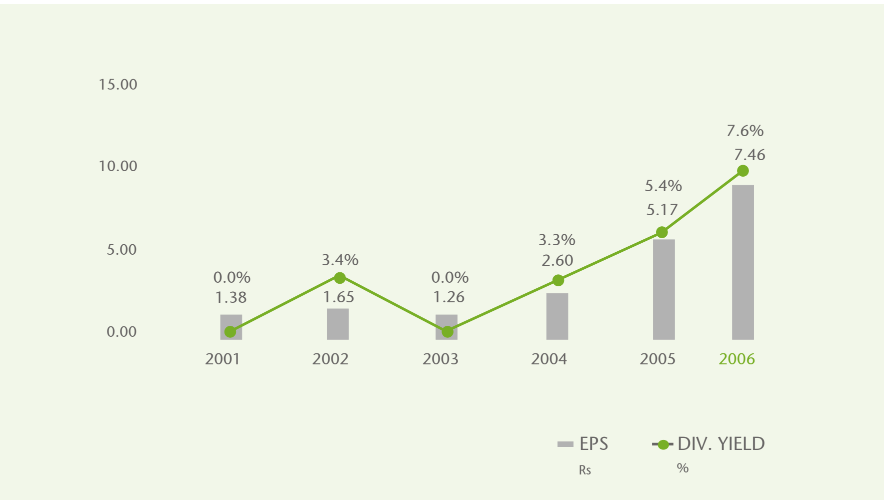
Mueen Afzal is also the Chairman of Pay and Pension Committee of Government of Pakistan and is a member of advisory board of Pakistan Cricket Board.

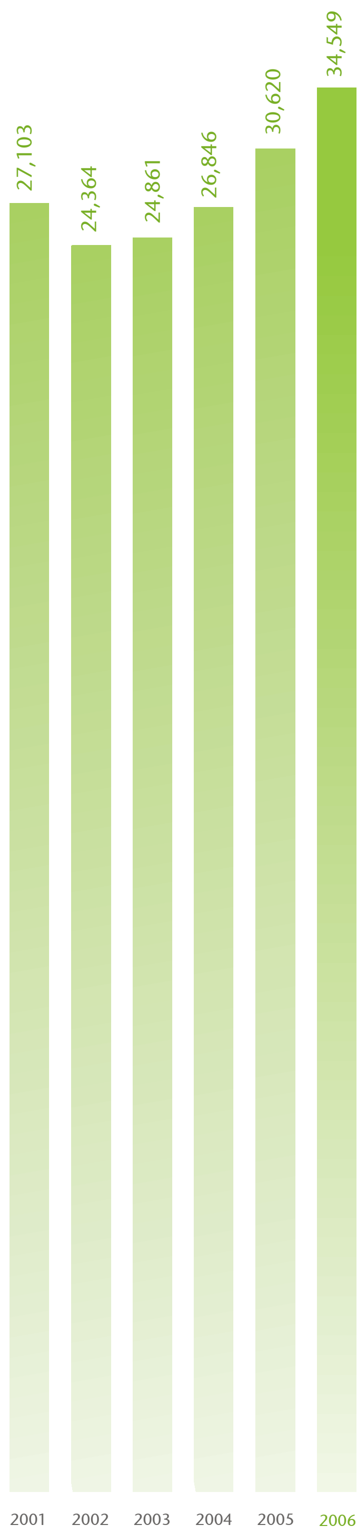
Our story of growth continues...



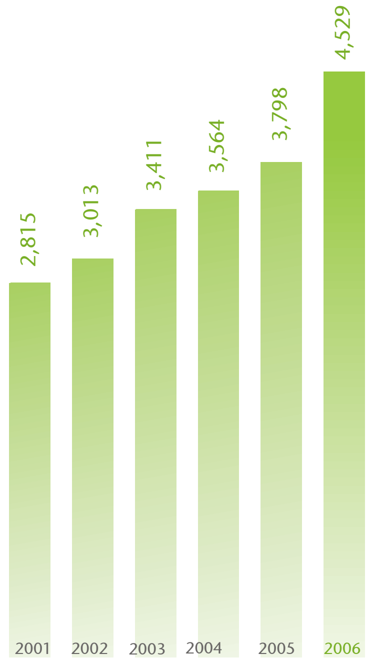
Turnover
(Rs million)

Earnings Per Share and Dividend Yield

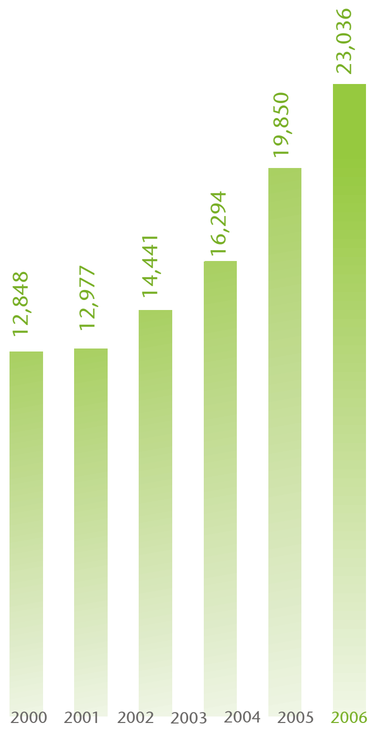




Volume (Million sticks)

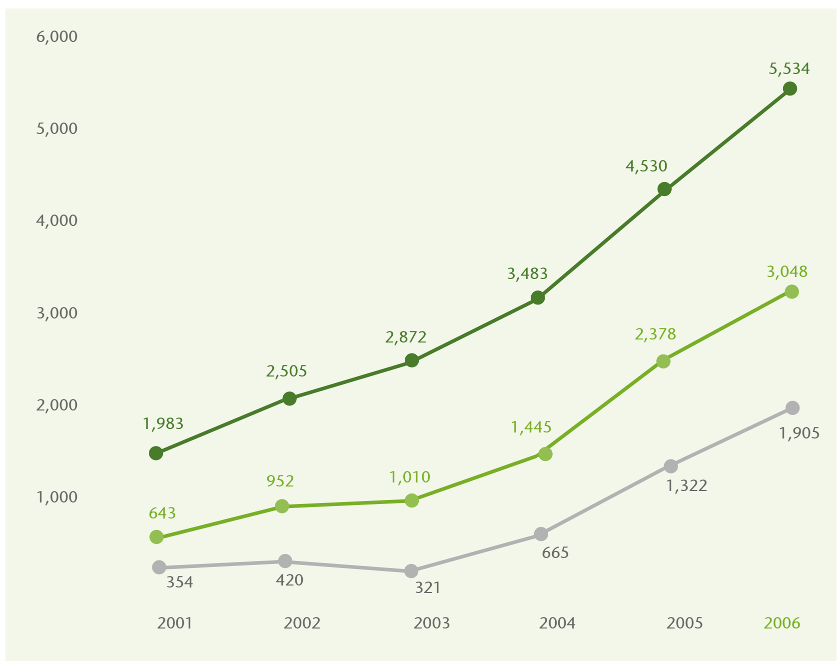


Property, Plant & Equipment
(Rs million)



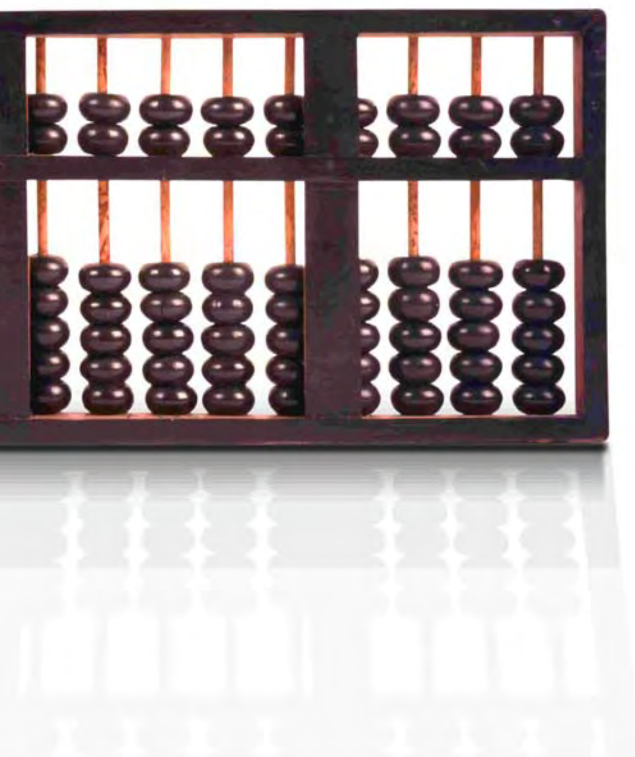
Govt. Levies
(Rs million)

Gross, Operating & Net Profit (Rs million)



Pakistan Tobacco Company

Financial Highlights



Profit & Loss

Volume
Gross Turnover
Excise & Sales Tax
Net Turnover
Gross Profit
Operating Profit
Profit Before Tax
Profit After Tax
Dividends

Balance Sheet

Paid up Capital
Shareholders' Funds
Reserves
Property, Plant & Equipment
Net Current Assets / (Liabilities)
Capital Employed
Capital Expenditure during the year
Long Term / Deferred Liabilities

Investor Information

Gross Profit Ratio
Earnings per Share After Tax
Inventory Turnover Ratio
Fixed Assets Turnover Ratio
Total Assets Turnover Ratio
Break-up value per share
Market value per share at year end
Highest Market value per share during the year
Lowest Market value per share during the year
Price-Earning Ratio
Dividend per Share
Dividend Yield Ratio
Dividend Payout Ratio
Return on Capital Employed
Debt to Equity Ratio
Current Ratio
Interest Cover Ratio
Excise and Sales Tax as a Percentage of Turnover

Government Levies

Customs, Excise Duties & Sales Tax
Local Taxes and Other Duties
Income Tax
Total Government Levies

	2006	2005	2004	2003	2002	2001
Million sticks	**34,549**	30,620	26,846	24,861	24,364	27,103
Rs million	**35,715**	30,615	25,453	22,572	20,556	19,880
Rs million	**21,824**	18,783	15,693	13,849	12,570	11,968
Rs million	**13,891**	11,832	9,760	8,723	7,986	7,912
Rs million	**5,534**	4,530	3,483	2,872	2,505	1,983
Rs million	**3,048**	2,378	1,445	1,010	952	643
Rs million	**2,861**	2,082	1,056	615	730	352
Rs million	**1,905**	1,322	665	321	420	354
Rs million	**1,405**	946	511	-	204	-
Rs million	**2,555**	2,555	2,555	2,555	2,555	2,555
Rs million	**4,139**	3,639	3,263	2,853	2,788	2,572
Rs million	**1,584**	1,084	708	554	233	17
Rs million	**4,529**	3,798	3,564	3,411	3,013	2,815
Rs million	**423**	532	297	40	65	(58)
Rs million	**4,984**	4,364	3,887	3,479	3,108	2,942
Rs million	**1,238**	717	598	854	523	713
Rs million	**845**	725	624	371	321	370
%	**15.5**	14.8	13.7	12.7	12.2	10.0
Rs	**7.5**	5.2	2.6	1.3	1.7	1.4
	6.7	6.1	7.0	5.9	5.4	5.2
	7.9	8.1	7.1	6.6	6.8	7.1
	4.1	3.8	3.6	3.1	3.1	2.9
Rs	**16.2**	14.2	12.8	12.2	10.9	10.1
Rs	**72.0**	69.0	61.5	27.0	23.8	10.5
Rs	**80.0**	77.0	61.5	39.0	32.4	12.4
Rs	**60.5**	47.6	46.4	19.5	10.3	9.3
	9.7	13.3	23.6	21.4	14.5	7.6
Rs	**5.5**	3.7	2.0	-	0.8	-
%	**7.6**	5.4	3.3	-	3.4	-
%	**73.8**	71.6	76.9	-	48.5	-
%	**38.2**	30.3	17.1	9.2	13.5	12.0
	0.3	0.3	0.3	0.5	0.6	0.9
	1.1	1.1	1.1	1.0	1.0	1.0
	57.0	46.9	29.9	7.7	4.7	2.5
%	**62.0**	62.5	64.0	64.0	63.1	64.6
Rs million	**22,069**	19,129	16,086	14,322	12,861	12,726
Rs million	**87**	87	71	75	76	82
Rs million	**880**	634	137	44	40	40
Rs million	**23,036**	19,850	16,294	14,441	12,977	12,848

Pakistan Tobacco Company

Notice of Annual General Meeting

Notice Is Hereby Given that the Sixtieth Annual General Meeting of Pakistan Tobacco Company Limited ("the Company") will be held at Evacuee Trust Complex (First Floor), Sector F-5/1, Agha Khan Road, Islamabad on Friday, 20th April, 2007 at 11.00 a.m. to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Accounts for the year ended 31st December, 2006, and the Report of the Directors and Auditors thereon.

2. To approve the Dividend of Rs.4.40 per share as recommended by the Board.

3. To appoint Auditors and to fix their remuneration.

4. To elect twelve directors as fixed by the Board for a period of three years commencing 20th April, 2007. The names of the retiring directors are Mr. Aslam Khaliq, Mr. Toh Ah Wah, Mirza Rehan Baig, Mr. Mobasher Raza, Mr. Ahmed Zeb, Mr. Feroze Ahmed, Lt. Gen. (Retd.) Ali Kuli Khan Khattak, Mr. Ben Willieum Fourie, Mr. Fatehali Walimuhammad Vellani, Mr. Istaqbal Mehdi, Mr. Kunwar Idris and Mr. Mueen Afzal.

By Order of the Board

Ayesha Rafique
Company Secretary

March 29, 2007
Islamabad

NOTES:

(1) The Share Transfer Books of the Company will be closed from 11th April 2007, to 20th April 2007, both days inclusive. Transfers received in order at the office of the Company's Share Registrar, Ferguson Associates (Pvt.) Ltd, State Life Building No.2-A, 4th Floor, I. I. Chundrigar Road, Karachi at the close of business on 10th April 2007 will be in time to be entitled to vote and for the entitlement of dividend.

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

(3) Attendance of the General Meeting by account holders, sub-account holders where, in all cases, their registration details are uploaded to the Central Depository System shall be in accordance with the following:-

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, authentication of their identity through presentation of his/her National Identity Card (NIC) or original Passport at the time of the General Meeting; and

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

B) By Proxy:

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

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

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

iv) The proxy shall produce his original NIC or original passport at the time of the General 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) Shareholders are requested to notify the Company's Share Registrar promptly of changes in their address.

Chairman's Message

"Business by its nature is cyclical and evolving and we must always be prepared and plan for all contingencies. At PTC, we take our strategic planning process as critical to the sustainability of the business. Excellent strategy backed by the diligence and perseverance of its employees has enabled PTC to stay ahead of the curve and bodes well for the future".

It is with immense pleasure that I present to you the results of 2006. However, before I do that let me take a few moments to take you back some years for perspective.

In 1999, our volume declined drastically to 18.7 billion (a 15% decline over the previous year) and going down. Our Operating Profit was only Rs 344 million, not to mention Profit after Tax registering a loss of Rs 136 million. We had suffered six years of consecutive losses accumulating to Rs 1.6 billion. We had maximized our borrowing limit with no more room for further fundings. It was then that our parent company British American Tobacco (BAT) came to the rescue with an equity injection that not only kept us afloat but sowed the seeds of the revival.

The turnaround by today's Pakistan Tobacco Company (PTC) could possibly be considered for a business school case study. What actually has been that turnaround?

	Years		Growth
	2006	**1999**	
Volume (Billion Sticks)	34.5	18.7	**84%**
Operating Profit (Rs in Million)	3,048	344	**786%**
Profit After Tax (Rs in Million)	1,905	(136)	**1500%**

Coming to this year's performance, 2006 was further proof that the turnaround is sustainable. We achieved record highs in all areas of the business. To highlight a few:

- Growth of 13% in Volume
- Growth of 28% in Operating Profit
- Growth of 15% in the Government revenue
- Growth of 6% in Production

It is noteworthy, that while the total market grew by only 3% in 2006, we grew by a hefty 13%. After having achieved market leadership in 2005, your Company further widened the gap over our nearest competitor by 5.6 ppt (AC Nielson Retail Audit research data), the key drivers of this growth in volume being Gold Flake & Capstan. More on this in the later report .

To service this exceptional growth in volume, our factories played a pivotal role, coming out with flying colors, in not only meeting consumer demands but achieving new heights in productivity and cost savings through the induction of new high speed machines and process efficiency initiatives.

2006 saw the implementation of a number of advertising restrictions and other regulatory issues. Driven by the Framework Convention on Tobacco Control (FCTC), the regulators are pushing for more stringent regulations. PTC as a responsible corporate citizen welcomes the initiatives and fully supports the Government in promulgating sensible regulations. During 2006, we worked proactively with the Government on Public Place Smoking and restriction of advertising. In line with changing expectations of society, the tobacco industry has withdrawn from most forms of product advertisements including sports sponsorships, TV, radio and outdoor hoarding.

It is heartening to note that your Company remains the single largest contributor to the Government's excise & sales tax revenue outside the Oil sector. As a matter of fact this gap has been significantly widened over the last two years, with PTC out-performing its own sector.

Years	Industry Contribution		PTC Contribution	
	Rs in Billion	Growth	Rs in Billion	Growth
2000	18	12%	10	13%
2002	21	17%	13	30%
2004	25	19%	16	23%
2006	31	24%	22	38%

(Contribution by PTC and the Industry to the Governtment Exchequer)

We recognize the significant measures and initiatives taken by the Government of Pakistan towards achieving a Level Playing Field, including the minimum price law, third party audits, printing manufacturer's name and the recently promulgated law to introduce CCTV cameras at factories. I believe that stringent regulations have been put in place over the last 2-3 years by the CBR. However, with evasion still hovering at around 20%, we must now create awareness of the laws amongst key stakeholders and ensure effective enforcement by the relevant authorities.

In pursuit of ambitious business results we did not forget our commitment to the community and particularly the responsibility to the victims of the devastating earthquake of that October morning in 2005.

Besides our ongoing programs of Afforestation, Learning Resource Centers, Free Mobile Dispensaries and Water Filtration Plants, we embarked on an Earthquake Rehabilitation Programme funded by donations of your Company, its employees and companies within the group. Under this programme we have taken the following initiatives:

- Sponsored CHAL-Centre for Rehabilitation for prosthetic & paraplegic patients in Battagram
- Sponsored a second School for The Citizen's Foundation (TCF); this one specific for the earthquake hit area in Mansehra
- Proposed reconstruction of a Basic Health Unit in Muzaffarabad, AJK through ERRA; and
- Rebuilding the lives of our effected employees / farmers by extending physical and material support.

As you will recall we published our first Social Report in January 2005 giving our stakeholders the opportunity to raise expectations from the business, some of which we agreed to address. I am pleased to report that we have just completed our second cycle of dialogue where we reported on our progress against the committed targets. This has been embedded as an on going process whereby we are in touch with our stakeholders as issues arise and seek to resolve all their reasonable expectations.

To receive acknowledgement and recognition from others is a source of great aspiration and pride for us. During the current year we were recognized for;

- **Best in Class** in terms of Total Supply Chain Costs by the PMG (Performance Measurement Group) Benchmarking Survey
- **BAT Environment Health & Safety Excellence Award** for Community Development
- **Environment Excellence Award** presented by the National Forum for Environment & Health
- **Best Annual Corporate Report Award** in sector presented by ICAP & ICMAP.

2006 saw a change in the Board namely Fazal Ghaffoor who left us for a new assignment in Iran. I would like to thank Fazal for his contributions and wish him luck with his new assignment.

Our outstanding success in the recent past has been a result of our strong talent base (all be it relatively young), excellent strategies and leading edge processes. More recently, the Asia-Pacific Region of BAT has adopted an "above market" collaboration and initiatives resulting in greater skills and knowledge transfers while reducing duplication and wastage. These synergies have contributed to a large extent in changing how PTC managers are viewing and solving issues.

Business by its nature is cyclical and evolving and we must always be prepared and plan for all contingencies. At PTC, we take our strategic planning process as critical to the sustainability of the business. Excellent strategy backed by the diligence and perseverance of its employees has enabled PTC to stay ahead of the curve and bodes well for the future.

In our 60 years of existence, 40 of which I have personally witnessed, I can proudly claim that we are equal to the best that corporate Pakistan has to offer. This should be a source of tremendous pleasure for you, our shareholders.

On behalf of the Board, I am grateful for all the support and confidence we have received from our employees, consumers and Valued Business Partners. It has been a real honour for all of us to be a part of the PTC family.

Aslam Khaliq
Chairman

Continued Growth Momentum (2006 vs. 2005)

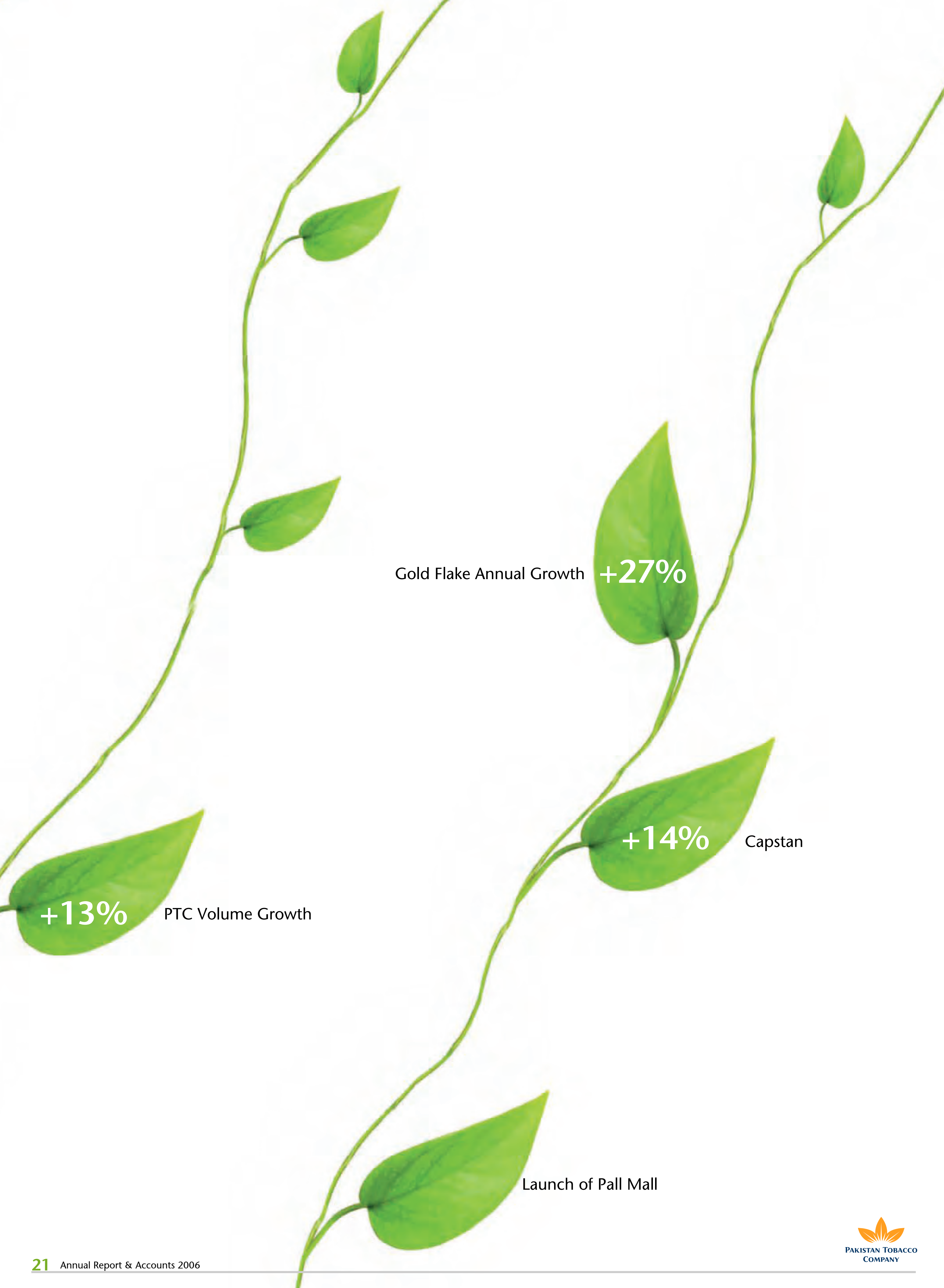
Profit After Tax +44%

+37% Profit Before Tax

Operating Profit +28%

+17% Turnover

Over-all Industry Growth +3%


Gold Flake Annual Growth +27%
+14% Capstan
+13% PTC Volume Growth
Launch of Pall Mall

Managing Director's Review

2006 was a vintage year for us with significant achievements in all facets of the business from sales to profitability and from productivity to strengthening our credentials as a socially responsible corporate citizen.

It gives me immense pleasure to share with you the performance of Pakistan Tobacco Company (PTC) during 2006. Building on the solid foundations laid down during the last few years, we continued to scale new heights and achieve even greater milestones in 2006.

The market leadership, regained in 2005, was further strengthened during 2006. Our sales volume continued to grow ending the year at a record 34.5 bn sticks resulting in a considerable improvement in our volume share. Operating Profit, at Rs 3,048 mn, is 28% higher than 2005. Similarly, a substantial improvement was achieved in Profit Before Tax and Profit After Tax. We contributed over Rs 23 billion to the national exchequer, an increase of 15% over 2005. This outstanding financial performance was mainly driven by record sales volume, improved margins across the portfolio and effective cost control combined with enhanced level of investment in brands and people.

The level of evasion has registered a slight decline from last year due to strengthening of legislation. We appreciate the Government's actions to control evasion and firmly believe that effective enforcement to control this menace will not only result in higher Government revenues but will also strengthen the legitimate sector.

Brand Performances:

Overall sales volume grew by an impressive 13% vs. the estimated industry growth of 3% during 2006. Our brands attained volume and value growth in all the segments i.e. High, Medium and Low.

Dunhill

Dunhill, launched in December 2005, was well received by consumers due to its unique fresh taste and the exceptionally smooth smoke that the Activated Charcoal Filter delivers. Dunhill is our leading premium offer which is being imported with the mandatory English / Urdu health warning. Our efforts in 2006 were focused on creating awareness about the brand and its rich heritage. Our efforts in future will be focused on establishing Dunhill as the brand of choice in the niche premium category.

Benson & Hedges (B&H)

B & H continues to be the largest franchise in the premium segment of Pakistan. The brand was launched in a new pack in August 2006 which was followed by a consumer promotion in key cities. In future, the brand will continue to capitalise on its strong equity and consistently deliver the superior quality it promises to its consumers.

John Player Gold Leaf (JPGL)

An aspirational brand for majority of smokers in Pakistan, JPGL is a high value generating brand for us. It continues to be considered the quality benchmark for locally manufactured cigarettes. A new variant of the brand, JPGL Special was launched in February 2006 and was well received by the consumers. A mega image promotion campaign, "Rediscover the Road" was launched towards the end of the year which introduced novel touch-points for increased consumer convenience i.e., participation through web and Short Messaging Service (SMS). Building on its strong consumer loyalty and superior taste, JPGL will provide its consumers exciting offers via extensive consumer contacts.

Pall Mall

In June 2006, we launched Pall Mall, an internationally renowned brand, in the Medium segment. The brand is also the first to be offered with a wide range i.e. three variants of Lights, Menthol and Full Flavour. Its launch was supported using attractive display materials, consumer contacts and road shows. All the variants generated reasonable trial levels. In 2007, our efforts will be focused at establishing Pall Mall with an aim of developing it into the leading international mid priced offer in the market.

Capstan

Capstan re-affirmed its overwhelming domination of the Medium segment during 2006 with sales growing by 14% over 2005. Despite being priced higher than competition's brand, Capstan has managed to flourish in 2006. We will continue our efforts to strengthen its brand equity and loyalty amongst consumers.

Gold Flake

Gold Flake achieved superb volume growth of 27% over 2005 and further solidified its position as the largest selling brand in our portfolio. Targeted and focused consumer promotion activities, aggressive distribution drives and overall business development have been the main drivers of Gold Flake's success. The brand has also been used effectively in line with our portfolio strategy to arrest volume losses in Embassy, with the result that our overall share of the low segment has increased. Gold Flake is poised to add further momentum to its growth in the years ahead and play the leading role for our overall volume growth.

Embassy

Priced slightly below Gold Flake, this brand faces tough competition from cheaper offers in the tax-evaded sector as well as some out-switching to Gold Flake. Its volume has declined by 8.5% during 2006; we will continue with the migration strategy (to Gold Flake), while maintaining the product and packaging quality of the brand to keep its loyal consumers satisfied.

Business Process Re-engineering (BPR)

Appreciating the importance to challenge the status quo for continuous improvement and deliver strong business results in a sustainable way, we have always been on the lookout for opportunities to enhance the speed, efficiency and reliability of our processes. Several BPR projects were undertaken during 2006 including the setting up of the Enterprise Programme Office (EPO), Project Slender at Akora Khattak factory and the Supply Chain Operations Reference (SCOR) Model implementation. EPO puts in place a new way of working, which keeps corporate strategy at the forefront and ensures that all the initiatives are aligned to support the strategy through effective programme management and allocates resources to the best fit priority areas. Project Slender entails relocation of the machinery and resources, changing the layout of production floor in a way to boost process efficiencies and achieve higher productivity without employing additional resources. SCOR Model is being implemented all across the supply chain i.e. from seed to smoke, for achieving cost optimization and improved process efficiencies.

Corporate Social Responsibility (CSR) and Good Corporate Governance

We have been at the forefront of CSR subsequent to our initiatives on Afforestation, Mobile Free Dispensaries, eye care via Layton Rahmatullah Benevolent Trust, Learning Resource Centres, Non-Formal Education through the NGO Adult Basic Education Society, supporting Citizen's Foundation to provide educational facilities for the children and installation of water filtration units. We further strengthened our credentials as a socially responsible corporate citizen through our earthquake relief efforts. With the assistance of our employees and sister concerns we have spent over Rs 60 million, contributing in cash and kind on a number of initiatives such as sponsoring "CHAL Centre for Rehabilitation of Earthquake Affectees" in Battagram, inaugurated in September 2006. In November 2006, we undertook a project to combat the spread of Viral Hepatitis in Northern Areas. The project entails seminars and workshops to raise awareness about the disease and its preventive measures, training of doctors, blood screening and treatment.

In 2005, we became the first company in Pakistan to publish a duly audited Social Report. Second cycle of the Social Reporting Dialogue, based on issues identified in the Stakeholder Mapping and Classification Exercise, was completed in November 2006 and the second Social Report is planned for publication in early 2007.

Best practices of Good Corporate Governance being adhered to include producing an Annual Report that provides quality information to all stakeholders ensuring compliance with Companies Ordinance, Code of Good Corporate Governance and International Financial Reporting Standards. In recognition of our efforts in this area we were awarded the top position in miscellaneous category by a joint body of Institute of Cost and Management Accountants and Institute of Chartered Accountants of Pakistan for our 2005 Annual Report.

Organisational Restructuring:

The Board, to enhance the efficiency and productivity of the Company, reorganised its core committee "The Executive Committee of the Board" (ExCo) in 2006. In this context a sub-committee of the ExCo was created namely "The Operations Committee (OpCo) that comprises of the senior managers from all function of the Company. After this segregation ExCo's primary responsibility shall be to assist the Board in the formulation and driving of the strategy whilst the OpCo under the authority delegated by the ExCo shall operate to run the day to day operations of the Company. This will allow operational issues to be dealt with the focus and sense of urgency that they deserve, releasing the Executives Directors and the Head of the Departments to concentrate on strategy formulation and direction setting. Furthermore the scope of influence of the Board Compensation Committee was expanded to include all the employees of the Company.

We are proud to have a team of well trained professionals who are highly regarded both inside and outside the Company. Our strength in talent is recognized by the British American Tobacco Group internationally and managers have regularly been selected in the past to work for various British American Tobacco Operating Companies. During 2006, seven of our managers were seconded out to different Operating Companies for long term assignments taking the total number of secondees to 19.

A well motivated and energised workforce is instrumental for the success of any business. To achieve this and reinforce a high performing culture a unique Reward & Recognition (R&R) system was put into place whereby employees are recognised for their efforts and rewarded instantly. Number of other steps like welfare activities, vocational training institutes, local and foreign trainings were also taken in 2006 to enhance workers' morale and commitment. Going forward we aim to continue striving to make PTC an even greater place to work.

Environment, Health & Safety (EH&S):

Being fully alive to our role as a responsible corporate citizen we have implemented a well structured EH&S program in addition to embedding internationally recognised best practices. We are committed to ensure that we nurture an environment where our employees and surrounding communities are safe from any hazards that may affect their health and minimise the impacts of our operations on biodiversity.

Our commitment to EH&S was further strengthened during 2006 as we achieved significant improvements on the EH&S road map. Both our production facilities were recertified with ISO 14001 earning the 'Evergreen' status. We have consistently sustained our accreditation in last seven surveillance audits with zero major and minor points.

Our efforts have further been substantiated with National Forum for Environment & Health (NFEH) awarding us the annual Environment Excellence Award on 'Health, Safety and Environment' for second consecutive year in 2006. Our efforts also received recognition from BAT in a big way where PTC won three EH&S awards.

2007 & Beyond:

2006 was a vintage year for us with significant achievements in all facets of the business from sales to profitability and from productivity to strengthening our credentials as a socially responsible corporate citizen. We further strengthened our volume and value leadership of the Tobacco Industry attaining new heights in many areas including leaf purchases, production volume, sales volume and profitability.

We remain committed to continue the era of sustained growth in market share and profitability making concerted efforts to achieve our vision to be 'The First Choice For Everyone'. I commend the untiring efforts of my colleagues who worked throughout the year with absolute commitment and diligence. They are the main drivers behind our success. All of us are proud to be part of the "PTC family" and resolve to take the Company to ever-greater heights in the years to come.

In 2007, we will continue to offer our consumers the best quality, relevant products to fortify our leadership position even further in the domestic market. Our fundamental challenge would be to tackle the tax evaded sector which remains the biggest threat to both Government Revenues and the long term profitability of the legitimate sector. We would urge the Government to continue to work with the legitimate industry to effectively curb this threat.

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

Directors' Review

The Directors are pleased to present the 60th Annual Report along with the audited financial statements of the Company for the year ended December 31, 2006.

2006 was a momentous year in the history of the Company where it achieved new heights in sales, production and profitability. The strong organic volume growth helped in further strengthening our volume and value leadership of the tobacco industry.

Business Performance

The following summary of key financial results narrates the Company's outstanding performance as compared to the year 2005.

	Rs in Million		
	2006	2005	Growth
Turnover	35,715	30,615	17%
Gross profit	5,534	4,530	22%
Operating profit	3,048	2,378	28%
Profit before tax	2,861	2,082	37%
Profit after tax	1,905	1,322	44%
Earnings per share - EPS (Rs)	7.46	5.17	44%

The strong financial performance is attributable to significantly higher sales volume, improved margins across all brands and continued control over cost; through focus on operational efficiencies and other initiatives.

Sales Performance

The Company maintained double digit volume growth in 2006 with a record sales volume of 34.5 billion sticks – 13% higher vs. Same Period Last Year (SPLY). This is a remarkable performance keeping in view the overall industry growth which is estimated at 3%.

Our continuous focus on product improvement, greater understanding of consumer behaviour, innovative and effective marketing campaigns has resulted in strong organic growth in our brand portfolio. **Gold Flake** remained the volume leader in the portfolio and grew at a phenomenal rate of 27% vs. SPLY, whereas **Gold Leaf** maintained its volume base. **Capstan** is the consumers' first choice in the medium segment and it enjoyed 14% volume growth over SPLY. The decline in **Embassy** volume is attributed to in-switching to Gold Flake and stiff competition from the **cheap tax evaded** offers of the illicit sector.

Contribution to the National Exchequer

Our improved sales and financial performance has resulted in significant increase in the Government revenues. In 2006, the Company contributed Rs 23.0 billion to the National Exchequer in terms of excise duty, sales tax, custom duties and income tax etc. – 16% higher than SPLY.

Cost of Sales

The nominal increase in per unit cost of sales (2% higher vs. SPLY) was possible due to the economies of scale (highest ever production) and effective supply chain management. According to an international survey on supply chain done in 2006 by the Performance Measurement Group (PMG Benchmarking Survey), PTC was rated as 'Best in Class' in terms of total supply chain costs among its peer companies across the globe.

Operating and Other Costs

While we have a continued focus on cost, we did not shy to invest behind our brands and people. Our total marketing expenses grew from Rs 1,579 million in 2005 to Rs 1,824 million in 2006 – an increase of 16% vs. SPLY. Our retail loyalty program progressed successfully in 2006 and helped us strengthen the partnership with trade. Dunhill Dimension events were held in three metros to address the demands of cosmocrat smokers of the country. John Player Gold Leaf successfully introduced a new variant to the family called John Player Gold Leaf Special in February 2006 and concluded the year with a consumer promotion 'Rediscover the Road'. One of the most significant activities was the launch of Pall Mall range in July 2006. The smokers of Pakistan VFM segment for the first time got flavour of a truly international offer launched in three variants - Full Flavour, Lights & Menthol. These initiatives coupled with higher salaries and escalation in fuel prices resulted in an overall increase in marketing spend.

In line with our objective to attract and retain high quality talent, the compensation packages were revised above inflation. Additionally the employees earned higher bonuses on account of outstanding performance in 2005. These factors along with normal inflationary rise have resulted in an overall increase of 15% in Administrative Expenses.

Other income was Rs 34 million higher than SPLY mainly due to higher interest income and gain on disposal of fixed assets. Other expenses in 2005 were higher due to employees separation cost,

however it was marginally offset by higher Workers Profit Participation Fund and Workers Welfare Fund charge in 2006 due to higher profit.

Cash Flows

Despite improved profitability on account of strong financial performance our cash outflow remained higher than inflow mainly due to higher income tax, dividend payment and capital expenditure.

Plant Modernisation

The Company spent Rs 1.2 billion (Rs 0.5 billion more than last year) for acquiring latest machinery to cater for increased demand and to facilitate up gradation in the technology footprint.

Appropriation of Profits

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

	Rs in Million	
	2006	2005
Operating profit	3,048	2,378
Profit after tax	1,905	1,322
Accumulated profit brought forward	1,084	708
Profit available for appropriation	2,989	2,030
Appropriations:		
Interim dividend 2006 @ 30% (2005: 25%)	766	639
Final dividend 2005 @ 25%	639	
Final dividend 2004 @ 12%		307
Un-appropriated profit carried forward	1,584	1,084

Dividend

In view of the excellent performance of the Company this year, the Board is pleased to propose a final dividend of Rs 4.40 (2005 : Rs 2.50) per share in respect of the financial year ended December 31, 2006, over and above the interim dividend of Rs 3.00 paid in September 2006. This final dividend will be subject to the approval of shareholders in their meeting scheduled for April 20, 2007.

Environment, Health and Safety (EH&S)

Our EH&S programme ensures a safe work place for the employees and contributes in improving environment with a focus on minimizing natural resource depletion through various initiatives like, reduction of energy and water usage, effluent discharge management, solid waste reduction and controlled air emissions. All our discharges are well within the National Environmental Quality Standards (NEQS) limits set by the Government of Pakistan. The Company plays a valuable role in terms of providing healthcare service, learning resource centres, technical education, potable water facilities and reduced usage of harmful pesticides through Integrated Pest Management (IPM) and Non Formal Education Schools (NFES).

It is worth mentioning that PTC was amongst the galaxy of high performers, winning the BAT EH&S Excellence Award 2006 for use of cleaner technologies. The Company was also declared overall winner of BAT Community Award as a result of our projects like, Free Dispensaries, Learning Resource Centres, Non Formal Education and Potable Water.

The milestones achieved during 2006 reflect our strong commitment to EH&S.

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, 2005, have been cleared subsequent to the year end.

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

Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2005 are as follows:

	Rs in Million
Management Provident Fund	288
Staff Pension Fund	1,084
Employees' Provident Fund	385
Employees' Gratuity Fund	230

The Board

The Board comprises 7 non-executive directors and 5 executive directors. The positions of Chairman and CEO are kept separate in line with good governance practice.

Changes in the Board

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

- Mr. Fazal Ghafoor, Marketing Director resigned on October 27, 2006 after completing his 3 years' contract. He successfully led the marketing team in regaining volume leadership in 2005 and further strengthening our position in 2006. We express our sincere appreciation for the valuable contributions made by him during his tenure and wish him every success for the future.

- Mirza Rehan Baig was appointed as Marketing Director with effect from October 27, 2006 to fill the casual vacancy caused by the resignation of Mr. Fazal Ghafoor.

Board of Directors Meetings

During the year 2006, 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	5
2. **Mr.Toh Ah Wah,** Managing Director and Chief Executive Officer	5
3. **Mr. Mobasher Raza,** Deputy Managing Director and Finance Director	4
4. **Mr. Fazal Ghaffoor,** Marketing Director *	2
5. **Mirza Rehan Baig,** Marketing Director +	1
6. **Mr. Ahmed Zeb,** Supply Chain Director	3
7. **Mr. Feroze Ahmed,** IT Director	5
8. **Lt. Gen. Ali Kuli Khan Khattak,** Non-Executive Director	4
9. **Mr. Brendan James Brady,** Non-Executive Director	0
10. **Mr. Fatehali Walimuhammad Vellani,** Non-Executive Director	5
11. **Mr. Istaqbal Mehdi,** Non-Executive Director	3
12. **Mr. Kunwar Idrees,** Non-Executive Director	4
13. **Mr. Mueen Afzal,** Non-Executive Director	4

* Mr. Fazal Ghafoor resigned from the board with effect from October 27, 2006.
+ Mirza Rehan Baig was appointed with effect from October 27, 2006.

Board Committees

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

Audit Committee

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

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

The Managing Director and Finance Director attend meetings of the Committee on standing invitation; however, they are not members. The Internal Audit Manager is the secretary of the Committee and reports directly to the Chairman of the Audit Committee and the BAT Asia Pacific Regional Audit Controller, who is based in Hong Kong.

The Committee held five meetings during the year at which the External Auditors were also in attendance to present and discuss specific issues. The quarterly, half-yearly and annual accounts of the Company and public announcements relating to them were reviewed and were recommended by the Committee before approval by the Board. Such reviews extend to major judgemental areas reflected in the accounts, significant adjustments resulting from the audit of accounts, the going concern assumption, changes in accounting policies and practices, compliance with applicable accounting standards, and compliance with listing regulations and other statutory and regulatory requirements.

The Audit Committee functions within the scope of the Terms of Reference agreed with the Board which determine the roles and responsibilities of the Committee and reflect the requirements of the Code of Corporate Governance. The role and responsibilities of the Audit Committee include determining appropriate measures to safeguard the Company's assets, reviewing quarterly, half-yearly and annual financial statements of the Company and preliminary announcements of results before approval by the Board and publication, reviewing the Company's statement on internal control systems prior to their approval by the Board, reviewing the external auditors letter to the management and its response thereto, ascertaining that the internal control system including financial and operational controls and accounting system and reporting structure are adequate and effective, considering major findings of internal audit and management's responses thereto, monitoring compliance with the best practices of corporate governance and instituting special projects and investigations on any matter deemed appropriate by the Committee or desired by the Board.

The Audit Committee assists the Board of Directors in monitoring and managing risks and internal controls. It also monitors the performance of the Internal Audit Department which adopts a risk-based approach for planning and conducting business process audits consistently with the Company's established work practices. The scope and extent of internal audit including the annual Internal Audit Plan are reviewed and approved by the Committee which regularly monitors the progress. While the External Auditors independently determine their plan of audit, the Committee is informed of their progress and specially in regard to issues stated in their letter to management and responses received. Without interfering with the independence of the External and Internal Auditors, the Committee encourages coordination between them in the discharge of their respective functions. The Committee recommends to the Board the appointment of the External Auditors and their terms based on the Committee's review of their performance and value provided to the Company.

Auditors

Statutory Audit for the Company for the financial year ended December 31, 2006 has been concluded and the Auditors have issued their Audit Reports on the Company financial statements, consolidated financial statements and the "Statement of Compliance with the Code of Corporate Governance".

The Auditors Messrs. A. F. Ferguson & Co. shall retire at the conclusion of annual general meeting, and they have indicated their willingness to continue as Auditors. They have confirmed achieving satisfactory rating by the Institute of Chartered Accountants of Pakistan (ICAP) and compliance with the Guidelines on the Code of Ethics of the International Federation of Accountants (IFAC) as adopted by ICAP. The Board proposes their reappointment as Auditors for the financial year ending December 31, 2007 on the recommendation of the Audit Committee.

Shareholding

The pattern of shareholding as at 31st December 2006 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.

Business Challenges and Future Outlook

The illicit trade in cigarette industry is a critical issue for the tax paying sector. While we acknowledge the Government's intention to curb this menace, it still remains a major hurdle in providing Level Playing Field to the industry. The illicit trade not only deprives the Government of revenues, it also damages the legit industry business.

The industry is also facing the infringement of Intellectual Property Rights of brand owners which not only deceive consumers but are also not subject to the same regulatory requirements and quality standards as genuine products. The establishment of Intellectual Property Organisation of Pakistan is a right step forward and demonstrates the Government's commitment to a coordinated action against this menace. However, it is vital that the regulations treat illicit trade as a serious offence and adequate resources are dedicated to ensure effective enforcement. Without effective enforcement, strong laws do not form a deterrent.

The Government's continued campaigns in print media on implementation of the stipulated legal framework in terms of Minimum Price, Health Warning on cigarette packs and other statutory amendments have been instrumental in raising awareness amongst trade and consumers. In order to effectively address the issues faced by the industry, the situation warrants stringent and consistent enforcement of the regulatory framework by the Government. We resolve to extend our outmost support and will continue to work closely with the relevant authorities.

The Directors wish to acknowledge the hard work and commitment demonstrated by all our employees and also expresses their sincere appreciation to the customers, distributors and suppliers for their continued support and loyalty. We are also thankful to the shareholders for their growing confidence in the Company.

We are confident that the Company will maintain the growth momentum achieved in the recent years and will continue to build sustainable shareholders' value by ensuring a continuous focus on our key strategic objectives i.e. growth, enhanced productivity and acting responsibly through our 'Winning organization'.

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

PAKISTAN TOBACCO COMPANY

Statement of Revenue Generated & Distributed

	Rs in Million	
	2006	2005
Generation		
Revenue Generated	35,715	30,615
	35,715	30,615
Distribution		
Government Levies	23,036	19,850
Employees	1,652	1,281
Materials and Services	6,291	6,021
Profit After Tax	1,905	1,322
Others	2,831	2,141
	35,715	**30,615**

Revenue Distribution in Percentage:

64%	18%	5%	5%	8%
Govt. Levies	Material and Services	Employees	Profit After Tax	Others

Pattern of Shareholding as at December 31, 2006

Number of Shareholders	Categories				Total Shares
1,460	From	1	To	100	47,448
1,328	From	101	To	500	387,172
479	From	501	To	1,000	346,037
421	From	1,001	To	5,000	931,645
49	From	5,001	To	10,000	364,152
18	From	10,001	To	15,000	236,188
15	From	15,001	To	20,000	273,305
14	From	20,001	To	25,000	320,990
7	From	25,001	To	30,000	204,200
3	From	30,001	To	35,000	96,500
6	From	35,001	To	40,000	227,953
2	From	45,001	To	50,000	100,000
1	From	50,001	To	55,000	51,761
2	From	55,001	To	60,000	118,000
2	From	60,001	To	65,000	123,331
2	From	65,001	To	70,000	138,000
3	From	70,001	To	75,000	213,591
1	From	80,001	To	85,000	82,500
1	From	95,001	To	100,000	100,000
1	From	110,001	To	115,000	111,800
1	From	135,001	To	140,000	135,716
1	From	165,001	To	170,000	167,633
1	From	170,001	To	175,001	170,609
1	From	195,001	To	200,000	200,000
1	From	205,001	To	210,000	208,400
1	From	220,001	To	225,000	221,000
1	From	235,001	To	240,000	235,600
1	From	330,001	To	335,000	334,300
1	From	345,001	To	350,000	349,700
1	From	385,001	To	390,000	389,500
1	From	405,001	To	410,000	407,700
1	From	505,001	To	510,000	510,000
1	From	565,001	To	570,000	567,000
1	From	700,001	To	705,000	700,713
1	From	795,001	To	800,000	798,282
1	From	4,575,001	To	4,580,000	4,577,925
1	From	241,045,001	To	241,050,000	241,045,141
3,832					255,493,792

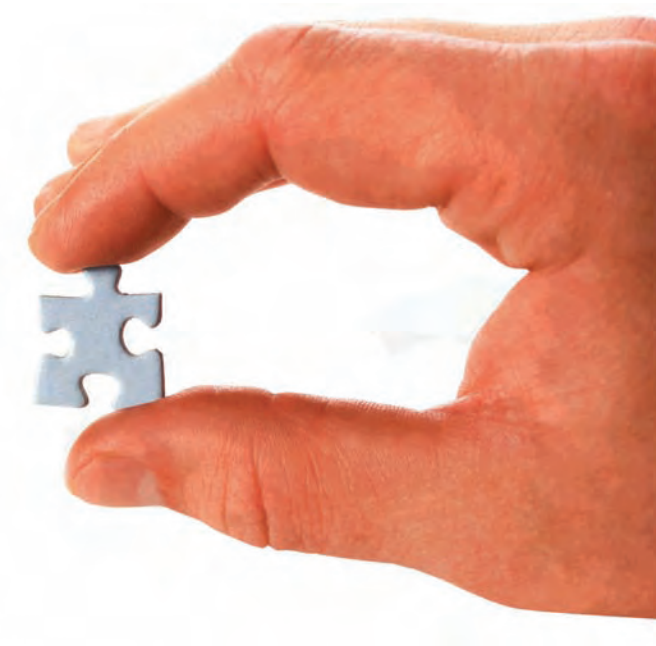
Pakistan Tobacco Company

Pattern of Shareholding as at December 31, 2006

	No. of Shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	4,588,720
Directors, CEO and their spouse and minor children	65,797
Executives	210
Public Sector Companies and Corporations	970,911
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modaraba and Mutual Funds	1,943,086
Others	1,190,895
Individuals	4,890,750
	255,493,792

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 Department	4,578,440
Investment Corporation of Pakistan	10,280
Directors, CEO and their spouse and minor children (name wise details)	
Aslam Khaliq	8
Kunwar Idris	65
Ali Kuli Khan Khattak	100
Brendan James Brady	500
Mueen Afzal	2,124
Toh Ah Wah	5,000
Fatehali Walimuhammad Vellani	58,000
Executives	
Naveed Aftab Ahmad	200
Mirza Zubair Ahmed	10
Shareholders holding 10% or more voting interest	
British American Tobacco (Investments) Limited	241,045,141

Categories of Shareholders	Number	Shares Held	%
Individuals	3,737	4,945,379	1.9
Investment Companies	10	1,279,205	0.5
Insurance Companies	8	1,357,827	0.5
Joint Stock Companies	33	248,777	0.1
Financial Institutions	13	4,874,768	1.9
Modarabas	3	5,122	0.0
Government Organisations	3	41	0.0
Foreign Investors	15	242,544,616	94.9
Co-operative Societies	4	3,189	0.0
Charitable Trusts & Others	6	234,868	0.1
Total	3,832	255,493,792	100.0



Pakistan Tobacco Company

Board Committees

Executive Committee of the Board (EXCo)

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

In 2006, to deliver its responsibilities more efficiently, the EXCo formulated a Subcommittee and entitled it as Operating Committee (OPCo). This committee has a representation of senior managers from all Functions of the organisations. The objective for the formulation is to assist EXCo in carrying out the day to day operations of the Company. With OPCo focusing on the operational tasks, it becomes more convenient for the EXCo to better focus on the development and delivery of strategies and long term vision of the organisation.

Board Compensation Committee (BCC)

The Committee is responsible to decide the pays and benefits of all employees of the Company.

Audit Committee (AC)

Assists the Board of Directors in management of business risks, internal controls and the conduct of business in an economically sound and ethical manner.

Share Transfer Committee (STC)

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

Corporate Social Responsibility Committee (CSRC)

The Committee's purpose is to set strategic direction and to act as an advisory body to the management of the company for all CSR initiatives. Its role is to keep under review and make appropriate recommendations to the company regarding the Company's management of Corporate Social Responsibility and the conduct of business in accordance with the Statement of Business Principles.

The Committee seeks to focus on the Company's social and environmental performance and provides a forum which demonstrates that the principles of CSR are effectively embedded throughout the Company.

	The Board	ExCo	BCC	AC	STC	CSRC
Executive Directors						
Mr. Toh Ah Wah	✔	✔	✔		✔	✔
Mr. Mobasher Raza	✔	✔			✔	✔
Mr. Ahmed Zeb	✔	✔				
Mr. Feroze Ahmed	✔	✔				✔
Mirza Rehan Baig	✔	✔				
Non-Executive Directors						
Mr. Aslam Khaliq	✔		✔	✔		✔
Lt. Gen. (Retd) Ali Kuli Khan Khattak	✔			✔		✔
Mr. Brenden James Brady	✔			✔		
Mr. Fatehali Walimuhammad Vellani	✔		✔	✔		
Mr. Istaqbal Mehdi	✔			✔		
Mr. Kunwar Idris	✔			✔		
Mr. Mueen Afzal	✔			✔		✔
Key Management Personnel						
Mr. Hasan Adnan		✔	✓			
Mr. Naveed A. Ahmad		✔			✔	
Syed Ali Naseer		✔				✓
Mr. Tajamal Shah		✔				
Miss Ayesha Rafique		✓			✓	
Other Management Personnel						
Mr. Khalil Ahmed				✓		

✔ Member

✓ Secretary

PAKISTAN TOBACCO 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 six independent non-executive directors and one non-executive 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 NBFC 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 27th October, 2006 and filled within 30 days thereof.

5. The Company has prepared a 'Standards of Business Conduct', 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 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 of seven 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.

Toh Ah Wah
Managing Director and CEO

Statement of Compliance with the Best Practices on Transfer Pricing for the year ended December 31, 2006

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.

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

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 (the Code) as applicable to Pakistan Tobacco Company Limited (the Company) for the year ended December 31, 2006 prepared by the Board of Directors of the Company, to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed. The responsibility for compliance with the Code 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 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 as applicable to the Company for the year ended December 31, 2006.

A. F. Ferguson & Co
Chartered Accountants, Islamabad

Our Company

Pakistan Tobacco Company prides itself in being the first multi-national company to begin its operations in Pakistan since 1947. Our parent company, British American Tobacco has been in business for over 100 years now. We have built an international reputation for making and marketing high quality brands for the millions of informed adults who choose to consume tobacco.

From being just a single factory operation to a company which is involved in every aspect of cigarette production, from “seed to smoke”, we have evolved into one of the leading corporations in Pakistan. We revel in our instrumental role in the development of the country, and continue to support and contribute to various causes of national interest.

Our strategy reflects our vision - being the champions of growth, productivity, responsibility and the winning organisation.

We work to ensure that we deploy our resources and capabilities in the most efficient way. Insisting on capital effectiveness, and growth we utilise our assets to the maximum. We are determined to become an organisation with a focused, energised, and diverse talent-pool, achieving sustainable high performance thus translating into our ‘Winning Culture’.

Our brands encompass our values and we boast a diversified portfolio catering to the different tastes and preferences of the entire tobacco market. By offering products that are superior in quality, driven by global standards, we meet and exceed the expectations of our consumers.

We believe that products that pose risks to health, such as tobacco, require regulation. We seek to engage with governments, regulatory bodies and other tobacco companies on tobacco regulation that can tackle real issues in workable ways. We are committed to working with national governments and relevant multilateral organisations, to reduce the health impact of smoking, and we welcome opportunities to participate, in good faith, to achieve real progress. Following the ratification of the Framework Convention on Tobacco Control by the Government of Pakistan, we are working with the Government and local regulatory bodies to illustrate our dedication towards the responsible marketing of our brands.

Our Environment Health Safety Program is designed to provide a safe workplace for employees, protect the environment, prevent damage to property, enhance employee morale, and assure compliance with applicable laws and regulations worldwide.

Today, society also expects companies to work towards broader goals beyond the benefit of shareholders and to demonstrate support for communities, high standards of ethical behaviour and greater transparency and accountability. As society’s expectations of corporate responsibility change, we are also changing some of the ways we address issues of concern. We don’t know all the answers, or claim to get everything right every time, but we are committed to continuous improvement and to keeping an open mind. We have learned that companies can rarely act alone; almost all our contributions to society involve working constructively with others and by engaging with and listening to our stakeholders, and matching our words with our actions, we aim to demonstrate the behaviour of a responsive and responsible tobacco company.

Awards

- Regional Legacy Award
- BAT Global EH&S Award
- BAT Zero Accident Award

- Supply Chain Global Award by Supply Chain Council, USA.
- 2006 Environment Excellence by Ministry of Environment Government of Pakistan.
- Best Corporate Report in the miscellaneous category by Joint Committee of ICMAP & ICAP.
- ISO 9001 & 14001 Certification
- SA – 8000 Certification
- MRP II Class 'A' Certification

Strategy for Creating Shareholder Value

Pakistan Tobacco Company

FLAVOUR & FORTUNE

A key activity that followed the launch of our new pack was the "Flavour & Fortune" promotion. The promotion offered consumers a chance to win a range of prizes through participation in two draws. B&H was also the first cigarette brand in Pakistan to launch its website. The website not only made participation in the promotion more convenient, it also opened an avenue for smokers to have a dialogue with us on their brand through e-mail. This generated significant interest among the smokers and provided key insight to us to shape some of the activities for future.

B&H is currently the leading brand in the premium segment. In order to build on its strength and to further modernise the offer, a new contemporary pack design was introduced in August 2006. The new pack embodies the rich golden smoke offered by the brand.

NEW LOOK OUTSIDE SAME GOLD INSIDE

B&H continues to be the leading premium segment brand in the country. 2006 saw B&H move to a new modern pack with the same traditional golden blend. The new pack was launched in August 2006 and has been very well received by consumers. The new B&H packs aim to bring a stylish and modernistic look to the brand and to ensure that it continues to appeal to premium segment smokers in the future.

Coincidently, a major international premium brand, Marlboro, was also launched by Lakson Tobacco Company in August 2006. The pack change is expected to help B&H to continue its domination of the premium segment in the wake of Marlboro's arrival in Pakistan.

THE STORY SO FAR

With its super premium positioning, DUNHILL delivers the ultimate smoking pleasure to consumers of the premium segment. DUNHILL started off 2006 with a consumer promotion offering a return trip to the legendary Alfred Dunhill Tobacco Shop in London. Several meticulously trained Brand Ambassadors carried out consumer engagement, at exclusive locations, introducing the offer to smokers. The Ambassadors also utilised this opportunity to offer the DUNHILL Button Range, comprising Full Flavour and Lights, to adult smokers.

Selected smokers of the segment had the opportunity to experience the 'World of DUNHILL' through its scintillating Dimensions program. This was executed through a series of events in Islamabad, Lahore and Karachi. The Dimensions brought together the ultimate fine dining experience, delivered by an acclaimed French Gastronome, with the Mekaal Hasan Band's revolutionary modern performances in music.

DUNHILL prides itself on its quality as expressed through freshness in its product. This message was brought to the consumers through a 'Fresh and Imported' campaign, capturing the detail and diligence in its manufacture, processing and delivery.

DUNHILL, with its unique assets, shall be central to our strategy for dominating the premium segment. The innovative programmes planned for 2007 aim to put DUNHILL head and shoulders above all competitive offerings in the eyes of discerning smokers.

Towards the end of the year, a media campaign highlighted the freshness and international quality of the legally imported DUNHILL packs with the "Freshly Imported" seal

A TASTE APART

A REALLY SPECIAL YEAR

JPGL continued to be the destination brand for smokers in 2006 and remained the unchallenged leader in its price segment. In addition to contributing significant value growth to our portfolio, the brand maintained its share of the market by again delivering over 6 billion sticks.

The brand also inducted a new member to its range by launching JPGL Special to further fortify its position in the high priced segment. JPGL Special created a new consumer base by offering a smoother taste, thus offering consumers a chance to really experience a differentiated product.

Consumers were able to experience firsthand the blending expertise of JPGL through product demonstration units set up at key locations across the market.

Towards the end of the year, JPGL rewarded its loyal smokers with the popular "Rediscover the Road" promotion. In addition to the unique prizes, this promotion also introduced to consumers innovative modes of interacting with the brand and the company via both Web and SMS media.

The combination of great prizes and innovative touch-points made the promotion a huge success, also providing a significant increase in the size of the JPGL consumer database.

JPGL will remain the leading high price brand in Pakistan by bringing innovation and value to its smokers.




Gold Flake bolstered its position as the top volume brand of PTC, gaining further ground against competition in 2006. The Brand performed extraordinarily well, surpassing all expectations. A record 18.8 billion sticks saw Gold Flake's volume growth translate into PTC's clear market leadership.

Regional and national level consumer promotions, distribution enhancement drives and consumer contact activities helped to enhance the brand's performance during 2006. High potential areas such as NWFP and Baluchistan experienced aggressive growth rates. Additionally the distribution expansion resulted into PTC's overall portfolio development in these areas.

Consumer promotions were successful in building product trial which eventually converted into a larger smoker share during the year. This growth was further strengthened by focused engagement activities like 'Gold Flake Movie Ticket' which has certainly achieved a benchmark status.

Innovations took place in the form of increased brand presence at point of purchase and the larger retail universe, bringing in specialized display and visibility solutions.

Going into 2007, Gold Flake is all set to gain incremental volume growth through various brand and product development initiatives, strengthening its position as the most popular choice in its segment.

Gold Flake Volume Share

Portfolio: from Local to Global

In line with our strategy of bringing the best international brands from our global portfolio to Pakistan, Pall Mall was added to the PTC portfolio.

Born in 1899, Pall Mall is one of the oldest and most renowned cigarette brands in the world. The brand has a long history of bringing innovation to the cigarette industry, introducing the first King Sized cigarette in 1933 and the first colour TV advertisement in 1953. Today Pall Mall boasts of being the largest selling GDB in the BAT Portfolio.

Pall Mall was launched in Pakistan on the 15th of June, 2006 and can proudly boast that it was the first to bring to the market a complete range. This choice for consumers took the form of Full Flavor, Lights and Menthol variants. In addition the brand was also given a modern feel by adopting a new look beveled edge pack format.

Historic distribution levels were achieved within 3 weeks of the launch in our top 10 markets. In addition we achieved record visibility at retail in terms of our pack facing share.

Consumers were contacted in a unique and ground-breaking manner. A pre-recorded message was delivered to adult smokers using MP3 players and headphones allowing us to deliver a consistent message at a mass level in an engaging and innovative manner. Selected smokers were also given an opportunity to experience the world of Pall Mall by guiding them through a series of mobile floats.

Today the brand stands as an integral member of the PTC brand portfolio and is central to our commitment to giving value to consumers via our international brands. Pall Mall is destined to be our flagship brand in the mid price segment in Pakistan.

Productivity

Our approach to productivity concentrates on smart cost management, marketing efficiency and capital effectiveness – deploying our resources effectively to increase profits and generate funds to reinvest in our business.

Latest Addition: State-of-the-art machine capable of producing 10,000 cigarette (per minute) with on line quality control systems.

The productivity includes ensuring that we deploy our marketing resources and capabilities in the most efficient way, reducing unnecessary complexity and using our cash and other assets productively. Greater integration across our supply chain is helping us to reduce costs, take economies of scale, increase speed to market and improve effectiveness. We are also reducing our overheads and indirect costs – anything we spend money on other than leaf, wrapping materials, cigarette machinery and permanent labour costs.

2006 was a challenging year for the supply chain team with highest ever production (33.7 billion cigarettes) to cater for the increasing market demand by running the factories 24 hours a day, 7 days a week and 358 days during the year. Moreover, our 10 HL (hinge lid) variants (which, on average, are 25 % costlier than 20s HL variants) showed a 20% increase in demand vs. previous year.

Higher inflation coupled with unprecedented rise in international fuel prices, adversely impacted our prices of imported wrapping materials and leaf. The real impact on Product Cost was curtailed by productivity initiatives and supply chain programmes. During the year several supply chain projects were initiated to reduce cost and optimize processes which included conversion from paper to film wrap, blend changes and favourable leaf source drifts. Price increases passed on to local and imported suppliers were kept to a minimum by effective negotiations and source changes.

One of the other challenges for the team was to secure domestic leaf requirement for the tremendous surge in the market demand. Highest ever leaf volumes were purchased, at optimal cost and improved quality. CPMH (Cigarettes Per Man-Hour), a key productivity indicator, improved to 15,271 in '06 (vs. 13,341 in '05) through new high speed machines induction, improvement in machine utilization, crew optimization, enhanced skill level of the shop floor employees and improved maintenance systems. Effective Shop floor controls enabled reduced wastages, improved product quality and high standards of EH&S (Environment, Health & Safety).

Once again, working smartly as an effective and integrated supply chain function, PTC maintained its status of one of the lowest product cost manufacturers in the Asia-Pacific Region.

Responsibility

The Corporate Social Responsibility movement recognises that corporations are an integral part of society. They, therefore, have a clear stake in ensuring that people are treated properly, receive fair and equitable wages, operate under safe working conditions and ensure that the detrimental social, economic and environmental impacts of their actions are limited and monitored.

PTC believes in and practices CSR as described above. In addition to it we also have a large CSI programme where the 'I' is for Investment and not Intentions. We approach Corporate Social Investment as an end in itself rather than as a way to promote ourselves, and our company has always been closely identified with the communities where it operates.

For our company, Corporate Social Responsibility goes beyond writing cheques to various charities. Our initiatives are focused on proactive involvement in our partner communities. We have identified areas within our scope of operations that could benefit the most from our efforts, and these efforts result in concrete on-the-ground projects. Through internal and external monitoring, the Company ensures that our CSI initiatives are effective besides being implemented in a timely and responsible manner.

Another tool we have pioneered in Pakistan is Social Reporting. Our second Social Report will be published in April 2007. Essentially, it is a method by which companies can and do hold dialogue with their key stakeholders with the purpose of building relations, learning from each other with the ultimate goal of providing the company with relevant information on how stakeholders feel about their business practices so that the Company can, over time, align its business strategy with the reasonable expectations of society. Our CSI activities are focused on health & education sectors.

Health

We run Mobile Doctor Units (MDUs) in Mansehra, Buner, Yar Hussain, Shergarh and in outskirts of Akora Khattak Factory. The MDUs follow a five day schedule and in total provide health services to about 3,000 beneficiaries of these areas in a month. In addition, we provide eye care through our partner, LRBT. Our latest venture is a partnership with the National Institute of Health under Ministry of Health and the Prime Minister's Programme for the Prevention and Control of Hepatitis

Water Filtration Units

Four Water Filtration plants are already operational in Buner, Akora Khattak, Isori Payan and Yar Hussain with a capacity of 2,000 gallons/hour. Year 2007 will see us installing a further four units in partnership with the Tehsil Nazims and the Community Citizen Boards of NWFP.

Education:

Learning Resource Centres (LRCs)

We have one LRC in each of our leaf regions, namely, Buner, Mansehra, Yar Hussain, Shergarh and Akora Khattak Factory. Another is in Akora Khattak town that is especially for women. They are all affiliated with Skill Development Council NWFP. Over 1,200 students have graduated from these centres over the last six years with basic computer literacy.

Non-Formal Education Schools

This programme was initiated about four years ago through an NGO called Adult Basic Education Society (ABES). We sponsor nine schools in the Yar Hussain area and there are approximately 300 students enrolled presently at various stages of the primary school. Over 80% of the students are girls.

The Citizen's Foundation (TCF) School in Nowshera

PTC has donated Rs 3.8 million to The Citizen's Foundation for building a primary school in Nowshera to cater to the educational needs of the more disenfranchised children from the locality. The school will start functioning by end of March 2007.

Earthquake Relief & Rehabilitation

In the immediate aftermath of the October 8, 2005 earthquake, PTC initiated many projects of relief and reconstruction / rehabilitation work. A sum of Rs 20 million was immediately released out of which Rs 10 million went to the President's Relief Fund and Rs 5 million each went to the provincial government of the NWFP and AJK. In addition to this we have initiated rehabilitation programs worth Rs 35 million in the NWFP, with the following activities:

- Funding a rehabilitation centre in Battagram through Pakistan Institute for Prosthetic and Orthotic Sciences. (PIPOS).
- Sponsoring The Citizens Foundation to set up a school in Buffa Mera
- Rebuilding of a BHU in Anwar Sharif, District Muzzafarabad.

Flood Relief activities

When floods hit Mardan in 2006, PTC responded immediately by arranging, shipping and distributing 35 tonnes (1000 packages) of essential food supplies to the people in need. The whole operation was planned with the idea to spend only on the relief goods in tangible form. Three camps were arranged in a day at three different locations of Districts Mardan & Charsadda;

Location	District	Packages
Umerzai	Charsadda	500
Mumand Abad	Mardan	250
Rajjar	Charsadda	250

Contribution to National Exchequer

The tobacco industry is a major contributor to the Government revenues. Taxes are paid through following means:

I. Indirect taxes levied on tobacco products (Customs, Excise Duty & General Sales Tax)

II. Direct taxes on income earned in the industry (Income Tax & Local Taxes)

PTC, being the major player in the tobacco industry, enjoys the status of the single largest contributor to the excise in Pakistan. The organic growth in our volumes and effective year on year price increases resulted in significant growth in the Government revenues as reflected in the table below:

	Rs in Million				
	2006	**2005**	**2004**	**2003**	**2002**
Customs, Excise Duties & Sales Tax	22,069	19,129	16,086	14,322	12,861
Local Taxes and Other Duties	87	87	71	75	76
Income Tax	880	634	137	44	40
Total	**23,036**	**19,850**	**16,294**	**14,441**	**12,977**

Winning Organisation

To achieve our vision (First Choice for Everyone) our strategy is to ensure that we have the right people and the right working environment with a clear line of sight. We are heavily focusing on four key strategies to drive our initiatives; Growth, Productivity, Responsibility and Winning Organisation.

Being a Winning Organisation would require that BAT must be a Great Place to work in which Outstanding People work together, share their learnings, mistakes and successes. This ensures that their combined performance is greater than the individual contribution. In order to achieve the above, we focus on four vital areas of people development called the 4 People Drivers.

Great Place to Work

- Leadership
- Culture

Outstanding People

- Talent
- Learning and Knowledge

These Drivers have evolved and continue to evolve from a highly collaborative process involving BAT people from all levels and around the world. Each Driver is underpinned by a strategy and activities at global and local levels to help embed them into the fabric of the way we work. It is no coincidence that recent and ongoing research confirms that successful embedding of the 4 Driver themes are strongly linked to increased employee satisfaction and business success in other organisations. This is something which business leaders have known for quite some time and our integration of the Drivers into our business puts us at the forefront of this thinking.

These Drivers mean change, and adoption of new and better ways of doing things. We have a clear mandate to and are working collaboratively to achieve it.

Culture

Our culture consists of values we derive from our 4 guiding principles. We are currently in the process of launching internal campaigns to further inculcate these values into the daily lives of our employees. Our guiding principles in brief are:

Enterprising Spirit - *We have the confidence to seek out opportunities for success, to strive for innovation and to accept the considered risk taking that comes with it*

Freedom through Responsibility - *People have the freedom to take decisions and act by accepting personal responsibility, within the parameters of the organisation's strategic goals*

Strength from Diversity - *We actively utilise our diversity - of people, cultures, viewpoints, brands, markets and ideas - to create opportunities and strengthen performance*

Open Minded - *We are open minded and encourage everyone to contribute, by actively listening; by being genuinely receptive to new ideas and the ideas of others; by being open to different perspectives and by questioning and challenging the conventional*

Our guiding principles not only describe the sort of organisation we strive to be but also shape our Winning Organisation efforts. These guiding principles are an overarching guide to the way we work together, deal with other organisations and business partners. These principles apply to every employee in the Company, across all levels, functions and geographies. They act as a point of reference for every aspect of our working life, from communication to decision-making.

Reward and Recognition Scheme

Our Reward and Recognition Scheme, 'YOU ROCK' has created a lot of energy and enthusiasm in the organisation. You Rock is both an individual and team recognition platform and its three-tier framework ensures timely and relevant delivery of reward and recognition under tier one of the Scheme " ROCK-N-PERFORM' the performance and contribution in attributes e.g., initiative, innovation, entrepreneurship, leadership, stretch, dedication, commitment, teamwork etc. of 534 employees were instantly recognised and rewarded by the line managers since launch of the scheme in end June 2006. Based on the 2006 contribution, nominations for other tiers of the reward schemes were screened by a committee of the ExCo and winners were selected

Nominations of employees based on contribution towards Leadership behaviour, application of guiding principles, quantitative impact on business were screened and many employees / teams were rewarded under tier two ROCK-N-RISE. As per rules of the scheme, these awards are given on the basis of functional contribution and therefore, the awards were presented at functional events.

One employee was selected for tier three ROCK-N-SHINE, which is aligned to BAT Battlefield Bonus criteria and has been awarded an amount equal to two months gross salary.

The winners have been given wider publicity to acknowledge their contribution and encourage others to excel. In-house magazine will carry out special coverage to showcase these achievements.

Bonus Scheme

To focus and reward managers, encourage greater cohesion, promote above market collaboration and to maintain a strong competitive position, incentive schemes are based on organisation's performance against targets set for the following five dimensions:

- Operating Profit
- Volume Share
- Cash Flow Target for region
- Net Turnover
- Global Drive Brands Volume

Achievement against each of the five performance measures will be assessed on a linear scale ranging across Threshold, Target, Normal Maximum and Extra Maximum and a percentage is paid on achieving each milestone.

Exporting Talent

BAT is a truly global company and considers employees from all Operating Companies (OpCos) as part of the same family. This is evident by BAT's exchange programs whereby employees are given a chance to work in another OpCo . The philosophy behind the initiative is that the individual is taken out of his/her comfort zone, exposed to a different environment, culture and teams. This is a real leadership test and a tremendous learning experience for all involved. The employees of PTC have proven themselves over the years and consequently PTC has been identified as a talent pool. PTC talent is in great demand and at present 21 managers are working in various OpCos around the world, making PTC a proud company. When they are through their secondments, they either return to their OpCo or are sent to any other OpCo. This way they add a great value by introducing best practices and coaching other managers through their experience.

Growth Academy

We have recently launched Growth Academy in PTC. Growth Academy is an accelerated development of Business Support Officers that aims to develop employees from within and create a future pool of leaders. The investment in people, training and development is enabling PTC to reap rewards in terms of business performance across all of its operations. It will ensure that we have home grown talent and that we provide equal opportunity to employees regardless of their job grade.

Your Voice

We are committed to creating an environment where employees feel that they can speak honestly about the Company and issues of importance to them. We run annual employee surveys with International Survey Research (ISR) and, in October 2005 and November 2006, we conducted Your Voice Survey. The Your Voice results are enabling us to analyse and address areas of concern among employees both globally and on a local level. Around the world, management teams will be turning the results into tangible change management plans in order to make the Company even more successful.

Magement Trainee (MT) Program

The MT Programme is one of BAT's key programmes to equip our young managers to succeed in our increasingly competitive business environment and to ensure that we attain world leadership in the tobacco industry. The MT Programme is the Company's two-year global development programme for graduates and is only offered to high potential high performing individuals. The program exposes MT's to all aspects of the business which enhances the learning process and ensures a bright future with the Company. At this point in time, we have a total of 18 Management trainees in our organization from various institutions around the Country and it is considered as a prestigious program to join.

People Development

PTC prides itself as an Employer of choice for many bright individuals around Pakistan. We take the development of our people extremely seriously by exposing them to above market initiatives and sending them on training programs around the globe. We believe that to be able to compete in such a competitive market, we need to equip our

Pakistan Tobacco Company

workforce with the right skill set and knowledge so that they are prepared to face any challenges that come there way. Our recent employee survey confirmed that our workforce has strong faith and trust that the Company is sincerely working on people development.

Employer Branding

Campus Campaigns

In order to attract the best talent, the talent team introduced a unique type of campus campaign. Students of various institutions were invited to a luxurious venue for a wonderful night out which included dinner and entertainment. This gave the students to informally mingle with the PTC managers and ask them questions first hand. This was a huge success and the response rate was unprecedented. We were the first multinational to adopt this approach and hired many capable managers through our campaigns.

Internships

Our Internship program is extremely popular amongst students as it is well structured and gives real responsibilities to an intern. We receive positive feedback from interns who feel that the internship gave them a practical side of how a business operates and they all highly rated the culture of PTC. We have linked our internship program with our recruitment process whereby successful candidates are given a chance to directly appear at the Assessment Centre. Hence the chances of the intern being recruited increases greatly.
All these activities along with other employer branding initiatives would ensure that we become the employer of choice for everyone and eventually achieve our vision.

Diversity

One of our values and principles is strength from diversity. With diversity we are not only gender specific but also appreciate the diversity in race, beliefs and with the varying working styles of our employees. Women are strongly encouraged to apply and our culture ensures that they are comfortable and well looked after at PTC. We have embarked on several projects globally on diversity and this is one of the key ingredients which would make PTC a great place to work with outstanding people.

We will continue to focus these areas to continue having the right people who have the ability and hunger to drive and deliver competitive advantage through superior performance.

Financial Statements

Pakistan Tobacco Company

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2006 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;
(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, 2006 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

Pakistan Tobacco Company

Profit & Loss Account for the year ended December 31, 2006

	Note	2006 Rs '000	2005 Rs '000
Gross Turnover		35,715,451	30,615,062
Sales tax		4,833,285	4,103,324
Turnover (net of sales tax)		30,882,166	26,511,738
Cost of sales	3	25,348,646	21,982,134
Gross Profit		5,533,520	4,529,604
Marketing and distribution expenses	4	1,824,048	1,578,656
Administrative expenses	5	661,271	573,285
		2,485,319	2,151,941
Operating Profit		3,048,201	2,377,663
Other income	6	68,088	34,417
Other expenses	7	204,556	284,665
		2,911,733	2,127,415
Finance cost	8	51,060	45,351
Profit Before Taxation		2,860,673	2,082,064
Tax charge	9	955,685	760,145
Profit After Taxation		1,904,988	1,321,919
Earnings per share (Rupees)	10	7.46	5.17

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

Balance Sheet
as at December 31, 2006

	Note	2006 Rs '000	2005 Rs '000
Property, Plant and Equipment	13	4,529,366	3,798,190
Long Term Investment in Subsidiary Company	14	5,000	5,000
Long Term Loans	15	18,660	17,782
Long Term Deposits and Prepayments	16	8,424	11,365
Current Assets			
Stocks	17	3,790,853	3,780,931
Stores and spares	18	140,008	125,232
Trade debts	19	2,406	2,894
Loans and advances	20	12,205	32,676
Prepayments		72,235	31,987
Other receivables	21	92,360	104,791
Cash and bank balances	22	62,883	57,605
		4,172,950	4,136,116
Less: Current Liabilities			
Trade and other payables	23	2,212,241	2,515,824
Interest accrued		11,115	10,911
Short term finances	24	1,293,141	400,662
Income tax payable		233,712	676,969
		3,750,209	3,604,366
Net Current Assets		422,741	531,750
		4,984,191	4,364,087
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
Revenue Reserves		1,584,249	1,084,476
Shareholders' Equity		4,139,187	3,639,414
Deferred Taxation	26	845,004	724,673
		4,984,191	4,364,087
Contingencies and Commitments	27		

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

Cash Flow Statement
for the year ended December 31, 2006

	2006 Rs '000	2005 Rs '000
Cash Flow from Operating Activities		
Cash receipts from customers	35,715,939	30,624,654
Cash paid to the Government for Federal Excise Duty, Sales Tax and other Levies	(22,134,488)	(19,126,208)
Cash paid to suppliers	(8,850,492)	(7,795,529)
Cash paid to employees and retirement funds	(1,750,686)	(1,400,619)
Income tax paid	(1,278,610)	(62,527)
Other cash receipts / (payments)	9,646	(1,070)
	1,711,309	2,238,701
Cash Flow from Investing Activities		
Purchase of property, plant and equipment	(1,238,014)	(716,852)
Proceeds from sale of property, plant and equipment	37,755	42,815
Cash paid to subsidiary company	(420)	(476)
	(1,200,679)	(674,513)
Cash Flow from Financing Activities		
Dividend paid	(1,402,017)	(943,649)
Financial charges paid	(43,216)	(32,531)
Interest received	47,402	26,317
	(1,397,831)	(949,863)
Net (Decrease)/ Increase in Cash and Cash Equivalents	(887,201)	614,325
Cash and Cash Equivalents at January 1	(343,057)	(957,382)
Cash and Cash Equivalents at December 31	(1,230,258)	(343,057)
Cash and Cash Equivalents Comprise:		
Cash and bank balances	62,883	57,605
Short term finances	(1,293,141)	(400,662)
	(1,230,258)	(343,057)

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

Statement of Changes in Equity for the year ended December 31, 2006

	Share Capital	Revenue Reserves	Total Rs '000
Balance as at December 31, 2004	2,554,938	707,885	3,262,823
Final dividend of Rs 1.20 per share relating to the year ended December 31, 2004	-	(306,593)	(306,593)
Profit for the year 2005	-	1,321,919	1,321,919
Interim dividend of Rs 2.50 per share relating to the year ended December 31, 2005	-	(638,735)	(638,735)
Balance as at December 31, 2005	2,554,938	1,084,476	3,639,414
Final dividend of Rs 2.50 per share relating to the year ended December 31, 2005	-	(638,734)	(638,734)
Profit for the year 2006	-	1,904,988	1,904,988
Interim dividend of Rs 3.00 per share relating to the year ended December 31, 2006	-	(766,481)	(766,481)
Balance as at December 31, 2006	2,554,938	1,584,249	4,139,187

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

PAKISTAN TOBACCO COMPANY

Notes to and Forming Part of the Financial Statements for the year ended December 31, 2006

1. The Company and Its Operations

Pakistan Tobacco Company Limited (the Company) is a public company incorporated in Pakistan under the Companies Act, 1913 (now the Companies Ordinance, 1984) and its shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The registered office of the Company is situated at Evacuee Trust Complex, Agha Khan Road, Sector F-5/1, Islamabad. The Company is engaged in the manufacture and sale of cigarettes.

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 Companies Ordinance, 1984. Approved accounting standards comprise such International Accounting Standards (IAS) 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.

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are provision for income taxes and provision for post employment benefits. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Interpretation and amendments to published standards effective in 2006.
IAS 19 (Amendment), Employee Benefits, is mandatory for the accounting periods beginning on or after January 01, 2006. The amendment introduces the option of an alternative recognition approach for actuarial gains and losses; imposes additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accountig; and also adds new disclosure requirements.

The Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans. Adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

International Financial Reporting Interpretations Committee (IFRIC) Interpretation, Determining whether an Arrangement contains a Lease (IFRIC 4), requires the determination of whether an arrangement is, or contains, a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. There is no impact of IFRIC 4 on the Company's operations

Amendments to published standards and interpretations effective in 2006 but not relevant.
Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 are considered not to be relevant or do not have any significant effect on the Company operations.

Standard not yet effective and has not been early adopted by the Company
International Financial Reporting Standard, Financial Instruments: Disclosures (IFRS 7), and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from January 1, 2007) do not have any impact on the classification and valuation of the Company's financial instruments.

2.2 Taxation

Current
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.

The Company recognises tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined.

Deferred
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.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted.

Pakistan Tobacco Company

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 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, 2006. Unrecognised actuarial gains / losses in excess of the 'corridor' (10% of the higher of the fair value of the plan assets or the present value of the defined benefit obligation) at the current reporting date are recognised over the expected average remaining working life of employees participating in the defined benefit schemes.

Actuarial valuation of gratuity and pension contributions requires use of certain assumptions related to future periods including increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values.

ii) approved contributory provident fund for all employees for which contributions of the Company are charged to the profit and loss account for the year.

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 profit and loss account using the straight line method at the following annual rates:

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

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

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

Gain and loss on disposal of operating fixed assets are taken to profit and loss account.

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

2.6 Long term investment in subsidiary company
Investment in subsidiary company is carried at cost less impairment losses, if any.

2.7 Impairment
The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses or reversal of impairment losses are recognised in the profit and loss. Reversal of the impairment loss is restricted to the original cost of the asset.

2.8 Operating leases
Rentals payable under operating leases are charged to profit and loss account on a straight line basis over the term of the relevant lease.

2.9 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 related charges incurred upto the balance sheet date.

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.

2.10 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 related charges incurred upto the balance sheet date.

2.11 Revenue recognition
Sale is recognised at the time of despatch of goods to customers. Return on bank deposits and investments are accounted for on a time proportion basis using the applicable rate of return. Scrap sales and miscellaneous receipts are recognised on realised amounts.

2.12 Borrowing cost
All borrowing costs are expensed as incurred.

2.13 Foreign currency transactions
Transactions in foreign currencies are recorded in the books of account 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 charged to the profit and loss account.

2.14 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 holding company and associated companies for sale of materials and manufactured goods are based on normal commercial practices on similar terms and conditions as applicable to transactions with third parties. 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.

2.15 Financial instruments
Financial assets and liabilities are recognised 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 or received. These are subsequently measured at fair value, amortised cost or cost, as the case may be.

2.16 Dividend recognition

Dividend is recognised as a liability in the period in which it is declared.

2.17 Cash and cash equivalents

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

2.18 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to setoff the recognised amounts and the Company intends to settle either on a net basis or realise the asset and settle the liability simultaneously

2.19 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

2.20 Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in future for goods and services received.

	2006 Rs '000	2005 Rs '000
3. Cost of Sales		
Raw materials consumed		
Opening stock of raw materials and work in process	3,011,196	2,678,084
Raw material purchases and expenses - note 3.1	6,010,132	5,821,004
Closing stock of raw materials and work in process	(3,294,469)	(3,011,196)
	5,726,859	5,487,892
Government Taxes and Levies		
Federal Excise Duty	16,991,172	14,758,558
Customs duty and surcharges	244,563	267,604
Provincial and municipal taxes and other duties	87,084	87,125
	17,322,819	15,113,287
	23,049,678	20,601,179
Royalty	249,667	237,686
Production overheads		
Salaries, wages and benefits	821,477	643,317
Stores, spares and machine repairs	262,762	287,517
Fuel and power	146,083	110,389
Insurance	24,491	12,801
Repairs and maintenance	78,987	58,525
Postage, telephone and stationery	7,389	7,986
Information technology	75,022	65,998
Depreciation	310,384	257,590
Damaged and obsolete materials written off	17,232	58,779
Sundries	32,123	14,134
	1,775,950	1,517,036
Cost of goods manufactured	25,075,295	22,355,901
Cost of finished goods		
Opening stock	769,735	395,968
Closing stock	(496,384)	(769,735)
	273,351	(373,767)
	25,348,646	21,982,134

3.1 Raw Material Purchases and Expenses	2006 Rs '000	2005 Rs '000
Materials	5,419,407	5,325,193
Salaries, wages and benefits	249,201	204,655
Stores, spares and machine repairs	124,200	83,833
Fuel and power	58,570	56,909
Property rentals	21,720	17,844
Insurance	2,612	6,731
Repairs and maintenance	769	5,200
Postage, telephone and stationery	4,510	5,500
Depreciation	89,588	86,628
Sundries	39,555	28,511
	6,010,132	5,821,004

	2006 Rs '000	2005 Rs '000
4. Marketing and Distribution Expenses		
Salaries, wages and benefits	233,781	172,542
Selling expenses	1,274,345	1,119,742
Freight	142,104	114,836
Property rentals	8,103	7,381
Bad debts written off	-	6,371
Insurance	9,805	8,007
Repairs and maintenance	68,906	61,442
Postage, telephone and stationery	8,585	9,583
Travelling	38,643	39,145
Depreciation	39,776	39,607
	1,824,048	1,578,656

5. Administrative Expenses		
Salaries, wages and benefits	347,429	260,168
Fuel and power	8,048	6,355
Property rentals	30,118	27,038
Insurance	2,485	2,912
Repairs and maintenance	14,788	13,789
Postage, telephone and stationery	9,764	12,436
Legal and professional charges	11,392	8,469
Donations - note 5.1	4,027	24,566
Information technology	94,417	85,096
Travelling	50,846	54,172
Depreciation	42,438	43,062
Directors' fee	310	250
Auditors' remuneration and expenses - note 5.2	4,450	3,572
Sundries	40,759	31,400
	661,271	573,285

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

5.2 Auditors' remuneration and expenses includes:		
Statutory audit	750	670
Special certifications, audit of consolidated accounts and staff funds, review of half yearly accounts	1,545	1,221
Tax compliance and advisory services	2,075	1,621
Out-of-pocket expenses	80	60
	4,450	3,572

	2006 Rs '000	2005 Rs '000
6. Other Income		
Income from financial assets		
Interest on short term bank deposits	47,402	26,317
Income from non-financial assets		
Gain on disposal of operating fixed assets	13,103	-
Others		
Insurance commission	-	4,075
Miscellaneous	7,583	4,025
	68,088	34,417
7. Other Expenses		
Workers' Profit Participation Fund	153,261	111,518
Workers' Welfare Fund	51,295	36,773
Loss on disposal of operating fixed assets	-	13,367
Staff separation cost	-	123,007
	204,556	284,665
8. Finance Cost		
Interest on short term finances	22,093	24,568
Bank charges and fees	23,236	19,797
Interest on Workers' Profit Participation Fund	5,731	986
	51,060	45,351
9. Tax Charge		
Current - for the year	880,264	633,809
- for prior years	(44,911)	26,138
	835,353	659,947
Deferred - for the year	120,332	100,198
	955,685	760,145
9.1 Reconciliation of tax charge for the year:	%	%
Applicable tax rate	35.00	35.00
Tax effect of permanent differences	(0.02)	0.25
Tax effect of provision for prior years	(1.57)	1.26
Average effective tax rate charged to income	33.41	36.51
10. Earnings Per Share		
Profit after tax (Rs '000)	1,904,988	1,321,919
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Basic and diluted earnings per share (Rs)	7.46	5.17

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

11. Post Balance Sheet Event

Final dividend in respect of the year ended December 31, 2006 of Rs 4.40 per share (2005: Rs 2.50 per share) amounting to a total dividend of Rs 1,124,173 thousand (2005: Rs 638,734 thousand) has been proposed out of the unappropriated profit at the Board of Directors meeting held on March 6, 2007. These financial statements do not reflect this proposed dividend.

12. Remuneration of Chief Executive, Directors and Executives

The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to chief executive, directors, and executives are as follows:

	Chief executive		Executive directors		Executives				Total	
					*Key management personnel		Other executives			
	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000
Managerial remuneration	43,173	29,897	41,854	45,316	53,159	49,873	174,485	136,670	312,671	261,756
Corporate bonus	11,995	7,308	20,205	11,326	42,350	20,731	57,988	40,077	132,538	79,442
Leave fare assistance	435	1,049	3,503	1,055	1,859	1,293	222	52	6,019	3,449
Housing and utilities	4,460	3,801	7,505	8,464	13,127	10,016	76,214	59,914	101,306	82,195
Medical expenses	196	117	482	1,072	1,412	2,463	11,332	14,866	13,422	18,518
Post employment benefits	-	-	4,077	2,270	8,047	3,975	55,147	23,319	67,271	29,564
	60,259	42,172	77,626	69,503	119,954	88,351	375,388	274,898	633,227	474,924
Number of persons	1	1	5	5	11	10	142	123	159	139

* Represents remuneration paid to key management personnel other than the chief executive and directors.

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

12.2 In addition Directors' fee of Rs 310 thousand (2005: Rs 250 thousand) was paid to five (2005: five) non-executive directors for attending board meetings during the year.

13. Property, Plant and Equipment

	2006 Rs '000	2005 Rs '000
Operating fixed assets - note 13.1	4,277,327	3,748,575
Capital work in progress - note 13.2	252,039	49,615
	4,529,366	3,798,190

13.1 Operating fixed assets

Rs 000

	Cost				Depreciation				Net book
	as at January 1, 2006	Additions	Deletions	as at December 31, 2006	as at January 1, 2006	Charge for the year	On deletions	as at December 31, 2006	value as at December 31, 2006
Free-hold land	6,834	-	-	6,834	-	-	-	-	6,834
Buildings on free-hold land	342,196	35,960	(4,285)	373,871	94,797	10,342	(1,742)	103,397	270,474
Buildings on leasehold land	22,977	2,199	-	25,176	12,735	411	-	13,146	12,030
Private railway sidings	349	-	-	349	323	-	-	323	26
Plant and machinery	4,752,390	893,842	(18,637)	5,627,595	1,617,623	343,124	(11,305)	1,949,442	3,678,153
Office and household equipment	308,698	37,188	(33,576)	312,310	171,203	44,047	(29,268)	185,982	126,328
Furniture and fittings	63,006	1,073	(128)	63,951	41,896	7,162	(91)	48,967	14,984
Vehicles	439,769	65,328	(58,807)	446,290	249,067	77,100	(48,375)	277,792	168,498
Total 2006	5,936,219	1,035,590	(115,433)	6,856,376	2,187,644	482,186	(90,781)	2,579,049	4,277,327
Total 2005	5,241,723	903,190	(208,694)	5,936,219	1,913,269	426,887	(152,512)	2,187,644	3,748,575

	2006 Rs '000	2005 Rs '000
13.2 Capital work in progress		
Civil works and buildings	6,613	16,285
Plant and machinery	194,037	13,436
Advances to suppliers	51,389	19,894
	252,039	49,615

13.3 Depreciation charge has been allocated as follows:		
Cost of sales - note 3	399,972	344,218
Marketing expenses - note 4	39,776	39,607
Administrative expenses - note 5	42,438	43,062
	482,186	426,887

13.4 Details of disposal of operating fixed assets:

	Original Cost (Rs '000)	Net book value (Rs '000)	Sale proceeds (Rs '000)	Particulars of buyers
Office and household equipment				
by negotiation	289	108	113	Fazal Ghafoor - Ex-employee
	211	54	60	Jim Kirk - Ex-employee
by auction	828	83	7	Bahadar Khan (sale as scrap)
	781	78	17	Bhatti (sale as scrap)
	638	111	68	Ismat Khan (sale as scrap)
	375	163	9	Rafiq Khan (sale as scrap)
	1,119	187	13	Bahadar Khan (sale as scrap)
	3,521	428	40	Bhatti (sale as scrap)
	2,202	234	26	Irfan (sale as scrap)
	1,587	218	37	Mahmood Ul Haq (sale as scrap)
	11,295	1,224	98	Rahim Taj (sale as scrap)
	7,908	828	26	Shakir Khan (sale as scrap)
by insurance claim	208	113	171	EFU General Insurance Ltd
	898	377	546	EFU General Insurance Ltd
Vehicles				
as per Company Policy	1,468	759	804	Anwar Khan - Ex-employee
	705	71	71	Asad Abbas - Employee
	705	71	71	Asad Ali - Employee
	705	71	71	Attique Aslam - Employee
	746	357	584	Faisal Saif - Employee
	746	342	427	Imran Anjum - Employee
	705	71	81	Kaleem Abbasi - Ex-employee
	705	71	71	Kamran Butt - Employee
	991	99	99	M. Quresh - Ex-employee
	705	71	71	Mian Fazle Mannan - Employee
	633	63	63	Mian Waqaruddin - Employee
	991	99	99	Muhammad Khurshid - Employee
by auction	3,969	397	1,648	Abdul Wajid - Peshawar
	1,606	161	999	Alam Zeb - Islamabad
	688	69	651	Altaf ur Rahman - Peshawar
	702	70	501	Azbar Khan - Karachi
	525	52	279	Bahadar Khan - Shaidu
	1,039	649	617	Brig. M. Azam - Islamabad
	941	94	780	Ch. Changaiz Akhtar - Islamabad
	929	93	523	Ch. Hassan Akhtar - Islamabad
	705	71	522	Dr. Afshan - Rawalpindi
	705	71	503	Faisal Iqbal - Islamabad
	991	99	671	Fateh - Attock
	709	71	500	Imran - Karachi
	985	99	235	Ismat Khan - Rawalpindi
	739	216	632	Javed Mahmood - Islamabad
	1,716	172	1,551	Liaqat Ali - Rawalpindi
	1,415	142	1,181	Muhammad Hafeez - Haripur
	702	70	555	Muhammad Imran - Karachi
	702	70	573	Muhammad Nouman - Peshawar
	1,831	183	472	M/s F.I.T Enterprises - Rawalpindi
	700	70	661	Muhammad Tahir - Nowshera
	969	97	740	Mushtaq Ahmed - Rawalpindi
	750	141	503	Rizwan Mazhar - Rawalpindi
	929	93	760	Saeed Abbasi - Rawalpindi
	700	70	665	Syed Tariq Shah - Swabi
	705	71	478	Taimur Abbasi - Rawalpindi
	723	72	633	Zafar Ali - Islamabad
by insurance claim	10,865	3,707	8,718	AIG New Hampshire Insurance Co.

14. Long Term Investment in Subsidiary Company - Related Party

This represents 500,001 (2005: 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 (2005: Rs 10 per share) based on audited accounts for the year ended December 31, 2006.

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

15. Long Term Loans

	2006 Rs '000	2005 Rs '000
Related parties		
Loans due from directors and key management personnel	555	697
Others		
Loans due from executives and other employees	25,071	23,642
	25,626	24,339
Less: Receivable within one year	6,966	6,557
	18,660	17,782

All long term loans are considered good.

15.1 Reconciliation of loans due from directors, key management personnel, executives and others:

	Directors		Executives				Others		Total	
			Key management personnel		Other executives					
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Opening balance	151	189	546	420	5,934	6,306	17,708	15,224	24,339	22,139
Disbursements	41	89	101	317	4,848	2,895	10,389	11,283	15,379	14,584
Repayments	82	127	202	191	3,293	3,267	10,515	8,799	14,092	12,384
Closing balance	110	151	445	546	7,489	5,934	17,582	17,708	25,626	24,339

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

15.2 The maximum amounts due from the directors, key management personnel and executives at the end of any month during the year were Rs 117 thousand (2005: Rs 151 thousand), Rs 445 thousand (2005: Rs 546 thousand) and Rs 7,787 thousand (2005: Rs 5,934 thousand) respectively.

16. Long Term Deposits and Prepayments

	2006	2005
Security deposits	6,510	6,167
Prepayments	1,914	5,198
	8,424	11,365

17. Stocks

	2006	2005
Raw materials	3,093,915	2,855,400
Raw materials in transit	174,398	133,511
Work in process	26,156	22,285
Finished goods	496,384	769,735
	3,790,853	3,780,931

	2006 Rs '000	2005 Rs '000
18. Stores and Spares		
Stores	1,507	981
Machine spares	131,498	124,251
Machine spares in transit	7,003	-
	140,008	125,232
19. Trade Debts		
Considered good	2,406	2,894
Considered doubtful	2,322	2,322
	4,728	5,216
Provision for doubtful debts	(2,322)	(2,322)
	2,406	2,894
20. Loans and Advances		
Related parties - unsecured		
Current portion of loans due from directors and key management personnel - note 15	142	411
Others		
Current portion of loans due from executives and other employees - note 15	6,824	6,146
Advances due from employees - note 20.1	4,104	4,550
Advances due from others	1,135	21,569
	12,205	32,676

All loans and advances are considered good.

20.1 The above includes Rs 2,147 thousand (2005: Rs 1,032 thousand) due from executives of the Company.

	2006 Rs '000	2005 Rs '000
21. Other Receivables		
Related parties - unsecured		
Due from holding company / associated companies - note 21.1	42,958	18,377
Due from subsidiary company	24,182	23,762
Employees' Provident Fund	5,277	15,824
Management Provident Fund	1,533	-
Employees' Gratuity and Pension Funds	-	10,108
Workers' Profit Participatlion Fund - note 23.2	1,738	-
Others		
Margin against guarantees	1,769	3,887
Claims	13,651	27,564
Others	1,252	5,269
	92,360	104,791

	2006 Rs '000	2005 Rs '000
21.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	8,787	2,426
Associated Companies		
BAT Asia Pacific - Hong Kong	12,062	6,407
BAT - Nigeria	9,181	4,885
Ceylon Tobacco Company - Sri Lanka	3,463	3,237
BAT - Singapore	5,455	129
BAT - Uganda	1,123	-
BAT - Thailand	891	-
BAT - Dubai	455	262
BAT - Vietnam	377	-
BAT - South Korea	315	402
BAT - Bangladesh	324	-
BAT - Malaysia	137	-
BAT - Switzerland	198	-
BAT - Ukraine	190	-
BAT - Australia	-	273
BAT - Benin	-	220
BAT - Syria	-	88
BAT - Uzbekistan	-	48
	42,958	18,377

22. Cash and Bank Balances

	2006 Rs '000	2005 Rs '000
At Bank		
Security deposits	8,927	8,446
Current accounts		
Foreign currency	39,410	36,985
Local currency	13,779	7,959
	62,116	53,390
Cash in transit	1	1,072
Cash in hand	766	3,143
	62,883	57,605

23. Trade and other Payables

	2006 Rs '000	2005 Rs '000
Related parties - unsecured		
Due to holding company / associated companies - note 23.1	298,690	272,185
Workers' Profit Participation Fund - note 23.2	-	111,518
Staff Pension Fund	-	1,605
Employees' Gratuity Fund	-	2,512
Management Provident Fund	-	518

	2006 Rs '000	2005 Rs '000
Others		
Creditors	423,704	536,409
Federal Excise Duty	739,118	668,877
Sales tax	390,290	294,041
Tobacco Excise Duty / Tobacco Development Cess - note 23.3	58,784	203,658
Accrued liabilities	214,441	351,592
Workers' Welfare Fund	60,348	44,797
Advances from customers	5,467	10,393
Security deposits	8,927	8,446
Unpaid and unclaimed dividend	12,472	9,273
	2,212,241	2,515,824

23.1 The amount due to holding company / associated companies comprises:

Holding Company		
British American Tobacco p.l.c. - UK	172,969	187,436
Associated Companies		
BAT Asia Pacific - Hong Kong	55,774	42,387
BAT - Uganda	40,554	3,864
Souza Cruz Overseas, S.A., Brazil	11,737	27,863
BAT - Malaysia	7,766	4,788
BAT - Singapore	4,716	1,698
Ceylon Tobacco Company - Sri Lanka	3,491	2,401
BAT - Australia	1,212	319
BAT - South Africa	399	1,429
BAT - Korea	72	-
	298,690	272,185

23.2 Workers' Profit Participation Fund

Balance at January 1	111,518	55,989
Allocation for the year	153,261	111,518
Interest on funds utilised in the Company's business	5,731	986
Payment to the fund during the year	(272,248)	(56,975)
Balance at December 31	(1,738)	111,518

23.3 Tobacco Excise Duty / Tobacco Development Cess

Opening balance	203,658	402,020
Provision during the year	58,570	60,621
Payments / reversals during the year	(203,444)	(258,983)
	58,784	203,658

24. Short Term Finances - Secured

Short term finance facilities available under mark-up arrangements with banks amount to Rs 1,815 million (2005: Rs 2,380 million), out of which the amount unavailed at the year end was Rs 522 million (2005: Rs 1,979 million). These facilities are secured by hypothecation of stocks amounting to Rs 2,858 million (2005: Rs 2,858 million). The mark-up ranges between 9% to 11.22% (2005: 4.75% to 12.34%) per annum and is payable quarterly. The facilities have various maturity dates upto December 31, 2007 and are renewable annually.

	2006 Rs '000	2005 Rs '000
25. Issued, Subscribed and Paid-up Capital		
230,357,068 (2005: 230,357,068) ordinary shares of Rs 10 each fully paid in cash	2,303,571	2,303,571
25,136,724 (2005: 25,136,724) ordinary shares of Rs 10 each issued as fully paid bonus shares.	251,367	251,367
	2,554,938	2,554,938

British American Tobacco (Investments) Limited held 241,045,141 (2005: 241,045,141) ordinary shares.

26. Deferred Taxation

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

27. Contingencies and Commitments

27.1 Contingencies

	2006	2005
a) Claims against the Company not acknowledged as debt	53,345	48,415
b) Guarantees issued by banks on behalf of the Company	85,758	75,193

27.2 Commitments

	2006	2005
a) Property rentals under cancellable operating lease agreements:		
-not later than one year	15,877	41,653
-later than one year and not later than five years		
within 2 years	20,797	16,213
within 3 years	21,934	11,870
within 4 years	21,968	9,130
within 5 years	20,625	5,220
-later than five years	115,679	9,012

b) Letters of credit outstanding at December 31, 2006 were Rs 599,700 thousand (2005: Rs 642,828 thousand), out of which Rs 534,897 thousand (2005: Rs 555,007 thousand) were hedged through forward foreign currency contracts with various banks.

28. Employees' Defined Benefit Funded Pension and Gratuity Schemes

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2006 using the projected unit credit method. Details of the defined benefit plans are:

	Defined Benefit Pension Plan		Defined Benefit Gratuity Plan	
	2006	2005	2006	2005
	Rs '000	Rs '000	Rs '000	Rs '000
a) The amounts recognised in the profit and loss account:				
Current service cost	42,624	20,030	19,500	14,009
Interest on obligation	109,484	76,748	27,941	16,746
Expected return on plan assets	(93,448)	(76,625)	(20,206)	(16,553)
Net actuarial losses/ (gains) recognised during the year	3,920	-	4,444	-
	62,580	20,153	31,679	14,202
b) The amounts recognised in the balance sheet:				
Present value of defined benefit obligations	1,413,319	1,214,950	388,407	316,968
Fair value of plan assets	(1,202,614)	(1,036,970)	(270,997)	(224,990)
	210,705	177,980	117,410	91,978
Unrecognised actuarial gains (losses)	(210,705)	(176,375)	(117,410)	(89,466)
Net liability	-	1,605	-	2,512
c) Changes in the present value of defined benefit obligation:				
Present value of defined benefit obligation as at Jan 1	1,214,950	965,451	316,968	215,533
Current service cost	42,624	20,030	19,500	14,009
Interest cost	109,484	76,749	27,941	16,746
Actuarial (gains)/losses	97,267	218,779	39,159	96,247
Contribution by plan participants	22,314	12,400	2,136	-
Benefits paid	(73,320)	(78,459)	(17,297)	(25,567)
Present value of defined benefit obligation as at Dec 31	1,413,319	1,214,950	388,407	316,968
d) Changes in the fair value of plan assets:				
Fair value of plan assets as at Jan 1	1,036,970	963,846	224,990	213,021
Expected return	93,448	76,625	20,206	16,553
Actuarial gains/(losses)	59,017	42,405	6,771	6,781
Contribution by plan participants	22,314	12,400	2,136	-
Contributions by employer	64,185	20,153	34,191	14,202
Benefits paid	(73,320)	(78,459)	(17,297)	(25,567)
Fair value of plan assets as at Dec 31	1,202,614	1,036,970	270,997	224,990
Actual return on plan assets	108,746	120,173	25,026	21,138

During the year 2007 the Company expects to contribute Rs 76 million and Rs 39 million to its Defined Benefit Pension Plan and Defined Benefit Gratuity Plan respectively.

Pakistan Tobacco Company

	Defined Benefit Pension Plan		Defined Benefit Gratuity Plan	
	2006	2005	2006	2005
	Rs '000	Rs '000	Rs '000	Rs '000
e) The major categories of plan assets:				
Investment in equities	106,627	84,876	30,094	26,478
Investment in bonds	128,333	172,737	13,977	21,243
Cash and cash equivalents	967,654	779,357	226,926	177,269
	1,202,614	1,036,970	270,997	224,990
f) Significant actuarial assumptions at the balance sheet date:				
Discount rate	10%	9%	10%	9%
Expected return on plan assets	10%	9%	10%	9%
Future salary increases	15%	16%	15%	16%
Future pension increases	6%	5%		

The discount rate and expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

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

Rs '000

	2006	2005	2004	2003	2002
g) Amounts for the current and previous four years:					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	(1,413,319)	(1,214,950)	(965,451)	(868,626)	(703,166)
Fair value of plan assets	1,202,614	1,036,970	963,846	854,846	691,887
Deficit	(210,705)	(177,980)	(1,605)	(13,780)	(11,279)
Experience adjustments on plan liabilities	(97,267)	(73,958)	2,330	(13,341)	(46,079)
Experience adjustments on plan assets	15,298	43,548	70,279	62,427	80,887
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	(388,407)	(316,968)	(215,533)	(205,825)	(198,986)
Fair value of plan assets	270,997	224,990	213,021	143,919	181,154
Deficit	(117,410)	(91,978)	(2,512)	(61,906)	(17,832)
Experience adjustments on plan liabilities	(39,159)	(43,111)	(13,834)	(22,153)	(7,657)
Experience adjustments on plan assets	4,820	4,585	15,694	6,440	17,983

28.1 Salaries, wages and benefits as appearing in note 3, 3.1, 4 and 5 include amounts in respect of the following:

	2006	2005
	Rs '000	Rs '000
Provident Fund	22,948	27,105
Pension Fund	62,580	20,153
Gratuity Fund	31,679	14,202
	117,207	61,460

29. Financial Instruments

29.1 Financial assets and liabilities

	2006			2005		
	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 '000			Rs '000	
Financial Assets						
Maturity up to one year:						
Trade debts	-	2,406	2,406	-	2,894	2,894
Loans and advances	-	12,205	12,205	-	32,676	32,676
Other receivables	-	92,360	92,360	-	104,791	104,791
Cash and bank balances	8,927	53,956	62,883	8,446	49,159	57,605
Maturity after one year:						
Loans	-	18,660	18,660	-	17,782	17,782
Deposits	-	6,510	6,510	-	6,167	6,167
	8,927	186,097	195,024	8,446	213,469	221,915
Financial Liabilities						
Maturity up to one year:						
Trade and other payables	-	1,023,267	1,023,267	-	1,345,131	1,345,131
Interest accrued	-	11,115	11,115	-	10,911	10,911
Short term finances	1,293,141	-	1,293,141	400,662	-	400,662
	1,293,141	1,034,382	2,327,523	400,662	1,356,042	1,756,704
Off balance sheet items						
Letters of credit	-	599,700	599,700	-	642,828	642,828
Bank guarantees	-	85,758	85,758	-	75,193	75,193
	-	685,458	685,458	-	718,021	718,021

29.2 Market risk

a) Interest rate risk

Financial liabilities include Rs 1,293,141 thousand (2005 : Rs 400,662 thousand) which are subject to floating interest ranging between 9.00% to 11.22% (2005 : 4.75% to 12.34%) per annum.

b) Foreign exchange risk

Financial assets of equivalent Rs 82,368 thousand (2005 : Rs 55,362 thousand) and financial liabilities of equivalent Rs 237,966 thousand (2005 : Rs 239,642 thousand) were in foreign currency which were exposed to foreign currency risk.

Foreign exchange risk arises mainly from future commercial transactions and where receivables and payables exist due to transactions in foreign currencies. Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivables from / payable to the foreign entities and outstanding letters of credit. Most of the Company's risk, emanating from Pak rupee / foreign currency parity, for foreign currency transactions is hedged through entering into forward foreign currency contracts with various banks.

29.3 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter party failed completely to perform as contracted. Since major part of sales of the Company is against advance payment, the credit risk is minimal.

30. Transactions with Related Parties

British American Tobacco (Investments) Limited holds 94.34 % (2005: 94.34%) shares of the Company at the year end. Therefore all the subsidiaries and associated undertakings of British American Tobacco (Investments) Limited are related parties of the Company. The related parties include directors, major shareholders, key management personnel and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is disclosed in note 12 to the financial statements.

Rs '000

For the year ended December 31, 2006	Purchases		Royality charge	Sales		Expenses on behalf of related party
	goods	services		goods	services	
Holding Company						
British American Tobacco, p.l.c - UK	25,831	119,286	249,666	-	8,457	-
Associated Companies						
BAT Asia Pacific, Hong Kong	-	74,783	-	-	5,601	54
British American Tobacco, Australia		1,395			635	-
British American Tobacco, Bangladesh	35,394	-	-	-	324	-
Ceylon Tobacco Company, Sri Lanka	-	1,287	-	126	101	-
British American Tobacco, Dubai	-	-	-	-	1,719	-
British American Tobacco, Indonesia	258	60	-	-	146	-
British American Tobacco, Japan	-	-	-	-	-	126
British American Tobacco, South Korea	-	72	-	-	1,172	-
British American Tobacco, Malaysia	139,385	19,974	-	-	841	-
British American Tobacco, New Zealand	14,407	-	-	-	-	-
British American Tobacco, Nigeria	-	-	-	-	5,353	-
British American Tobacco, Singapore	180,694	2,633		-	511	673
Souza Cruz Overseas, S.A., Brazil	269,562	189	-	-	-	-
British American Tobacco, Solomon Islands	-	-	-	-	1,300	-
British American Tobacco, South Africa	-	399	-	-	-	-
British American Tobacco, Switzerland	-	-	-	-	-	198
British American Tobacco, Syria	-	-	-	-	595	-
British American Tobacco, Thailand	-	-	-	-	891	-
British American Tobacco, Uganda	76,727	-	-	-	1,123	-
British American Tobacco, Ukraine	-	-	-	-	278	-
British American Tobacco, Vietnam	-	-	-	-	377	-
Distribution Services (Pvt) Ltd, Karachi	-	-	-	4,144,910	-	-
Marketing Services (Pvt) Ltd, Hyderabad	-	-	-	499,994	-	-
Shell Pakistan Ltd	-	2,601	-	-	-	-
Pakistan State Oil Company Ltd	12,430	3,863	-	-	-	-
Contribution to retirement benefit funds by the Company						
Provident Fund	-	32,074	-	-	-	-
Pension Fund	-	62,580	-	-	-	-
Gratuity Fund	-	31,679	-	-	-	-
Subsidiary company						
Phoenix (Private) Limited, Azad Jammu and Kashmir	-	-	-	-	-	420

Rs '000

For the year ended December 31, 2005	Purchases goods	Purchases services	Reimbursement of expenses	Royality charge	Sales goods	Sales services	Expenses on behalf of related party
Holding company							
British American Tobacco, p.l.c - UK	37,285	121,429	5,989	237,687	-	23,573	-
Associated companies							
BAT Asia Pacific, Hong Kong	-	35,699	2,388	-	-	2,520	50
British American Tobacco, Australia		408	-			574	82
British American Tobacco, Bangladesh	125,924	-	-	-	-	-	-
Ceylon Tobacco Company, Sri Lanka	-	1,440	19	-	275	2,122	-
British American Tobacco, Cambodia	44,015	-	-	-	-	-	-
British American Tobacco, Dubai	-	-	-	-	-	1,175	-
British American Tobacco, Germany	-	-	-	-	43,738	-	-
British American Tobacco, Indonesia	90,598	-	-	-	-	983	411
British American Tobacco, International, Switzerland	701	-	-	-	-	-	-
British American Tobacco, South Korea	-	-	-	-	-	401	-
British American Tobacco, Malaysia	5,049	9,636	-	-	-	-	-
British American Tobacco, Nigeria	-	-	-	-	-	4,214	-
British American Tobacco, Russia	-	-	-	-	181,255	-	-
British American Tobacco, Polska.Poland	2,872	-	-	-	-	-	-
British American Tobacco, Singapore	183,830	1,726	-		30,524	545	
Souza Cruz Overseas, S.A., Brazil	227,650	241	-	-	-	-	-
British American Tobacco, South Africa	-	844	-	-	-	-	-
British American Tobacco, Syria	-	-	-	-	-	310	-
British American Tobacco, Uganda	94,240	1,574	-	-	-	-	633
British American Tobacco, Uzbekistan	-	-	-	-	3,708	-	-
Distribution Services (Pvt) Ltd, Karachi	-	-	-	-	3,712,566	-	-
Marketing Services (Pvt) Ltd, Hyderabad	-	-	-	-	471,551	-	-
Shell Pakistan Ltd	-	1,683	-	-	-	-	-
Pakistan State Oil Company Ltd	8,478	744	-	-	-	-	-
Contribution to retirement benefit funds by the Company							
Provident Fund	-	25,952	-	-	-	-	-
Pension Fund	-	20,153	-	-	-	-	-
Gratuity Fund	-	14,202	-	-	-	-	-
Subsidiary company							
Phoenix (Private) Limited, Azad Jammu and Kashmir	-	-	-	-	-	-	476

PAKISTAN TOBACCO COMPANY

31. General

31.1 Capacity and production
Against an estimated manufacturing capacity of 35,343 million (2005: 33,114 million) cigarettes, actual production was 33,727 million (2005: 31,758 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

31.2 Number of employees
Total number of employees as at December 31, 2006 was 1,698 (2005: 1,818).

31.3 Corresponding figures
Certain amounts have been reclassified for more appropriate presentation as shown below:

Reclassification from component	Reclassification to component	Rs '000
Cost of sales - note 3		
Raw material purchases and expenses	Royalty	237,686
Trade and other payables - note 23		
Creditors	Accrued liabilities	124,418
Creditors	Payable to holding company	6,076
Creditors	Advances from customers	2,862
Accrued liabilities	Workers' Welfare Fund	44,797

31.4 Date of authorisation
These financial statements have been authorised for issue by the Board of Directors of the Company on March 06, 2007.

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Phoenix (Private) Limited

Board of Directors

Syed Nasir Shams
Chief Executive

Ahmed Zeb
Director

Mahboob Ahmad
Director

Naveed Aftab Ahmad
Director & Company Secretary

Registered Office
Bun Khuma Chichian Road,
Mirpur, Azad Jammu & Kashmir.

Auditors
A.F. Ferguson & Co.
Chartered Accountants

Directors' Review

The Directors have pleasure in presenting report together with the Audited Accounts of the Company for the year ended December 31, 2006.

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, 2006 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, 2006 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

PAKISTAN TOBACCO COMPANY

Balance Sheet
as at December 31, 2006

	Note	2006 Rs '000	2005 Rs '000
Property, Plant and Equipment	3	29,204	28,784
Preliminary Expenses	4	1	1
Current Assets			
Balance with bank in current account		4	4
Less:Current Liablities			
Trade and other payables	5	24,209	23,789
Net Current Liablities		(24,205)	(23,785)
		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, 2006

	2006 Rs '000	2005 Rs '000
Cash Flow from Investing Activities		
Capital work-in-progress	(420)	(476)
Net cash outflow from investing activities	(420)	(476)
Cash Flow from Financing Activities		
Cash received from Pakistan Tobacco Company Limited	420	476
Net cash inflow from financing activities	420	476
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at January 1	4	4
Cash and Cash Equivalents at December 31	4	4

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

Syed Nasir Shams
Chief Executive

Mahboob Ahmad
Director

Pakistan Tobacco Company

Notes to and Forming Part of the Financial Statements for the year ended December 31,2006

1. Legal Status and Operations

Phoenix (Private) Limited (the Company) was incorporated on March 9, 1992 in Azad Jammu and 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 Jammu and Kashmir to deal in tobacco products. The Company has not yet commenced its commercial operations, therefore, the Profit and Loss account has not been prepared. The registered office of the Company is situated at Bun Khuma, Chichian Road, Mirpur, Azad Jammu and Kashmir.

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 Property, plant and equipment

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

	2006 Rs '000	2005 Rs '000
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	4,156	3,736
	25,840	25,420
	29,204	28,784
4.Preliminary Expenses		
Legal fees	16	16
Registration fees	81	81
	97	97
Preliminary expenses transferred to Pakistan Tobacco Company Limited	(96)	(96)
	1	1

Pakistan Tobacco Company

	2006 Rs '000	2005 Rs '000
5. Trade and Other Payables		
Due to Pakistan Tobacco Company Limited	24,182	23,762
Others	27	27
	24,209	23,789

6. Issued, Subscribed and Paid-up Capital

500,001 (2005: 500,001) fully paid ordinary shares of Rs 10 each. All the 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	
Financial Assets		
Cash and bank balances	4	4
Financial Liabilities		
Trade and other payables	24,209	23,789

7.1 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximates their fair value.

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 06, 2007.

Syed Nasir Shams
Chief Executive

Mahboob Ahmad
Director

Auditors' Report on Consolidated Financial Statements to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan Tobacco Company Limited (PTC) and its subsidiary company as at December 31, 2006 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 then ended. We have also expressed separate opinions on the financial statements of PTC and its subsidiary company. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial 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.

In our opinion, the consolidated financial statements present fairly the financial position of Pakistan Tobacco Company Limited and its subsidiary company as at December 31, 2006 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

A.F. Ferguson & Co.
Chartered Accountants, Islamabad

Consolidated Profit and Loss Account for the year ended December 31, 2006

	Note	2006 Rs '000	2005 Rs '000
Gross Turnover		35,715,451	30,615,062
Sales tax		4,833,285	4,103,324
Turnover (net of sales tax)		30,882,166	26,511,738
Cost of sales	3	25,348,646	21,982,134
Gross Profit		5,533,520	4,529,604
Marketing and distribution expenses	4	1,824,048	1,578,656
Administrative expenses	5	661,271	573,285
		2,485,319	2,151,941
Operating Profit		3,048,201	2,377,663
Other income	6	68,088	34,417
Other expenses	7	204,556	284,665
		2,911,733	2,127,415
Finance cost	8	51,060	45,351
Profit Before Taxation		2,860,673	2,082,064
Tax charge	9	955,685	760,145
Profit After Taxation		1,904,988	1,321,919
Earnings per share (Rupees)	10	7.46	5.17

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

Consolidated Balance Sheet as at December 31, 2006

	Note	2006 Rs '000	2005 Rs '000
Property, Plant and Equipment	13	4,558,570	3,826,974
Long Term Loans	14	18,660	17,782
Long Term Deposits and Prepayments	15	8,424	11,365
Current Assets			
Stocks	16	3,790,853	3,780,931
Stores and spares	17	140,008	125,232
Trade debts	18	2,406	2,894
Loans and advances	19	12,205	32,676
Prepayments		72,235	31,987
Other receivables	20	68,179	81,030
Cash and bank balances	21	62,887	57,609
		4,148,773	4,112,359
Less: Current Liabilities			
Trade and other payables	22	2,212,268	2,515,851
Interest accrued		11,115	10,911
Short term finances	23	1,293,141	400,662
Income tax payable		233,712	676,969
		3,750,236	3,604,393
Net Current Assets		398,537	507,966
		4,984,191	4,364,087
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	24	2,554,938	2,554,938
Revenue Reserves		1,584,249	1,084,476
Shareholders' Equity		4,139,187	3,639,414
Deferred Taxation	25	845,004	724,673
		4,984,191	4,364,087
Contingencies and Commitments	26		

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

Consolidated Cash Flow Statement for the year ended December 31, 2006

	2006 Rs '000	2005 Rs '000
Cash Flow from Operating Activities		
Cash receipts from customers	35,715,939	30,624,654
Cash paid to the Government for Federal Excise Duty, Sales Tax and other Levies	(22,134,488)	(19,126,208)
Cash paid to suppliers	(8,850,492)	(17,795,529)
Cash paid to employees and retirement funds	(1,750,686)	(1,400,619)
Income tax paid	(1,278,610)	(62,527)
Other cash receipts / (payments)	9,646	(1,070)
	1,711,309	2,238,701
Cash Flow from Investing Activities		
Purchase of property, plant and equipment	(1,238,434)	(717,328)
Proceeds from sale of property, plant and equipment	37,755	42,815
	(1,200,679)	(674,513)
Cash Flow from Financing Activities		
Dividend paid	(1,402,017)	(943,649)
Financial charges paid	(43,216)	(32,531)
Interest received	47,402	26,317
	(1,397,831)	(949,863)
Net (Decrease)/ Increase in Cash and Cash Equivalents	(887,201)	614,325
Cash and Cash Equivalents at January 1	(343,053)	(957,378)
Cash and Cash Equivalents at December 31	(1,230,254)	(343,053)
Cash and Cash Equivalents Comprise:		
Cash and bank balances	62,887	57,609
Short term finances	(1,293,141)	(400,662)
	(1,230,254)	(343,053)

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company

Consolidated Statement of Changes in Equity for the year ended December 31, 2006

	Share Capital	Revenue Reserves	Total Rs '000
Balance as at December 31, 2004	2,554,938	707,885	3,262,823
Final dividend of Rs 1.20 per share relating to the year ended December 31, 2004	-	(306,593)	(306,593)
Profit for the year 2005	-	1,321,919	1,321,919
Interim dividend of Rs 2.50 per share relating to the year ended December 31, 2005	-	(638,735)	(638,735)
Balance as at December 31, 2005	2,554,938	1,084,476	3,639,414
Final dividend of Rs 2.50 per share relating to the year ended December 31, 2005	-	(638,734)	(638,734)
Profit for the year 2006	-	1,904,988	1,904,988
Interim dividend of Rs 3.00 per share relating to the year ended December 31, 2006	-	(766,481)	(766,481)
Balance as at December 31, 2006	2,554,938	1,584,249	4,139,187

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

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Notes to and Forming Part of the Consolidated Financial Statements for the year ended December 31, 2006

1. The Group and Its Operations

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

Pakistan Tobacco Company Limited (the Company) is a public company incorporated in Pakistan under the Companies Act, 1913 (now the Companies Ordinance, 1984) and its shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The registered office of the Company is situated at Evacuee Trust Complex, Agha Khan Road, Sector F-5/1, Islamabad. The Company is engaged in the manufacture and sale of cigarettes.

Phoenix (Private) Limited (the subsidiary), is incorporated in Azad Jammu and Kashmir to manage and deal in tobacco products and has not yet commenced its commercial production. The registered office of the subsidiary is situated at Bun Khuma, Chichian Road, Mirpur, Azad Jammu and Kashmir.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

These consolidated 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 (IAS) 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.

The preparation of consolidated financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are provision for income taxes and provision for post employment benefits. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The assets and liabilities of the subsidiary have been consolidated on line-by-line basis. Material intra-group balances and transactions have been eliminated.

Interpretation and amendments to published standards effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the accounting periods beginning on or after January 01, 2006. The amendment introduces the option of an alternative recognition approach for actuarial gains and losses; imposes additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting; and also adds new disclosure requirements.

The Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans. Adoption of this amendment only impacts the format and extent of disclosures presented in the consolidated financial statements.

International Financial Reporting Interpretations Committee (IFRIC) Interpretation, Determining whether an Arrangement contains a Lease (IFRIC 4), requires the determination of whether an arrangement is, or contains, a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. There is no impact of IFRIC 4 on the Company's operations.

Amendments to published standards and interpretations effective in 2006 but not relevant.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 are considered not to be relevant or do not have any significant effect on the Group's operations.

Standard not yet effective and has not been early adopted by the Group.

International Financial Reporting Standard, Financial Instruments: Disclosures (IFRS 7), and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from January 1, 2007) do not have any impact on the classification and valuation of the Group's financial instruments.

2.2 Taxation

Current

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.

The Group recognises tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined.

Deferred

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 consolidated 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.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted.

PAKISTAN TOBACCO COMPANY

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 obligation.

2.4 Retirement benefits

The Group 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, 2006. Unrecognised actuarial gains / losses in excess of the 'corridor' (10% of the higher of the fair value of the plan assets or the present value of the defined benefit obligation) at the current reporting date are recognised over the expected average remaining working life of employees participating in the defined benefit schemes.

Actuarial valuation of gratuity and pension contributions requires use of certain assumptions related to future periods including increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values.

ii) approved contributory provident fund for all employees for which contributions of the Group are charged to the profit and loss account for the year.

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 profit and loss account using the straight line method at the following annual rates:

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

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

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

Gain and loss on disposal of operating fixed assets are taken to profit and loss account.

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

2.6 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the Group's asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses or reversal of impairment losses are recognised in the profit and loss account. Reversal of the impairment loss is restricted to the original cost of the Group's asset.

2.7 Operating leases

Rentals payable under operating leases are charged to profit and loss account on a straight line basis over the term of the relevant lease.

2.8 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 related charges incurred upto the balance sheet date.

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.

2.9 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 related charges incurred upto the balance sheet date.

2.10 Revenue recognition

Sale is recognised at the time of despatch of goods to customers. Return on bank deposits and investments are accounted for on a time proportion basis using the applicable rate of return. Scrap sales and miscellaneous receipts are recognised on realised amounts.

2.11 Borrowing cost

All borrowing costs are expensed as incurred.

2.12 Foreign currency transactions

Transactions in foreign currencies are recorded in the books of account 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 charged to the profit and loss account.

2.13 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 holding company and associated companies for sale of materials and manufactured goods are based on normal commercial practices on similar terms and conditions as applicable to transactions with third parties. 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.

2.14 Financial instruments

Financial assets and liabilities are recognised when the Group 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 or received. These are subsequently measured at fair value, amortised cost or cost, as the case may be.

2.15 Dividend recognition

Dividend is recognised as a liability in the period in which it is declared.

2.16 Cash and cash equivalents

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

2.17 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet, if the Group has a legally enforceable right to setoff the recognised amounts and the Group intends to settle either on a net basis or realise the asset and settle the liability simultaneously.

2.18 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

2.19 Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in future for goods and services received.

	2006 Rs '000	2005 Rs '000
3. Cost of Sales		
Raw materials consumed		
Opening stock of raw materials and work in process	3,011,196	2,678,084
Raw material purchases and expenses - note 3.1	6,010,132	5,821,004
Closing stock of raw materials and work in process	(3,294,469)	(3,011,196)
	5,726,859	5,487,892
Government taxes and levies		
Federal Excise Duty	16,991,172	14,758,558
Customs duty and surcharges	244,563	267,604
Provincial and municipal taxes and other duties	87,084	87,125
	17,322,819	15,113,287
	23,049,678	20,601,179
Royalty	249,667	237,686
Production overheads		
Salaries, wages and benefits	821,477	643,317
Stores, spares and machine repairs	262,762	287,517
Fuel and power	146,083	110,389
Insurance	24,491	12,801
Repairs and maintenance	78,987	58,525
Postage, telephone and stationery	7,389	7,986
Information technology	75,022	65,998
Depreciation	310,384	257,590
Damaged and obsolete materials written off	17,232	58,779
Sundries	32,123	14,134
	1,775,950	1,517,036
Cost of goods manufactured	25,075,295	22,355,901
Cost of finished goods		
Opening stock	769,735	395,968
Closing stock	(496,384)	(769,735)
	273,351	(373,767)
	25,348,646	21,982,134

3.1 Raw Material Purchases and Expenses

	2006 Rs '000	2005 Rs '000
Materials	5,419,407	5,325,193
Salaries, wages and benefits	249,201	204,655
Stores, spares and machine repairs	124,200	83,833
Fuel and power	58,570	56,909
Property rentals	21,720	17,844
Insurance	2,612	6,731
Repairs and maintenance	769	5,200
Postage, telephone and stationery	4,510	5,500
Depreciation	89,588	86,628
Sundries	39,555	28,511
	6,010,132	5,821,004

	2006 Rs '000	2005 Rs '000

4. Marketing and Distribution Expenses

	2006 Rs '000	2005 Rs '000
Salaries, wages and benefits	233,781	172,542
Selling expenses	1,274,345	1,119,742
Freight	142,104	114,836
Property rentals	8,103	7,381
Bad debts written off	-	6,371
Insurance	9,805	8,007
Repairs and maintenance	68,906	61,442
Postage, telephone and stationery	8,585	9,583
Travelling	38,643	39,145
Depreciation	39,776	39,607
	1,824,048	1,578,656

5. Administrative Expenses

	2006 Rs '000	2005 Rs '000
Salaries, wages and benefits	347,429	260,168
Fuel and power	8,048	6,355
Property rentals	30,118	27,038
Insurance	2,485	2,912
Repairs and maintenance	14,788	13,789
Postage, telephone and stationery	9,764	12,436
Legal and professional charges	11,392	8,469
Donations - note 5.1	4,027	24,566
Information technology	94,417	85,096
Travelling	50,846	54,172
Depreciation	42,438	43,062
Directors' fee	310	250
Auditors' remuneration and expenses - note 5.2	4,450	3,572
Sundries	40,759	31,400
	661,271	573,285

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

5.2 Auditors' remuneration and expenses includes:

	2006 Rs '000	2005 Rs '000
Statutory audit	750	670
Special certifications, audit of consolidated accounts and staff funds, review of half yearly accounts	1,545	1,221
Tax compliance and advisory services	2,075	1,621
Out-of-pocket expenses	80	60
	4,450	3,572

	2006 Rs '000	2005 Rs '000
6. Other Income		
Income from financial assets		
Interest on short term bank deposits	47,402	26,317
Income from non-financial assets		
Gain on disposal of operating fixed assets	13,103	-
Others		
Insurance commission	-	4,075
Miscellaneous	7,583	4,025
	68,088	34,417
7. Other Expenses		
Workers' Profit Participation Fund	153,261	111,518
Workers' Welfare Fund	51,295	36,773
Loss on disposal of operating fixed assets	-	13,367
Staff separation cost	-	123,007
	204,556	284,665
8. Finance Cost		
Interest on short term finances	22,093	24,568
Bank charges and fees	23,236	19,797
Interest on Workers' Profit Participation Fund	5,731	986
	51,060	45,351
9. Tax Charge		
Current - for the year	880,264	633,809
- for prior years	(44,911)	26,138
	835,353	659,947
Deferred - for the year	120,332	100,198
	955,685	760,145
9.1 Reconciliation of tax charge for the year:	%	%
Applicable tax rate	35.00	35.00
Tax effect of permanent differences	(0.02)	0.25
Tax effect of provision for prior years	(1.57)	1.26
Average effective tax rate charged to income	33.41	36.51
10. Earnings Per Share		
Profit after tax (Rs '000)	1,904,988	1,321,919
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Basic and diluted earnings per share (Rs)	7.46	5.17

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

11. Post Balance Sheet Event

Final dividend in respect of the year ended December 31, 2006 of Rs 4.40 per share (2005: Rs 2.50 per share) amounting to a total dividend of Rs 1,124,173 thousand (2005: Rs 638,734 thousand) has been proposed out of the unappropriated profit at the Board of Directors meeting held on March 6, 2007. These financial statements do not reflect this proposed dividend.

12. Remuneration of Chief Executive, Directors and Executives

The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to chief executive, directors and executives are as follows:

	Chief executive		Executive directors		Executives				Total	
					*Key management personnel		Other executives			
	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000	2006 Rs '000	2005 Rs '000
Managerial remuneration	43,173	29,897	41,854	45,316	53,159	49,873	174,485	136,670	312,671	261,756
Corporate bonus	11,995	7,308	20,205	11,326	42,350	20,731	57,988	40,077	132,538	79,442
Leave fare assistance	435	1,049	3,503	1,055	1,859	1,293	222	52	6,019	3,449
Housing and utilities	4,460	3,801	7,505	8,464	13,127	10,016	76,214	59,914	101,306	82,195
Medical expenses	196	117	482	1,072	1,412	2,463	11,332	14,866	13,422	18,518
Post employment benefits	-	-	4,077	2,270	8,047	3,975	55,147	23,319	67,271	29,564
	60,259	42,172	77,626	69,503	119,954	88,351	375,388	274,898	633,227	474,924
Number of persons	1	1	5	5	11	10	142	123	159	139

* Represents remuneration paid to key management personnel other than the chief executive and directors.

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

12.2 In addition Directors' fee of Rs 310 thousand (2005: Rs 250 thousand) was paid to five (2005: five) non-executive directors for attending board meetings during the year.

13. Property, Plant and Equipment

	2006 Rs '000	2005 Rs '000
Operating fixed assets - note 13.1	4,280,691	3,751,939
Capital work in progress - note 13.2	277,879	75,035
	4,558,570	3,826,974

13.1 Operating fixed assets

Rs 000

	Cost				Depreciation				Net book
	as at January 1, 2006	Additions	Deletions	as at December 31, 2006	as at January 1, 2006	Charge for the year	On deletions	as at December 31, 2006	value as at December 31, 2006
Free-hold land	10,198	-	-	10,198	-	-	-	-	10,198
Buildings on free-hold land	342,196	35,960	(4,285)	373,871	94,797	10,342	(1,742)	103,397	270,474
Buildings on leasehold land	22,977	2,199	-	25,176	12,735	411	-	13,146	12,030
Private railway sidings	349	-	-	349	323	-	-	323	26
Plant and machinery	4,752,390	893,842	(18,637)	5,627,595	1,617,623	343,124	(11,305)	1,949,442	3,678,153
Office and household equipment	308,698	37,188	(33,576)	312,310	171,203	44,047	(29,268)	185,982	126,328
Furniture and fittings	63,006	1,073	(128)	63,951	41,896	7,162	(91)	48,967	14,984
Vehicles	439,769	65,328	(58,807)	446,290	249,067	77,100	(48,375)	277,792	168,498
Total 2006	5,939,583	1,035,590	(115,433)	6,859,740	2,187,644	482,186	(90,781)	2,579,049	4,280,691
Total 2005	5,245,087	903,190	(208,694)	5,939,583	1,913,269	426,887	(152,512)	2,187,644	3,751,939

	2006 Rs '000	2005 Rs '000
13.2 Capital work in progress		
Civil works and buildings	19,174	28,846
Plant and machinery	207,314	26,293
Advances to suppliers	51,391	19,896
	277,879	75,035
13.3 Depreciation charge has been allocated as follows:		
Cost of sales - note 3	399,972	344,218
Marketing expenses - note 4	39,776	39,607
Administrative expenses - note 5	42,438	43,062
	482,186	426,887

13.4 Details of disposal of operating fixed assets:

	Original Cost	Net book value	Sale proceeds	Particulars of buyers
	Rs '000			
Office and household equipment				
by negotiation	289	108	113	Fazal Ghafoor - Ex-employee
	211	54	60	Jim Kirk - Ex-employee
by auction	828	83	7	Bahadar Khan (sale as scrap)
	781	78	17	Bhatti (sale as scrap)
	638	111	68	Ismat Khan (sale as scrap)
	375	163	9	Rafiq Khan (sale as scrap)
	1,119	187	13	Bahadar Khan (sale as scrap)
	3,521	428	40	Bhatti (sale as scrap)
	2,202	234	26	Irfan (sale as scrap)
	1,587	218	37	Mahmood Ul Haq (sale as scrap)
	11,295	1,224	98	Rahim Taj (sale as scrap)
	7,908	828	26	Shakir Khan (sale as scrap)
by insurance claim	208	113	171	EFU General Insurance Ltd
	898	377	546	EFU General Insurance Ltd
Vehicles				
as per Company Policy	1,468	759	804	Anwar Khan - Ex-employee
	705	71	71	Asad Abbas - Employee
	705	71	71	Asad Ali - Employee
	705	71	71	Attique Aslam - Employee
	746	357	584	Faisal Saif - Employee
	746	342	427	Imran Anjum - Employee
	705	71	81	Kaleem Abbasi - Ex-employee
	705	71	71	Kamran Butt - Employee
	991	99	99	M. Quresh - Ex-employee
	705	71	71	Mian Fazle Mannan - Employee
	633	63	63	Mian Waqaruddin - Employee
	991	99	99	Muhammad Khurshid - Employee
by auction	3,969	397	1,648	Abdul Wajid - Peshawar
	1,606	161	999	Alam Zeb - Islamabad
	688	69	651	Altaf ur Rahman - Peshawar
	702	70	501	Azbar Khan - Karachi
	525	52	279	Bahadar Khan - Shaidu
	1,039	649	617	Brig. M. Azam - Islamabad
	941	94	780	Ch. Changaiz Akhtar - Islamabad
	929	93	523	Ch. Hassan Akhtar - Islamabad
	705	71	522	Dr. Afshan - Rawalpindi
	705	71	503	Faisal Iqbal - Islamabad
	991	99	671	Fateh - Attock
	709	71	500	Imran - Karachi
	985	99	235	Ismat Khan - Rawalpindi
	739	216	632	Javed Mahmood - Islamabad
	1,716	172	1,551	Liaqat Ali - Rawalpindi
	1,415	142	1,181	Muhammad Hafeez - Haripur
	702	70	555	Muhammad Imran - Karachi
	702	70	573	Muhammad Nouman - Peshawar
	1,831	183	472	M/s F.I.T Enterprises - Rawalpindi
	700	70	661	Muhammad Tahir - Nowshera
	969	97	740	Mushtaq Ahmed - Rawalpindi
	750	141	503	Rizwan Mazhar - Rawalpindi
	929	93	760	Saeed Abbasi - Rawalpindi
	700	70	665	Syed Tariq Shah - Swabi
	705	71	478	Taimur Abbasi - Rawalpindi
	723	72	633	Zafar Ali - Islamabad
by insurance claim	10,865	3,707	8,718	AIG New Hampshire Insurance Co.

14. Long Term Loans

	2006 Rs '000	2005 Rs '000
Related parties		
Loans due from directors and key management personnel	555	697
Others		
Loans due from executives and other employees	25,071	23,642
	25,626	24,339
Less: Receivable within one year	6,966	6,557
	18,660	17,782

All long term loans are considered good.

14.1 Reconciliation of loans due from directors, key management personnel, executives and others:

	Directors		Executives				Others		Total	
			Key management personnel		Other executives					
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Opening balance	151	189	546	420	5,934	6,306	17,708	15,224	24,339	22,139
Disbursements	41	89	101	317	4,848	2,895	10,389	11,283	15,379	14,584
Repayments	82	127	202	191	3,293	3,267	10,515	8,799	14,092	12,384
Closing balance	110	151	445	546	7,489	5,934	17,582	17,708	25,626	24,339

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

14.2 The maximum amounts due from the directors, key management personnel and executives at the end of any month during the year were Rs 117 thousand (2005: Rs 151 thousand), Rs 445 thousand (2005: Rs 546 thousand) and Rs 7,787 thousand (2005: Rs 5,934 thousand) respectively.

15. Long Term Deposits and Prepayments

	2006	2005
Security deposits	6,510	6,167
Prepayments	1,914	5,198
	8,424	11,365

16. Stocks

	2006	2005
Raw materials	3,093,915	2,855,400
Raw materials in transit	174,398	133,511
Work in process	26,156	22,285
Finished goods	496,384	769,735
	3,790,853	3,780,931

Pakistan Tobacco Company

	2006 Rs '000	2005 Rs '000
17. Stores and Spares		
Stores	1,507	981
Machine spares	131,498	124,251
Machine spares in transit	7,003	-
	140,008	125,232
18. Trade Debts		
Considered good	2,406	2,894
Considered doubtful	2,322	2,322
	4,728	5,216
Provision for doubtful debts	(2,322)	(2,322)
	2,406	2,894
19. Loans and Advances		
Related parties - unsecured		
Current portion of loans due from directors and key management personnel - note 14	142	411
Others		
Current portion of loans due from executives and other employees - note 14	6,824	6,146
Advances due from employees - note 19.1	4,104	4,550
Advances due from others	1,135	21,569
	12,205	32,676

All loans and advances are considered good.

19.1 The above includes Rs 2,147 thousand (2005: Rs 1,032 thousand) due from executives of the Company.

	2006 Rs '000	2005 Rs '000
20. Other Receivables		
Related parties - unsecured		
Due from holding company / associated companies - note 20.1	42,958	18,377
Employees' Provident Fund	5,277	15,824
Management Provident Fund	1,533	-
Employees' Gratuity and Pension Funds	-	10,108
Workers' Profit Participation Fund - note 22.2	1,738	-
Others		
Margin against guarantees	1,769	3,887
Claims	13,651	27,564
Others	1,252	5,270
	68,179	81,030

	2006 Rs '000	2005 Rs '000
20.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	8,787	2,426
Associated Companies		
BAT Asia Pacific - Hong Kong	12,062	6,407
BAT - Nigeria	9,181	4,885
Ceylon Tobacco Company - Sri Lanka	3,463	3,237
BAT - Singapore	5,455	129
BAT - Uganda	1,123	-
BAT - Thailand	891	-
BAT - Dubai	455	262
BAT - Vietnam	377	-
BAT - South Korea	315	402
BAT - Bangladesh	324	-
BAT - Malaysia	137	-
BAT - Switzerland	198	-
BAT - Ukraine	190	-
BAT - Australia	-	273
BAT - Benin	-	220
BAT - Syria	-	88
BAT - Uzbekistan	-	48
	42,958	18,377

21. Cash and Bank Balances

At Bank		
Security deposits	8,927	8,446
Current accounts		
Foreign currency	39,410	36,985
Local currency	13,783	7,963
	62,120	53,394
Cash in transit	1	1,072
Cash in hand	766	3,143
	62,887	57,609

22. Trade and other Payables

Related parties - unsecured		
Due to holding company / associated companies - note 22.1	298,690	272,185
Workers' Profit Participation Fund - note 22.2	-	111,518
Staff Pension Fund	-	1,605
Employees' Gratuity Fund	-	2,512
Management Provident Fund	-	518

	2006 Rs '000	2005 Rs '000
Others		
Creditors	423,731	536,436
Federal Excise Duty	739,118	668,877
Sales tax	390,290	294,041
Tobacco Excise Duty / Tobacco Development Cess - note 22.3	58,784	203,658
Accrued liabilities	214,441	351,592
Workers' Welfare Fund	60,348	44,797
Advances from customers	5,467	10,393
Security deposits	8,927	8,446
Unpaid and unclaimed dividend	12,472	9,273
	2,212,268	2,515,851

22.1 The amount due to holding company / associated companies comprises:

Holding Company		
British American Tobacco p.l.c. - UK	172,969	187,436
Associated Companies		
BAT Asia Pacific - Hong Kong	55,774	42,387
BAT - Uganda	40,554	3,864
Souza Cruz Overseas, S.A., Brazil	11,737	27,863
BAT - Malaysia	7,766	4,788
BAT - Singapore	4,716	1,698
Ceylon Tobacco Company - Sri Lanka	3,491	2,401
BAT - Australia	1,212	319
BAT - South Africa	399	1,429
BAT - Korea	72	-
	298,690	272,185

22.2 Workers' Profit Participation Fund

Balance at January 1	111,518	55,989
Allocation for the year	153,261	111,518
Interest on funds utilised in the Company's business	5,731	986
Payment to the fund during the year	(272,248)	(56,975)
Balance at December 31	(1,738)	111,518

22.3 Tobacco Excise Duty / Tobacco Development Cess

Opening balance	203,658	402,020
Provision during the year	58,570	60,621
Payments / reversals during the year	(203,444)	(258,983)
	58,784	203,658

23. Short Term Finances - Secured

Short term finance facilities available under mark-up arrangements with banks amount to Rs 1,815 million (2005: Rs 2,380 million), out of which the amount unavailed at the year end was Rs 522 million (2005: Rs 1,979 million). These facilities are secured by hypothecation of stocks amounting to Rs 2,858 million (2005: Rs 2,858 million). The mark-up ranges between 9% to 11.22% (2005: 4.75% to 12.34%) per annum and is payable quarterly. The facilities have various maturity dates upto December 31, 2007 and are renewable annually.

24. Issued, Subscribed and Paid-up Capital

	2006 Rs '000	2005 Rs '000
230,357,068 (2005: 230,357,068) ordinary shares of Rs 10 each fully paid in cash	2,303,571	2,303,571
25,136,724 (2005: 25,136,724) ordinary shares of Rs 10 each issued as fully paid bonus shares.	251,367	251,367
	2,554,938	2,554,938

British American Tobacco (Investments) Limited held 241,045,141 (2005: 241,045,141) ordinary shares.

25. Deferred Taxation

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

26. Contingencies and Commitments

26.1 Contingencies

	2006	2005
a) Claims against the Company not acknowledged as debt	53,345	48,415
b) Guarantees issued by banks on behalf of the Company	85,758	75,193

26.2 Commitments

	2006	2005
a) Property rentals under cancellable operating lease agreements:		
-not later than one year	15,877	41,653
-later than one year and not later than five years		
within 2 years	20,797	16,213
within 3 years	21,934	11,870
within 4 years	21,968	9,130
within 5 years	20,625	5,220
-later than five years	115,679	9,012

b) Letters of credit outstanding at December 31, 2006 were Rs 599,700 thousand (2005: Rs 642,828 thousand), out of which Rs 534,897 thousand (2005: Rs 555,007 thousand) were hedged through forward foreign currency contracts with various banks.

27. Employees' Defined Benefit Funded Pension and Gratuity Schemes

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2006 using the projected unit credit method. Details of the defined benefit plans are:

	Defined Benefit Pension Plan		Defined Benefit Gratuity Plan	
	2006	2005	2006	2005
	Rs '000	Rs '000	Rs '000	Rs '000
a) The amounts recognised in the profit and loss account:				
Current service cost	42,624	20,030	19,500	14,009
Interest on obligation	109,484	76,748	27,941	16,746
Expected return on plan assets	(93,448)	(76,625)	(20,206)	(16,553)
Net actuarial losses/ (gains) recognised during the year	3,920	-	4,444	-
	62,580	20,153	31,679	14,202
b) The amounts recognised in the balance sheet:				
Present value of defined benefit obligations	1,413,319	1,214,950	388,407	316,968
Fair value of plan assets	(1,202,614)	(1,036,970)	(270,997)	(224,990)
	210,705	177,980	117,410	91,978
Unrecognised actuarial gains (losses)	(210,705)	(176,375)	(117,410)	(89,466)
Net liability	-	1,605	-	2,512
c) Changes in the present value of defined benefit obligation:				
Present value of defined benefit obligation as at Jan 1	1,214,950	965,451	316,968	215,533
Current service cost	42,624	20,030	19,500	14,009
Interest cost	109,484	76,749	27,941	16,746
Actuarial (gains)/losses	97,267	218,779	39,159	96,247
Contribution by plan participants	22,314	12,400	2,136	-
Benefits paid	(73,320)	(78,459)	(17,297)	(25,567)
Present value of defined benefit obligation as at Dec 31	1,413,319	1,214,950	388,407	316,968
d) Changes in the fair value of plan assets:				
Fair value of plan assets as at Jan 1	1,036,970	963,846	224,990	213,021
Expected return	93,448	76,625	20,206	16,553
Actuarial gains/(losses)	59,017	42,405	6,771	6,781
Contribution by plan participants	22,314	12,400	2,136	-
Contributions by employer	64,185	20,153	34,191	14,202
Benefits paid	(73,320)	(78,459)	(17,297)	(25,567)
Fair value of plan assets as at Dec 31	1,202,614	1,036,970	270,997	224,990
Actual return on plan assets	108,746	120,173	25,026	21,138

During the year 2007 the Company expects to contribute Rs 76 million and Rs 39 million to its Defined Benefit Pension Plan and Defined Benefit Gratuity Plan respectively.

	Defined Benefit Pension Plan		Defined Benefit Gratuity Plan	
	2006	2005	2006	2005
	Rs '000	Rs '000	Rs '000	Rs '000
e) The major categories of plan assets:				
Investment in equities	106,627	84,876	30,094	26,478
Investment in bonds	128,333	172,737	13,977	21,243
Cash and cash equivalents	967,654	779,357	226,926	177,269
	1,202,614	1,036,970	270,997	224,990
f) Significant actuarial assumptions at the balance sheet date:				
Discount rate	10%	9%	10%	9%
Expected return on plan assets	10%	9%	10%	9%
Future salary increases	15%	16%	15%	16%
Future pension increases	6%	5%		

The discount rate and expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

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

Rs '000

	2006	2005	2004	2003	2002
g) Amounts for the current and previous four years:					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	(1,413,319)	(1,214,950)	(965,451)	(868,626)	(703,166)
Fair value of plan assets	1,202,614	1,036,970	963,846	854,846	691,887
Deficit	(210,705)	(177,980)	(1,605)	(13,780)	(11,279)
Experience adjustments on plan liabilities	(97,267)	(73,958)	2,330	(13,341)	(46,079)
Experience adjustments on plan assets	15,298	43,548	70,279	62,427	80,887
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	(388,407)	(316,968)	(215,533)	(205,825)	(198,986)
Fair value of plan assets	270,997	224,990	213,021	143,919	181,154
Deficit	(117,410)	(91,978)	(2,512)	(61,906)	(17,832)
Experience adjustments on plan liabilities	(39,159)	(43,111)	(13,834)	(22,153)	(7,657)
Experience adjustments on plan assets	4,820	4,585	15,694	6,440	17,983

27.1 Salaries, wages and benefits as appearing in note 3, 3.1, 4 and 5 include amounts in respect of the following:

	2006	2005
	Rs '000	Rs '000
Provident Fund	22,948	27,105
Pension Fund	62,580	20,153
Gratuity Fund	31,679	14,202
	117,207	61,460

28. Financial Instruments

28.1 Financial assets and liabilities

	2006			2005		
	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 '000			Rs '000	
Financial Assets						
Maturity up to one year:						
Trade debts	-	2,406	2,406	-	2,894	2,894
Loans and advances	-	12,205	12,205	-	32,676	32,676
Other receivables	-	68,179	68,179	-	81,030	81,030
Cash and bank balances	8,927	53,960	62,887	8,446	49,163	57,609
Maturity after one year:						
Loans	-	18,660	18,660	-	17,782	17,782
Deposits	-	6,510	6,510	-	6,167	6,167
	8,927	161,920	170,847	8,446	189,712	198,158
Financial Liabilities						
Maturity up to one year:						
Trade and other payables	-	1,023,294	1,023,294	-	1,345,158	1,345,158
Interest accrued	-	11,115	11,115	-	10,911	10,911
Short term finances	1,293,141	-	1,293,141	400,662	-	400,662
	1,293,141	1,034,409	2,327,550	400,662	1,356,069	1,756,731
Off balance sheet items						
Letters of credit	-	599,700	599,700	-	642,828	642,828
Bank guarantees	-	85,758	85,758	-	75,193	75,193
	-	685,458	685,458	-	718,021	718,021

28.2 Market risk

a) Interest rate risk

Financial liabilities include Rs 1,293,141 thousand (2005 : Rs 400,662 thousand) which are subject to floating interest ranging between 9.00% to 11.22% (2005 : 4.75% to 12.34%) per annum.

b) Foreign exchange risk

Financial assets of equivalent Rs 82,368 thousand (2005 : Rs 55,362 thousand) and financial liabilities of equivalent Rs 237,966 thousand (2005 : Rs 239,642 thousand) were in foreign currency which were exposed to foreign currency risk.

Foreign exchange risk arises mainly from future commercial transactions and where receivables and payables exist due to transactions in foreign currencies. Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivables from / payable to the foreign entities and outstanding letters of credit. Most of the Company's risk, emanating from Pak rupee / foreign currency parity, for foreign currency transactions is hedged through entering into forward foreign currency contracts with various banks.

28.3 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter party failed completely to perform as contracted. Since major part of sales of the Company is against advance payment, the credit risk is minimal.

29. Transactions with Related Parties

British American Tobacco (Investments) Limited holds 94.34 % (2005: 94.34%) shares of the Company at the year end. Therefore all the subsidiaries and associated undertakings of British American Tobacco (Investments) Limited are related parties of the Company. The related parties include directors, major shareholders, key management personnel and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is disclosed in note 12 to the financial statements.

Rs '000

For the year ended December 31, 2006	Purchases goods	Purchases services	Royality charge	Sales goods	Sales services	Expenses on behalf of related party
Holding Company						
British American Tobacco, p.l.c - UK	25,831	119,286	249,666	-	8,457	-
Associated Companies						
BAT Asia Pacific, Hong Kong	-	74,783	-	-	5,601	54
British American Tobacco, Australia		1,395			635	-
British American Tobacco, Bangladesh	35,394	-	-	-	324	-
Ceylon Tobacco Company, Sri Lanka	-	1,287	-	126	101	-
British American Tobacco, Dubai	-	-	-	-	1,719	-
British American Tobacco, Indonesia	258	60	-	-	146	-
British American Tobacco, Japan	-	-	-	-	-	126
British American Tobacco, South Korea	-	72	-	-	1,172	-
British American Tobacco, Malaysia	139,385	19,974	-	-	841	-
British American Tobacco, New Zealand	14,407	-	-	-	-	-
British American Tobacco, Nigeria	-	-	-	-	5,353	-
British American Tobacco, Singapore	180,694	2,633		-	511	673
Souza Cruz Overseas, S.A., Brazil	269,562	189	-	-	-	-
British American Tobacco, Solomon Islands	-	-	-	-	1,300	-
British American Tobacco, South Africa	-	399	-	-	-	-
British American Tobacco, Switzerland	-	-	-	-	-	198
British American Tobacco, Syria	-	-	-	-	595	-
British American Tobacco, Thailand	-	-	-	-	891	-
British American Tobacco, Uganda	76,727	-	-	-	1,123	-
British American Tobacco, Ukraine	-	-	-	-	278	-
British American Tobacco, Vietnam	-	-	-	-	377	-
Distribution Services (Pvt) Ltd, Karachi	-	-	-	4,144,910	-	-
Marketing Services (Pvt) Ltd, Hyderabad	-	-	-	499,994	-	-
Shell Pakistan Ltd	-	2,601	-	-	-	-
Pakistan State Oil Company Ltd	12,430	3,863	-	-	-	-
Contribution to retirement benefit funds by the Company						
Provident Fund	-	32,074	-	-	-	-
Pension Fund	-	62,580	-	-	-	-
Gratuity Fund	-	31,679	-	-	-	-

Rs '000

For the year ended December 31, 2005	Purchases goods	Purchases services	Reimbursement of expenses	Royality charge	Sales goods	Sales services	Expense on behalf of related party
Holding company							
British American Tobacco, p.l.c - UK	37,285	121,429	5,989	237,687	-	23,573	-
Associated companies							
BAT Asia Pacific, Hong Kong	-	35,699	2,388	-	-	2,520	50
British American Tobacco, Australia		408	-			574	82
British American Tobacco, Bangladesh	125,924	-	-	-	-	-	-
Ceylon Tobacco Company, Sri Lanka	-	1,440	19	-	275	2,122	-
British American Tobacco, Cambodia	44,015	-	-	-	-	-	-
British American Tobacco, Dubai	-	-	-	-	-	1,175	-
British American Tobacco, Germany	-	-	-	-	43,738	-	-
British American Tobacco, Indonesia	90,598	-	-	-	-	983	411
British American Tobacco, International, Switzerland	701	-	-	-	-	-	-
British American Tobacco, South Korea	-	-	-	-	-	401	-
British American Tobacco, Malaysia	5,049	9,636	-	-	-	-	-
British American Tobacco, Nigeria	-	-	-	-	-	4,214	-
British American Tobacco, Russia	-	-	-	-	181,255	-	-
British American Tobacco, Polska.Poland	2,872	-	-	-	-	-	-
British American Tobacco, Singapore	183,830	1,726	-		30,524	545	
Souza Cruz Overseas, S.A., Brazil	227,650	241	-	-	-	-	-
British American Tobacco, South Africa	-	844	-	-	-	-	-
British American Tobacco, Syria	-	-	-	-	-	310	-
British American Tobacco, Uganda	94,240	1,574	-	-	-	-	633
British American Tobacco, Uzbekistan	-	-	-	-	3,708	-	-
Distribution Services (Pvt) Ltd, Karachi	-	-	-	-	3,712,566	-	-
Marketing Services (Pvt) Ltd, Hyderabad	-	-	-	-	471,551	-	-
Shell Pakistan Ltd	-	1,683	-	-	-	-	-
Pakistan State Oil Company Ltd	8,478	744	-	-	-	-	-
Contribution to retirement benefit funds by the Company							
Provident Fund	-	25,952	-	-	-	-	-
Pension Fund	-	20,153	-	-	-	-	-
Gratuity Fund	-	14,202	-	-	-	-	-

PAKISTAN TOBACCO COMPANY

30. General

30.1 Capacity and production

Against an estimated manufacturing capacity of 35,343 million (2005: 33,114 million) cigarettes, actual production was 33,727 million (2005: 31,758 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

30.2 Number of employees

Total number of employees as at December 31, 2006 was 1,698 (2005: 1,818).

30.3 Corresponding figures

Certain amounts have been reclassified for more appropriate presentation as shown below:

Reclassification from component	Reclassification to component	Rs '000
Cost of sales - note 3		
Raw material purchases and expenses	Royalty	237,686
Trade and other payables - note 22		
Creditors	Accrued liabilities	124,418
Creditors	Payable to holding company	6,076
Creditors	Advances from customers	2,862
Accrued liabilities	Workers' Welfare Fund	44,797

30.4 Date of authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on March 06, 2007.

Aslam Khaliq
Chairman

Toh Ah Wah
Managing Director and CEO

Pakistan Tobacco Company