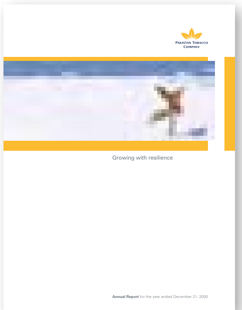
PAKISTAN TOBACCO COMPANY

Growing with resilience

Annual Report for the year ended December 31, 2008

Growing with resilience



Growth is usually synonymous to situations where all factors align to make the impossible possible. Growth under circumstances that involve not only exertion but dexterity and an immense will power is not only uncommon but also exceptional. Such has been our story in 2008; a story of remarkable people surviving not only the most arduous of situations but also making the most of those turbulent times.

We turned impediments into opportunities; challenges into growth; and obstacles into advantages, thus ensuring sustenance under the most hostile environment and finding openings where most would have given up.

We have lived through some really tough and exceptional circumstances in 2008; where we not only had our office destroyed in the aftermath of the Marriott bombings but had to continue with our operations without an office. This reflects auspiciously on our most valuable asset i.e. our people. A flexible and innovative approach by them led to business continuity and sustained growth. Hence, reinforced our belief that training and development of our people is the best investment we have made.

Today, standing at the onset of 2009 and sentient of the challenges that lie ahead, we are prepared for the journey that will test our belief in ourselves and the skills we have nurtured over the years. Our story will be the story of adversity surmounted and the challenges triumphed; we will prevail as we did before.

Pakistan Tobacco Company

It is our continuous investment in people, brands and processes that has enabled us to face the enormous multi-faceted challenges that 2008 presented... with unprecedented determination and resilience.

Nicholas Stewart Hales
Managing Director & CEO

Contents

Corporate Information

Registered Office

Pakistan Tobacco Company Limited
Dubai Plaza, Plot No. 5
Street 20, Salman Market, F-11/2
P.O. Box 2549
Islamabad-44000
Telephone: +92 (51) 2083200, 2083201
Fax: +92 (51) 2111913
Web: www.ptc.com.pk

Company Secretary

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

Bankers

Citibank N.A.
Deutsche Bank
Habib Bank Limited
HSBC Bank Middle East Limited
MCB Bank Limited
National Bank of Pakistan
RBS The Royal Bank of Scotland
Standard Chartered Bank (Pakistan) Limited

Auditors

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

Share Registrar

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

Factories

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

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

Regional Sales Offices

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

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

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

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

Corporate Objectives

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

Our Vision
First Choice for Everyone.

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

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

Guiding Principles

We follow four guiding principles that represent:

- 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 Company and a work 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

Our Company follows three fundamental Business Principles:

- Mutual Benefit
- Responsible Product Stewardship
- 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 work environment for our people
- Adding value to the communities in which we operate
- Ensuring that suppliers and other business partners have the opportunity to benefit from their relationship with us

Responsible Product Stewardship

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

Core Beliefs

- Provision of accurate, clear health messages about the risks of tobacco consumption
- Reduction of the health impact of tobacco consumption whilst respecting the right of informed adults to choose the products they prefer
- Continued availability of relevant and meaningful information about our products
- Underage people should not consume tobacco products
- 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 business should be managed. Business success brings with it an obligation for high standards of behaviour and integrity in everything we do and wherever we operate. These standards should not be compromised for the sake of results.

Core Beliefs

- Our business upholds 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

The Board of Directors

Mueen Afzal
Chairman and Non-Executive Director

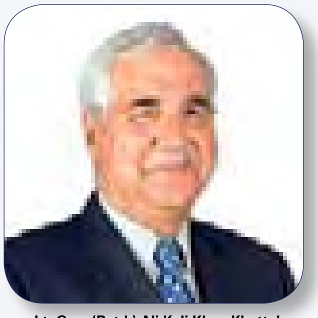
Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Deputy Managing Director and Finance Director

Mirza Rehan Baig
Marketing Director

Ahmed Zeb
Supply Chain Director

Feroze Ahmed
Non-Executive Director



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

PAKISTAN TOBACCO COMPANY

Ben Willem Fourie
Non-Executive Director

Istaqbal Mehdi
Non-Executive Director

Abid Niaz Hasan
Non-Executive Director

Kunwar Idris
Non-Executive Director

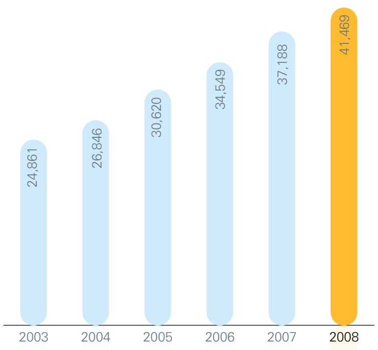
Toh Ah Wah
Non-Executive Director

Financial Highlights

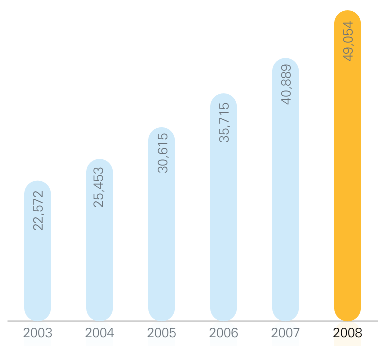
Profit & Loss		2008	2007	2006	2005	2004	2003
Volume	Million Sticks	41,469	37,188	34,549	30,620	26,846	24,861
Gross Turnover	Rs million	49,054	40,889	35,715	30,615	25,453	22,572
Excise & Sales Tax	Rs million	30,208	24,846	21,824	18,783	15,693	13,849
Net Turnover	Rs million	18,846	16,043	13,891	11,832	9,760	8,723
Gross Profit	Rs million	7,277	6,516	5,534	4,530	3,483	2,872
Operating Profit	Rs million	4,415	3,984	3,048	2,378	1,445	1,010
Profit Before Tax	Rs million	3,894	3,725	2,861	2,082	1,056	615
Profit After Tax	Rs million	2,532	2,420	1,905	1,322	665	321
Earning before interest,taxes,depreciation, amortization	Rs million	4,542	4,313	3,394	2,554	1,483	1,051
Dividends	Rs million	2,466	2,529	1,405	946	511	–
Balance Sheet							
Paid up capital	Rs million	2,555	2,555	2,555	2,555	2,555	2,555
Shareholders' Funds	Rs million	3,608	3,705	4,139	3,639	3,263	2,853
Reserves	Rs million	1,053	1,150	1,584	1,084	708	554
Property, Plant & Equipment	Rs million	5,600	5,154	4,529	3,798	3,564	3,411
Net Current Assets /(Liabilities)	Rs million	(471)	(182)	423	532	297	40
Capital Employed	Rs million	5,184	5,003	4,984	4,364	3,887	3,479
Capital Expenditure during the year	Rs million	1,073	1,191	1,238	717	598	854
Long Term / Deferred Liabilities	Rs million	1,576	1,299	845	725	624	371
Investor Information							
Gross profit ratio	%	14.83	15.93	15.49	14.80	13.70	12.70
Earnings per share After Tax	Rs	9.91	9.47	7.46	5.17	2.60	1.26
EBITDA Margin	%	9.26	10.55	9.50	8.34	5.83	4.65
Inventory Turnover Ratio		2.85	2.38	6.69	6.10	7.00	5.90
Fixed Assets Turnover Ratio		8.76	7.93	7.89	8.06	7.10	6.60
Total Assets Turnover Ratio		4.72	4.16	4.09	3.84	3.60	3.10
Break-up value per share	Rs	14.12	14.50	16.20	14.24	12.77	12.17
Market value per share at year end	Rs	106.30	155.50	72.00	68.95	61.50	27.00
Highest Market value per share during the year	Rs	161.00	198.30	80.00	77.00	61.50	39.00
Lowest Market value per share during the year	Rs	106.30	74.50	60.45	47.55	46.40	19.50
Price-Earning Ratio	Rs	10.73	16.42	9.66	13.33	23.60	21.40
Dividend Per Share	Rs	9.65	9.90	5.50	3.70	2.00	-
Dividend yield ratio	%	9.08	6.37	7.64	5.37	3.25	-
Dividend payout ratio	%	97.39	104.50	73.75	71.56	76.90	-
Return on Capital Employed	%	48.84	48.37	38.22	30.29	17.10	9.20
Debt to Equity Ratio		0.16	0.28	0.31	0.30	0.31	0.50
Current Ratio		0.91	0.96	1.11	1.15	1.09	1.00
Interest Cover Ratio		74.02	75.02	57.03	46.91	29.90	7.70
Govt levies as a percentage of turnover	%	64.97	64.75	64.50	64.84	64.02	63.98
Government Levies							
Customs, Excise Duties & Sales Tax	Rs million	30,525	25,213	22,069	19,129	16,086	14,322
Local Taxes and Other Duties	Rs million	101	94	87	87	71	75
Income Tax	Rs million	1,246	1,169	880	634	137	44

Pakistan Tobacco Company

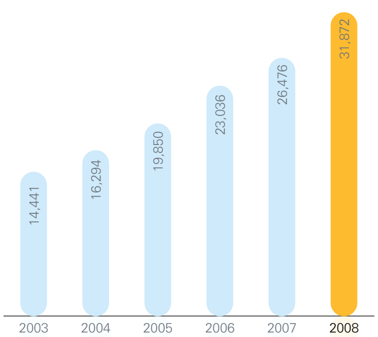
Volume
Sticks (million)



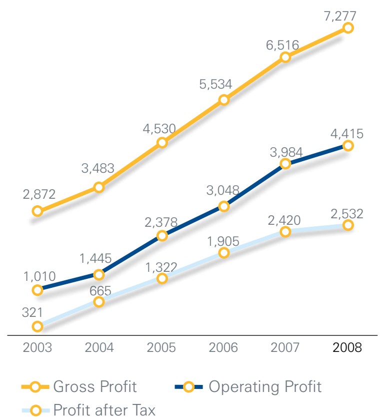
Gross Turnover
Rs (million)



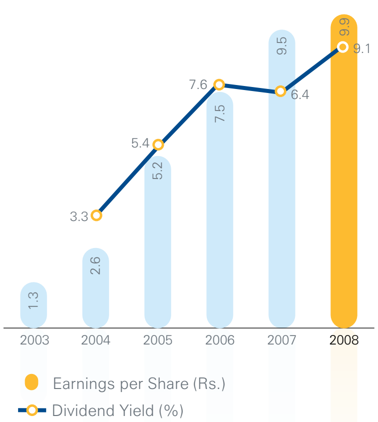
Government Levies
Rs (million)



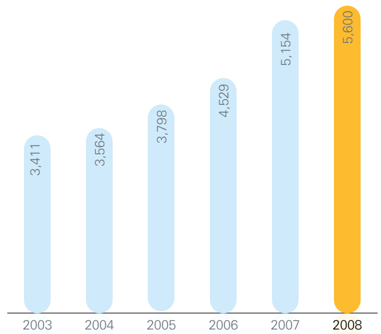
Gross, Operating and Profit after Tax
Rs (million)



Earnings Per Share and Dividend Yield



Property, Plant and Equipment
Rs (million)



Horizontal Analysis

Balance sheet

	(Rs. '000) 2006	2007	2008	Variance % 2006	07 Vs 06	08 vs 07
Property plant and equipment	4,529,366	5,154,326	5,599,758	100	13.80	8.64
Long term investment in subsidiary company	5,000	5,000	5,000	100	–	–
Long term loans	18,660	12,513	9,244	100	(32.94)	(26.12)
Long term deposits and prepayments	8,424	13,025	41,172	100	54.62	216.10
Current assets						
Stocks-in-trade	3,790,853	3,998,181	4,059,063	100	5.47	1.52
Stores and spares	140,008	140,777	190,646	100	0.55	35.42
Trade debts	2,406	2,386	2,666	100	(0.83)	11.74
Loans and advances	12,205	38,580	65,917	100	216.10	70.86
Short term prepayments	72,235	64,887	105,728	100	(10.17)	62.94
Other receivables	92,360	229,891	246,675	100	148.91	7.30
Cash and bank balances	62,883	166,666	69,172	100	165.04	(58.50)
	4,172,950	4,641,368	4,739,867	100	11.23	2.12
	8,734,400	9,826,232	10,395,041	100	12.50	5.79
Share capital & reserves						
Share capital	2,554,938	2,554,938	2,554,938	100	–	–
Revenue reserves	1,584,249	1,149,742	1,053,393	100	(27.43)	(8.38)
Retirement benefits	–	489,503	739,133	100	100	51
Deferred taxation	845,004	809,109	836,939	100	(4.25)	3.44
Current liabilities						
Trade and other payables	2,212,241	3,548,237	4,324,704	100	60.39	21.88
Accrued interest / mark–up	11,115	8,401	10,354	100	(24.42)	23.25
Short term borrowings	1,293,141	1,038,550	572,397	100	(19.69)	(44.88)
Income tax payable	233,712	227,752	303,183	100	(2.55)	33.12
	3,750,209	4,822,940	5,210,638	100	28.60	8.04
	8,734,400	9,826,232	10,395,041	100	12.50	5.79

Profit & loss account

	2006	2007	2008	2006	07 Vs 06	08 vs 07
Gross turnover	35,715,451	40,889,275	49,053,928	100	14.49	19.97
Excise duties	16,991,172	19,311,946	23,378,440	100	13.66	21.06
Sales tax	4,833,285	5,534,452	6,829,699	100	14.51	23.40
Sales – net of sales tax and excise duties	13,890,994	16,042,877	18,845,789	100	15.49	17.47
Cost of sales	8,357,474	9,527,306	11,569,030	100	14.00	21.43
Gross profit	5,533,520	6,515,571	7,276,759	100	17.75	11.68
Marketing and distribution expenses	1,824,048	1,795,793	1,933,364	100	(1.55)	7.66
Administration expenses	661,271	736,147	928,358	100	11.32	26.11
Operating profit	3,048,201	3,983,631	4,415,037	100	30.69	10.83
Other income	68,088	102,634	120,151	100	50.74	17.07
Other expenses	204,556	311,374	588,147	100	52.22	88.89
	2,911,733	3,774,891	3,947,041	100	29.64	4.56
Finance cost	51,060	50,317	53,324	100	(1.46)	5.98
Profit before taxation	2,860,673	3,724,574	3,893,717	100	30.20	4.54
Taxation	955,685	1,304,367	1,361,422	100	36.49	4.37
Profit for the year	1,904,988	2,420,207	2,532,295	100	27.05	4.63
Earnings per share – basic and diluted (rupees)	7.46	9.47	9.91	100	26.94	4.65

Vertical Analysis

PAKISTAN TOBACCO COMPANY

Balance sheet

	(Rs. '000)			%		
	2006	2007	2008	2006	2007	2008
Property plant and equipment	4,529,366	5,154,326	5,599,758	51.86	52.45	53.87
Long term investment in subsidiary company	5,000	5,000	5,000	0.06	0.05	0.05
Long term loans	18,660	12,513	9,244	0.21	0.13	0.09
Long term deposits and prepayments	8,424	13,025	41,172	0.10	0.13	0.40
Current assets						
Stocks-in-trade	3,790,853	3,998,181	4,059,063	43.40	40.69	39.05
Stores and spares	140,008	140,777	190,646	1.60	1.43	1.83
Trade debts	2,406	2,386	2,666	0.03	0.02	0.03
Loans and advances	12,205	38,580	65,917	0.14	0.39	0.63
Short term prepayments	72,235	64,887	105,728	0.83	0.66	1.02
Other receivables	92,360	229,891	246,675	1.06	2.34	2.37
Cash and bank balances	62,883	166,666	69,172	0.72	1.70	0.67
	4,172,950	4,641,368	4,739,867	47.78	47.23	45.60
	8,734,400	9,826,232	10,395,041	100	100	100
Share capital & reserves						
Share capital	2,554,938	2,554,938	2,554,938	29.25	26.00	24.58
Revenue reserves	1,584,249	1,149,742	1,053,393	18.14	11.70	10.13
Retirement benefits	–	489,503	739,133	–	4.98	7.11
Deferred taxation	845,004	809,109	836,939	9.67	8.23	8.05
Current liabilities						
Trade and other payables	2,212,241	3,548,237	4,324,704	25.33	36.11	41.60
Accrued interest / mark–up	11,115	8,401	10,354	0.13	0.09	0.10
Short term borrowings	1,293,141	1,038,550	572,397	14.81	10.57	5.51
Income tax payable	233,712	227,752	303,183	2.68	2.32	2.92
	3,750,209	4,822,940	5,210,638	42.94	49.08	50.13
	8,734,400	9,826,232	10,395,041	100	100	100

Profit & loss account

	2006	2007	2008	2006	2007	2008
Sales – net of sales tax and excise duties	13,890,994	16,042,877	18,845,789	100	100	100
Cost of sales	8,357,474	9,527,306	11,569,030	60.16	59.39	61.39
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Marketing and distribution expenses	1,824,048	1,795,793	1,933,364	13.13	11.19	10.26
Administration expenses	661,271	736,147	928,358	4.76	4.59	4.93
Operating profit	3,048,201	3,983,631	4,415,037	21.94	24.83	23.43
Other income	68,088	102,634	120,151	0.49	0.64	0.64
Other expenses	204,556	311,374	588,147	1.47	1.94	3.12
	2,911,733	3,774,891	3,947,041	20.96	23.53	20.94
Finance cost	51,060	50,317	53,324	0.37	0.31	0.28
Profit before taxation	2,860,673	3,724,574	3,893,717	20.59	23.22	20.66
Taxation	955,685	1,304,367	1,361,422	6.88	8.13	7.22
Profit for the year	1,904,988	2,420,207	2,532,295	13.71	15.09	13.44

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Second Annual General Meeting ("the Meeting") of Pakistan Tobacco Company Limited ("the Company") will be held at Shamadan Hall, Serena Hotel, Islamabad on Thursday, 23rd April, 2009 at 11.00 a.m. to transact the following business:-

A. Ordinary Business:

1. To receive, consider and adopt the audited Accounts for the year ended 31st December, 2008, and the Report of the Directors and Auditors thereon.
2. To approve the Final Dividend as recommended by the Board.
3. To appoint Auditors and to fix their remuneration.

B. Special Business

1. To approve the amendment in Clause 3 of the Memorandum of Association enabling the Company to provide business consultancy services (A statement under section 160 (1) (b) of the Companies Ordinance 1984 pertaining to the special business is being sent to the shareholders with this notice).

By order of the Board

Ayesha Rafique
Company Secretary

Islamabad:
1st April, 2009

Notes:

(1) The Share Transfer Books of the Company will be closed from 16th April, 2009 to 23rd April, 2009, both days inclusive. Transfers received in order at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.2-A, 4th Floor, I. I. Chundrigar Road, Karachi at the close of business on 15th April, 2009 will be in time to be entitled to vote and for the entitlement of dividend.

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

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

A) In Person:

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

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

B) By Proxy:

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

ii) The proxy form shall be witnessed by two persons whose names, addresses and 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 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.

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

The following statement is annexed to the Notice of the Sixty Second Annual General Meeting of the Company to be held on 23rd April, 2009 and sets out the material facts concerning the special business to be transacted at the Meeting.

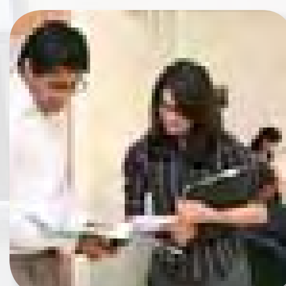
Note 1.

"RESOLVED THAT the Memorandum of Association of the Company be amended as follows, subject to sanction of the Securities and Exchange Commission of Pakistan,:-

By adding in clause 3 after sub-clause (h) the following new sub-clause (h)(i) namely:-

To provide such business consultancy services to other business concerns as the Company may decide from time to time.

Even though our head office was made inoperable after the Marriott blast, we continued to operate successfully with determination from our temporary locations



Chairman's Message

Pakistan Tobacco Company had another excellent year; with increased profits and share of the market, thus sustaining and cementing its market leadership position. This is a testament to the Company's hard work and winning culture. The magnitude of the Company's achievements should be seen in the context of the challenges that it faced during 2008. To cap a good year, it was particularly satisfying to find that PTC was adjudged as one of the three best operating companies within the British American Tobacco Group, which has its presence in more than 180 countries. This is a matter of immense pride for every employee of this Company.

The past year witnessed a global economic recession which still shows no sign of abating. The domestic economy has faced high inflation, foreign exchange fluctuations, and a protracted conflict in the North West, where one of our factories and tobacco leaf growing areas are located. The law and order situation has been precarious, culminating in the bombing at the Marriott hotel which led to collateral damage to our Head Office in Islamabad. The Company negotiated this setback successfully, showcasing its preparedness, determination and resilience. The Company did not lose a single day of sales. All its systems were up and running within 24 hours of the destruction of the offices after the bombing. The transition to alternate locations and later continuation of our operations was quite smooth. We are at present, till the publication of this report, working from temporary locations in Islamabad.

The span of the Company's business encompasses a range of stakeholders, who include tobacco farmers, workmen on the shop floor, sales staff and business partners who service the demand in the retail market. It also includes the Government that is open to constructive dialogue on all issues related to our value chain. We believe that the Company's relationship with all stakeholders is bound by trust and a positive attitude.

During the year, the Company focused on the following operational targets:

- Continued strong volume and profit growth.
- Increased focus on productivity savings.
- Launch of the 3rd cycle of our social reporting dialogues.
- Improved corporate governance.
- Environment, Health & Safety.

It was gratifying that the Company, as a result, was awarded the Corporate Excellence Award by the Management Association of Pakistan, BAT's Global Environmental Health & Safety Award as well as BAT's Global Leaf Award.

Today, society expects companies to work towards broader goals beyond the shareholders value and to demonstrate support for communities, high standards of ethical behaviour as well as transparency and accountability. As society's expectations of corporate responsibility changes, we are also modifying our ways to address such issues of concern. We do not know all the answers, or claim to get everything right each time, but we are committed to looking for solutions with a very open mind. In an increasingly difficult and unpredictable business environment, we believe that this is the right approach for us to adopt.

Mueen Afzal
Chairman

Managing Director's Review

Ladies & Gentlemen,

It is with great pleasure that I present my first report as Managing Director of Pakistan Tobacco Company. I am happy to report that PTC has delivered yet another year of impressive performance in 2008; this has been in the face of several challenges encountered, and despite all odds we have managed to maintain our growth momentum and scaled new heights in several areas of the business.

2008 was a very turbulent year not only for the world but also for Pakistan, as the global economic crisis spilled into our country, exacerbating its economic woes and impacting fundamentals severely. Large devaluation, sharp rise in inflation, international commodity prices and the energy crisis pushed up our input cost significantly, this combined with the overall deteriorating security of the country made running of our operations quite a challenge.

We were directly affected by the acts of terrorism in the country with the Marriott blast rendering our Head Office inoperable. Our business continuity plan kicked in and we were up and running in no time, working from an alternate location. We faced multiple challenges in terms of limited access to records and constraints in infrastructure and space. It was through the commendable resolve and sense of responsibility of our people that our operations including sales / banking, did not miss a beat and continued uninterrupted.

Despite adverse circumstances, the Company has posted a healthy growth in market share, which increased by 1.3 pp during the year to 46.4% (based on independent research), further consolidating our leadership of the tobacco industry in Pakistan. Sales volume grew by 12% to 41.5 Bn sticks in this period, significantly ahead of the industry growth estimated at 2.4%. Despite a sharp increase in the cost base due to the factors mentioned earlier, we still managed to register an increase of 5% in our PAT standing at Rs. 2.5 Bn. However, at the same time we also made our highest ever contribution to Government revenue in 2008 which rose to Rs. 32 Bn, a 20% rise over 2007.

This operating performance was driven mainly by a record sales volume through our continuous focus on investment in our brands, our people and building our business partner capabilities.

Our Brands

PTC has established and continues to maintain a balanced portfolio of brands, operating and leading in each key segment of the market. 2008 saw continued investment in our brands resulting in a healthy over all growth.

Dunhill continues to be our main brand in the premium niche segment, it was re-launched at a new price point in '08 and we invested in expanding its availability in the Metros, with encouraging results. Similarly Benson & Hedges (B&H), our leading offer in the premium segment, grew by 5% over last year capitalising on it's international equity.

Gold Leaf, the leader in its segment, grew by 10% during 2008 backed by the introduction of a new communication platform - "Know What Matters". This campaign emphasized Gold Leaf's expertise in bringing the best tobacco experience to its consumers. Going forward the brand will continue to focus on innovation and being a very current offering to the consumer to maintain its premium image.

In the mid Price segment, Capstan by Pall Mall continued to dominate the market by offering exciting and innovative consumer promotions. These included the Limited Edition Packs highlighting the International Heritage of Pall Mall and concluded with the introduction of the first of its kind, innovative "Pop-Up" pack which was very well received by the consumers.

Gold Flake achieved an impressive 19% growth over 2007, maintaining its position as the fastest growing brand in the market. Key to Gold Flake's success is the fact that a great product is being offered at a good

price backed by focused consumer communications and aggressive distribution.

Gold Flake is the main driver of PTC's volume share growth in the market and will continue to play a vital role towards the growth of the Company in future as well. Embassy, our other offering in the low price segment is performing as expected as more and more of its consumer base are up trading to Gold Flake. We, however, continue to focus on the distribution of the brand in its strongholds.

Business Process Re-engineering

2008 has also been a year of change for PTC with a number of Business Process Re-engineering initiatives successfully implemented across the Company as the organisation embarked on a challenging and ambitious journey classifying our must do objectives to succeed in the market as the "Big Mountains" and focussing our resources behind the same. The Enterprise Program Office played a vital role in supporting the Company strategy by setting-up the governance structures and process framework for effective program and project management. Projects implemented during the year focused on the key areas of Talent, Growth, Illicit Trade reduction, Productivity improvement and proactive approach to Regulations.

PTC is on the forefront of adopting best practices on Corporate Governance and Reporting standards, as our Annual Report for 2007 was recognized as the best in its category by ICAP.

In addition to the above, PTC won the 25th Corporate Excellence Award in Business and Industry Category from the Management Association of Pakistan which is recognition of the excellent management processes in our Company.

PTC and Corporate Social Responsibility

Maintaining a large scale Corporate Social Responsibility (CSR) program in the midst of political change and economic uncertainty was not only a challenge but also a personal stretch for the people involved. In the past, we have seen and surmounted many hurdles, however, the kind of problems we faced in NWFP in 2008 were unprecedented. In this context, it is indeed a testament to the steadfast nature of our resolve that we remain partners of first choice for our communities, and our CSR initiatives continue undeterred, with the same energy and resolve as before.

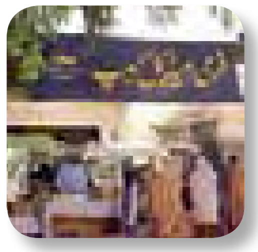
Our afforestation program continues, with an expansion of the total plantation area and increased distribution of saplings. In the area of public health, we have completed construction of 8 water filtration units, with 5 more planned in 2009. Our Mobile Doctors Units continued to operate extensively treating patients in the underprivileged areas; this was in addition to the 19 medical camps organized in the year. We also held free eye camps and diabetic screenings in partnership with various organizations such as Merck and Layton Rehmatullah Benevolent Trust. In education, the Company's Learning Resource Centers saw 588 more students graduate, with an 11% increase in the number of female students. Some 200 students have been provided with the Adult Basic Education Society scholarships during the course of the year. We also continued our tradition to engage with our stakeholders, having initiated Stakeholder Dialogue at the end of 2008. Our well established sustainability agenda will see us publishing a Stakeholder Report in 2009.

PTC is well aware of the unique challenge of operating in the 'field', and is committed to rise to the occasion. I commend their efforts in the year past, and am confident that despite some testing times ahead, we will continue to contribute to the communities that we work with.

People

The people in PTC have always been one of our greatest asset and we will continue to invest in the same through various initiatives that help us build a winning organisation. These include programs such as WAADA focusing on shop floor employee morale, continuous investment in focused functional/leadership training programs and coaching programs for first line leader such as TLDW (Team Leader Development Program). An Employer Branding campus campaign by the name of "Battle of Minds" was also launched in 2008, focusing on attracting the right talent to our organization, and this was met with great success.

Demand for our highly developed local talent also remained high and



during 2008, 15 of our managers were sent out for long and short term assignments to various Operating Companies of BAT around the globe.

Environment Health & Safety

PTC has always been a leader in the field of Environment, Health & Safety. EHS principles are woven into the fabric of our organisation and have now become part of the culture in all areas of our business from seed to smoke. Our endeavor to improve environmental programs has been recognized repeatedly by the Parent Group (BAT) with PTC being awarded the annual EHS Excellence award for the fourth consecutive year in 2008 and also, being awarded the accident free award for 2008 with "No Lost Work day Case" incident reported across the organization during the year.

Illicit Sector

The illicit sector continues to be the single biggest threat to long term commercial viability and sustainability of the legitimate sector along with its adverse impact on Government revenue. While continued Government enforcement has affected the slight decline in illicit trade during the year, the need for continued focus remains. Going forward continued enforcement of the existing regulations could substantially contribute towards providing a level playing field to all players. We continue to be committed in our efforts to support the Government in its endeavours to effectively curb this industry threat in the future as well.

Outlook

Despite the adversities, challenges and risks in 2008, PTC has come out as a stronger Company, achieving success in several aspects of the business. The outlook for PTC remains positive with our business having weathered the storm and is now well positioned to take on the challenges of times ahead. The risks in the external environment such as deteriorating economy and security remain, however, we are aware of these and continue to maintain a close watch and are prepared to mitigate the impacts of the same.

I would like to appreciate the devotion and conscientious efforts of all our PTC employees who went through this tough time delivering commendable performance driving excellent business results in 2008. The PTC family is committed to its vision of being the "first choice for everyone" and continues to strive towards strengthening our market leadership, profitability and growth.

Nicholas Stewart Hales
Managing Director & CEO

Directors' Review

The Directors are pleased to present the 62nd Annual Report along with the audited financial statements of the Company for the year ended December 31, 2008.

PTC demonstrated its resilience in 2008 by continuing to perform well in all operational facets of its business despite adverse economic and security conditions. The Company continues its steady growth path and has further consolidated its position as the volume and value leader of the industry.

Business Performance

Given below are the key financial highlights as compared to 2007.

(Rs in million)

	2008	*2007*	*Increase*
Gross turnover	49,054	40,889	20%
Gross profit	7,277	6,516	12%
Operating profit	4,415	3,984	11%
Profit before tax	3,894	3,725	5%
Profit after tax	2,532	2,420	5%
Earnings per share - EPS (Rs)	9.91	9.47	5%

Adverse developments on the economic front strongly impacted our cost base during the year but through significant growth in sales combined with a continued focus on operational efficiencies and a cost conscious culture, the Company managed to deliver profit growth.

Sales Performance

The Company delivered a record sales volume of 41.5 billion cigarette sticks, registering a 12 % growth in terms of volume and 20% in terms of value over the previous year.

Our business has shown remarkable resilience in 2008. While it witnessed very testing times, it has emerged even stronger. In-depth understanding of consumer needs, focus on product quality and innovative marketing campaigns have always been our forte and they have provided us with a platform to achieve strong organic growth even in difficult times.

Dunhill, our premium offer, was under focus during the year and it has responded well to price repositioning and distribution expansion. Gold Leaf, with its role as the value driver, performed exceptionally well growing by 10% over the last year. Gold Flake continued to play a critical role in our growth and grew by 19% during 2008. Capstan by Pall Mall remained the first choice for consumers in the medium price segment backed by innovative consumer offers. Embassy performed as per expectations as consumers up-traded to Gold Flake. In short, the portfolio strategy of the Company is working and brands are well positioned in different consumer segments to satisfy distinct needs of consumers.

The Company continued to invest in training and development of its sales force in order to better equip them to reach customers in the most efficient manner. Efforts to this end have resulted in PTC being rated as the best service provider among FMCGs by an independent Customer Satisfaction Measurement Survey.

Contribution to the National Exchequer

The benefits of increased growth and profitability of our operations also accrued to the Government in terms of higher tax payments. The Company paid a total of Rs. 32 billion in 2008 comprising of federal excise duty, sales tax, custom duties and income tax - an increase of 20 % over last year.

Cost of Sales

Our cost base remained under intense pressure on account of many factors including material cost increase driven by high inflation, rupee devaluation, rising commodity and oil prices as well as a sharp increase in energy costs. Furthermore, severe power shortages forced extensive use of generators, adding substantially to our cost during the year. We, however have mitigated a part of these effects through various productivity measures which has helped us to come out with improved financial results despite the adverse conditions.

Operating and Other Costs

The Company made considerable strides in its endeavours to establish and promote a cost conscious culture in all facets of the business. With only 8 % increase in the marketing expenses, which is much lower than inflation, Company managed to grow sales by 12% in an increasingly competitive market.

The Company attracted and retained high quality people through an increase in the number of training and development opportunities and offering competitive remuneration packages. The Company was also cognizant of the impact of the recent rise in inflation and provided a "one-off financial assistance" to its employees. Significant amount of investment was made to improve our head office in a bid to ensure provision of a world-class working environment to our people. All of the above combined with the impact of high inflation resulted in an increase of 26% in the administrative and general expenses during the year.

Our Head Office building was severely damaged in the unfortunate incident of the Marriott bomb blast. The ensuing activities were indeed a testament to the robustness of our business continuity plan and the resilience and determination of our people. The business was successfully shielded from any adverse impact of this incident with our operations throughout the country continuing un-interrupted. The core team kept operating from a small location in Islamabad, subsequent to which all the Head Office staff was relocated to two separate locations within a very short span of time.

We also undertook a restructuring/ rationalisation initiative at one of our manufacturing facility to leverage our global expertise aimed at improved strategic and operational flexibility. This along with write off from the damage to the Head Office building and subsequent relocation expenses increased "Other expenses" by 89% in 2008.

Cash Flows

Volume growth during the year resulted in significant increase in operating cash flows. This was partially offset by higher dividend payments and higher investments in plant and equipment. However, the year witnessed a net increase in cash amounting to Rs. 369 million for the Company.

Plant Modernisation

During the year, the Company invested Rs. 1.1 Bn in property plant and equipment to meet growing demand and to increase productivity and quality of its products. The induction of the latest machinery and optimization techniques not only ensure capacity enhancement but are also necessary to adhere to international Environment, Health and Safety standards.

Appropriation of Profits

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

(Rs in million)

	2008	*2007*
Operating profit	4,415	3,984
Profit after tax	2,532	2,420
Accumulated profit brought forward	1,150	1,371
Actuarial losses taken to equity (net of tax)	163	112
Profit available for appropriation	3,519	3,679
Appropriations:		
Final dividend 2007 @ 39% (2006:44%)	996	1,124
1st Interim dividend 2008@ 17.5% (2007:15%)	447	383
2nd Interim dividend 2008@ 20% (2007:20%)	511	511
3rd Interim dividend 2008 @ 20% (2007: 20%)	511	511
Un-appropriated profit carried forward	1,054	1,150

Dividend

Based on the performance of the Company, the Board is pleased to propose a final dividend of Rs 2.30 (2007 : Rs 3.90) per share in respect of the financial year ended December 31, 2008, over and above the three interim dividends paid during the year. This final dividend will be subject to the approval of shareholders in their meeting scheduled on April 23, 2009.

Environment, Health and Safety

The Company has always been on the forefront in the area of EHS with its principles essentially an integral part of the life at PTC.

We proudly reduced our impact on the environment foot print by continuously assessing our processes and practices to identify areas for improvement. In this regard, the Company has embarked on numerous initiatives and projects in the field of energy conservation, air emissions, waste management, water usage and discharge management. We not only comply with the environmental regulations but also aim to go beyond what is necessary.

In recognition of our efforts to improve the environment, the parent group BAT awarded us with the EHS excellence award for the fourth consecutive year in 2008.

PTC also had zero "lost work day" cases during 2008 with our Akora Khattak plant deserving special mention completing its 5th year without any "lost work day" case and winning the BAT EHS Golden Award for the fourth consecutive year in 2008.

Good Corporate Governance

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

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

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

c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent 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, 2007, have been cleared subsequent to the year end.

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

j) Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2007 are as follows:

	(Rs in million)
Management Provident Fund	388
Staff Pension Fund	1,397
Employees' Provident Fund	506
Employees' Gratuity Fund	334

The Board

The Board comprises 8 non-executive directors and 4 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. Toh Ah Wah resigned as Chief Executive Officer and Managing Director of the Company with effect from 1st November 2008 close of Business. He was replaced by Mr. Nicholas Stewart Hales on the above position effective 1st November 2008 close of business. The Board appreciates Mr. Toh Ah Wah for his leadership and contribution during the last three years and wishes him all the success in his future.

Board of Directors Meetings

During the year 2008, four meetings of the Board of Directors were held on 20th February, 24th April, 19th August and 21st October 2008. Attendances are detailed below:

Name of Director	No. of meetings attended
1. Mr. Mueen Afzal Chairman and Non-Executive Director	04
2. Mr. Nicholas Stewart Hales Managing Director and Chief Executive	04
3. Mr. Mobasher Raza Deputy Managing Director and Finance Director	04
4. Mr. Mirza Rehan Baig Marketing Director	03
5. Mr. Ahmed Zeb Supply Chain Director	04
6. Mr. Feroze Ahmed Non-Executive Director	01
7. Lt. Gen. Ali Kuli Khan Khattak Non-Executive Director	03
8. Mr. Ben Willem Fourie Non-Executive Director	0
9. Mr. Abid Niaz Hasan Non-Executive Director	03
10. Mr. Istaqbal Mehdi Non-Executive Director	03
11. Mr. Kunwar Idrees Non-Executive Director	03
12. Mr.Toh Ah Wah Non-Executive Director	04

Board Committees

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

Audit Committee

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

- Abid Niaz Hasan (Chairman)
- Lt. Gen. (Retd.) Ali Kuli Khan Khattak
- Ben Willem Fourie
- Istaqbal Mehdi
- Kunwar Idris
- Mueen Afzal

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

The Committee held four meetings during the year in which the External Auditors were present to assist the committee on matters relating to financial accounts and reporting. The quarterly, half-yearly and annual accounts of the Company along with any public announcements relating to them were reviewed and were recommended by the Committee before approval by the Board. Such reviews extend to major areas of judgement 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, compliance with listing regulations and other statutory and regulatory requirements.

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

Pakistan Tobacco Company

The Audit Committee assists the Board of Directors in monitoring the framework of managing business risks and internal controls. The committee seeks assurance on the measures taken by the management in identification, evaluation and mitigation of relevant business risks. It also monitors the performance of the Internal Audit Department which adopts a risk-based approach for planning and conducting business process audits consistently with the Company's established work practices. The scope and extent of internal audit, including the annual Internal Audit Plan, are reviewed and approved by the Committee which also regularly monitors the progress. While the External Auditors independently determine their plan of audit, the Committee is informed of their progress and especially in regard to issues stated in their 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 engagement terms based on the Committee's review of their performance and value provided to the Company.

Auditors

Statutory Audit for the Company for the financial year ended December 31, 2008 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, 2009 on the recommendation of the Audit Committee. For the financial year ending December 31, 2009 the engagement partner will be rotated in line with the requirements of Code of Corporate Governance.

Change in Accounting Policy

In 2008, the Company has amended its treatment with regard to the recognition of actuarial gains and losses of retirement benefit schemes under IAS19. Following the change in accounting policy, the Company now recognises actuarial gains and losses in the period in which they occur, in the Statement of Recognised Income and Expense (SORIE), rather than using partial deferral of such gains and losses through the "corridor" method as also permitted by IAS19.

The Company believes that fully recognising actuarial gains and losses where they occur results in a better presentation of the financial statements which is more in line with current market practice and expected financial reporting developments, thus providing more comparable market information.

The comparative period has been restated to reflect these changes, including the presentation of a SORIE which has not been required under the previous accounting policy.

Shareholding

The pattern of shareholding as at 31st December 2008 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 incorporated in the United Kingdom holds 94.6 % of the shares of the Company.

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 major challenge for the legitimate tobacco industry and for the Government continues to be the curtailment of illicit sector activities. This sector not only poses a threat to the legitimate industry, but also continues to adversely impact the Government tax revenues. Although the Government has taken a number of initiatives to contain its activities, the local Duty Not Paid (DNP) element still comprises a significant share of the market and hence, is a major hurdle in providing a level playing field to the industry.

Initiatives, such as print media campaigns on implementation of the stipulated legal framework in terms of the mandated health warnings, minimum price and other statutory amendments, have actively raised awareness amongst consumers; yet enforcement continues to be a major challenge.

We would urge and support the Government to further its efforts to curb this threat and are willing to work closely with all stakeholders including the relevant authorities in their efforts.

The general security situation in the country continued to deteriorate in 2008 and it was especially difficult in the tobacco growing areas of NWFP. We are aware of the threat to our source of tobacco, having assessed the risk in depth and have drawn up contingency plans to mitigate the same if conditions become even worse.

The global financial crisis started to appear in latter part of 2008, with financial markets in unprecedented turmoil, economies slowing and confidence badly shaken all across the globe. We will not remain insulated from the effects of this crisis and expect the cost base to remain under pressure during 2009.

This will require us to be innovative in mitigating the cost impacts as well as ensuring a continuous focus on the cost effectiveness. We are confident that with our ingenuity, commitment and dedication of our team, we will sail through this economic down turn better than most.

The Directors commend the resilience, commitment and drive of our people shown throughout the year 2008. We appreciate the efforts of our employees, farmers, suppliers, distributors and all other stakeholders in supporting the Company through difficult times in its journey of progress and growth.

Furthermore we remain committed to build on our achievements to increase shareholders' value as we have done in the past. We are also confident that we will continue to lead the tobacco industry responsibly and maintain the growth momentum.

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

We are confident that we will continue to lead the tobacco industry responsibly and will endeavour to maintain the growth momentum in our performance.

Statement of Revenue Generated & Distributed

(Rs in million)

	2008	2007
Generation		
Revenue Generated	49,054	40,889
Distribution		
Government Levies	31,872	26,476
Employees	2,223	1,836
Materials and Services	8,989	7,402
Profit after Tax	2,532	2,420
Others	3,438	2,755
	49,054	40,889

Board Committees

1. Executive Committee of the Board (EXCo)

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

2. Board Compensation Committee

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

3. Audit Committee

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

4. Share Transfer Committee

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

5. Corporate Social Responsibility (CSR) Committee

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.

Name	*The Board*	*Executive Committee of the Board*	*Board Compensation Committee*	*Audit Committee*	*Share Transfer Committee*	*CSR Committee*
Executive Directors						
Mr. Nicholas Stewart Hales	●	●	●		●	●
Mr. Mobasher Raza	●	●			●	●
Mr. Mirza Rehan Baig	●	●				
Mr. Ahmed Zeb	●	●				●
Non-Executive Directors						
Mr. Toh Ah Wah	●					
Mr. Mueen Afzal	●		●	●		
Lt. Gen. (Retd) Ali Kuli Khan Khattak	●		●	●		●
Mr. Feroze Ahmed	●					
Mr. Ben Willem Fourie	●			●		
Mr. Abid Niaz Hasan	●			●		●
Mr. Istaqbal Mehdi	●			●		
Mr. Kunwar Idris	●			●		
Key Management Personnel						
Mr. Q. M. Shahid		●	○			
Mr. Naveed A. Ahmad		●			●	
Mr. Syed Ali Naseer		●				○
Mr. Tajamal Shah		●				
Mr. Dilshan Ranasinghe		●				
Miss Ayesha Rafique	○	○			○	
Other Management Personnel						
Mr. Faisal Saif				○		

Member ● Secretary ○

Pattern of Shareholding
As at December 31, 2008

No. of Shareholders	Categories				Total Shares
1,504	From	1	To	100	52,603
1,387	From	101	To	500	410,212
492	From	501	To	1,000	361,368
438	From	1,001	To	5,000	994,833
62	From	5,001	To	10,000	463,416
23	From	10,001	To	15,000	291,307
10	From	15,001	To	20,000	184,756
16	From	20,001	To	25,000	373,664
9	From	25,001	To	30,000	256,657
1	From	30,001	To	35,000	30,900
1	From	35,001	To	40,000	37,000
2	From	40,001	To	45,000	81,183
2	From	45,001	To	50,000	100,000
2	From	50,001	To	55,000	106,000
5	From	55,001	To	60,000	294,700
3	From	60,001	To	65,000	186,571
3	From	65,001	To	70,000	206,200
1	From	70,001	To	75,000	71,951
2	From	75,001	To	80,000	154,470
2	From	95,001	To	100,000	199,300
1	From	110,001	To	115,000	112,100
1	From	130,001	To	135,000	131,000
1	From	135,001	To	140,000	138,700
3	From	155,001	To	160,000	473,300
1	From	160,001	To	165,000	164,400
1	From	165,001	To	170,000	167,633
1	From	200,001	To	205,000	201,200
1	From	220,001	To	225,000	221,000
1	From	230,001	To	235,000	234,909
1	From	295,001	To	300,000	296,900
1	From	330,001	To	335,000	334,300
1	From	400,001	To	405,000	401,800
1	From	440,001	To	445,000	441,900
1	From	505,001	To	510,000	507,000
1	From	535,001	To	540,000	535,200
1	From	700,001	To	705,000	702,911
1	From	795,001	To	800,000	798,282
1	From	1,835,001	To	1,840,000	1,835,243
1	From	1,890,001	To	1,895,000	1,893,782
1	From	241,045,001	To	241,050,000	241,045,141
3,987					255,493,792

Pakistan Tobacco Company

	No. of Shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	3,739,820
Directors, CEO and their spouse and minor children	12,339
Executives	234
Public Sector companies and corporations	702,911
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, Modaraba and Mutual Funds	3,194,841
Others	1,208,208
Individuals	4,792,016
	255,493,792

Categories of Shareholders	Number	Shares Held	%
Directors, CEO and their spouse and minor children	8	12,339	0.0
Executives	4	234	0.0
Associated Companies, Undertakings and Related Parties	2	241,843,423	94.7
Investment Companies	2	3,739,820	1.5
Modarabas & Mutual Funds	14	1,691,022	0.7
Insurance Companies	8	1,021,516	0.4
Public Sector Companies and Corporations	1	702,911	0.3
Financial Institutions	16	482,303	0.2
Individuals	3,856	4,792,016	1.9
Others	76	1,208,208	0.5
Total	3,987	255,493,792	100.0

	No. of Shares
Associated Companies, Undertakings and Related Parties	
British American Tobacco (Investments) Limited	241,045,141
Rothmans International	798,282
NIT and ICP (name wise details)	
National Bank of Pakistan, Trustee Deptt.	3,729,540
Investment Corporation of Pakistan	10,280
Directors, CEO and their spouse and minor children (name wise details)	
Mueen Afzal	2,124
Toh Ah Wah	5,000
Nicholas Stewart Hales	2,500
Feroze Ahmed	2,000
Ben Willem Fourie	500
Ali Kuli Khan Khattak	100
Kunwar Idris	65
Abid Niaz Hasan	50
Executives	
Naveed Aftab Ahmad	200
Awais Hussain Kazi	15
Mirza Zubair Ahmed	10
Shahid Yamin	9
Shareholders holding 10% or more voting interest	
British American Tobacco (Investments) Limited	241,045,141

Statement of Compliance
with the Code of Corporate Governance

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

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes seven 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. No casual vacancy was created on the Board of the Company during the year 2008. Mr. Nicholas Stewart Hales an existing non-executive director, however, replaced Mr. Toh Ah Wah as Chief Executive Officer and Managing Director effective 1st November, 2008, consequent to Mr. Toh Ah Wah resignation.
5. The Company has prepared a ‘Standards of Business Conduct’, which has been signed by all the directors, management and Business Support Officers of the Company.
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.
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 six 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.

Nicholas Stewart Hales
Managing Director and CEO

Statement of Compliance with the Best Practices

on transfer Pricing for the year ended December 31, 2008

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

Nicholas Stewart Hales
Managing Director and CEO

A.F.FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

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, 2008 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, 2008.

Chartered Accountants

Islamabad

Date: March 20, 2009

Pakistan Tobacco Company Limited

Financial Statements

for the Year ended December 31, 2008

A.F.FERGUSON & Co.

A member firm of PRICEWATERHOUSECOOPERS

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited (the Company) as at December 31, 2008 and the related profit and loss account, statement of recognized income and expense and 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 conduct our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

(b) in our opinion

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.10 with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of recognized income and expense 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, 2008 and of the profit, net expense recognised directly in equity and its cash flows for the year then ended; and

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

Chartered Accountants

Islamabad

Date : March 20, 2009

Profit and Loss Account
for the year ended December 31, 2008

	Note	2008 Rs '000	Restated 2007 Rs '000
Gross turnover		49,053,928	40,889,275
Excise duties		23,378,440	19,311,946
Sales tax		6,829,699	5,534,452
Turnover - net of sales tax and excise duties		18,845,789	16,042,877
Cost of sales	5	11,569,030	9,527,306
Gross profit		7,276,759	6,515,571
Marketing and distribution expenses	6	1,933,364	1,795,793
Administrative expenses	7	928,358	736,147
		2,861,722	2,531,940
Operating profit		4,415,037	3,983,631
Other income	8	120,151	102,634
Other expenses	9	588,147	311,374
		3,947,041	3,774,891
Finance cost	10	53,324	50,317
Profit before taxation		3,893,717	3,724,574
Taxation	11	1,361,422	1,304,367
Profit for the year		2,532,295	2,420,207
Earnings per share - basic and diluted (Rupees)	12	9.91	9.47

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Balance Sheet
as at December 31, 2008

PAKISTAN TOBACCO COMPANY

	Note	2008 Rs '000	Restated 2007 Rs '000
Property, plant and equipment	14	5,599,758	5,154,326
Long term investment in subsidiary company	15	5,000	5,000
Long term loans	16	9,244	12,513
Long term deposits and prepayments	17	41,172	13,025
Current assets			
Stock-in-trade	18	4,059,063	3,998,181
Stores and spares	19	190,646	140,777
Trade debts	20	2,666	2,386
Loans and advances	21	65,917	38,580
Short term prepayments		105,728	64,887
Other receivables	22	246,675	229,891
Cash and bank balances	23	69,172	166,666
		4,739,867	4,641,368
Less: Current liabilities			
Trade and other payables	24	4,324,704	3,548,237
Accrued interest / mark-up		10,354	8,401
Short term borrowings	25	572,397	1,038,550
Income tax payable		303,183	227,752
		5,210,638	4,822,940
Net current liabilities		(470,771)	(181,572)
Retirement benefits	26	(739,133)	(489,503)
Deferred taxation	27	(836,939)	(809,109)
Net assets		3,608,331	3,704,680
Financed by:			
Share capital and reserves			
Share capital	28	2,554,938	2,554,938
Revenue reserves	29	1,053,393	1,149,742
		3,608,331	3,704,680
Contingencies and commitments	30		

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Statement of Recognized Income and Expense

for the year ended December 31, 2008

	Note	2008 Rs '000	Restated 2007 Rs '000
Actuarial loss on defined benefit plans	26	(250,970)	(172,387)
Tax credit related to actuarial loss on defined benefit plans	11	87,840	60,336
Net expense recognized directly in equity	29	(163,130)	(112,051)
Profit for the year		2,532,295	2,420,207
Total recognized income for the year		2,369,165	2,308,156

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Cash Flow Statement
for the year ended December 31, 2008

PAKISTAN TOBACCO COMPANY

	2008 Rs '000	2007 Rs '000
Cash flow from operating activities		
Cash receipts from customers	48,988,209	40,954,716
Cash paid to Government for Federal Excise Duty, sales tax and other levies	(29,499,997)	(24,851,618)
Cash paid to suppliers	(11,225,963)	(9,219,439)
Cash paid as royalty	(294,714)	(262,538)
Cash paid to employees and retirement funds	(2,138,229)	(1,659,487)
Income tax paid	(1,170,321)	(1,171,046)
Other cash payments	(291,225)	(244,404)
Net cash from operating activities	4,367,760	3,546,184
Cash flow from investing activities		
Purchase of property, plant and equipment	(1,073,365)	(1,190,624)
Proceeds from sale of property, plant and equipment	35,366	39,524
Cash paid to subsidiary company	(328)	(325)
Net cash used in investing activities	(1,038,327)	(1,151,425)
Cash flow from financing activities		
Dividend paid	(2,969,003)	(2,014,232)
Financial charges paid	(51,371)	(53,031)
Interest received	59,600	30,878
Net cash used in financing activities	(2,960,774)	(2,036,385)
Net increase in cash and cash equivalents	368,659	358,374
Cash and cash equivalents at January 1	(871,884)	(1,230,258)
Cash and cash equivalents at December 31	(503,225)	(871,884)
Cash and cash equivalents comprise:		
Cash and bank balances	69,172	166,666
Short term borrowings	(572,397)	(1,038,550)
	(503,225)	(871,884)

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Notes to the Financial Statements
for the year ended December 31, 2008

1. The Company and its operations

Pakistan Tobacco Company Limited (the Company) is a public listed Company incorporated in Pakistan on November 18,1947 under the Companies Act, 1913 (now the Companies Ordinance, 1984) and its shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The Company is a subsidiary of British American Tobacco (Investments) Limited, United Kingdom, whereas its ultimate parent company is British American Tobacco p.l.c, United Kingdom. The registered office of the Company is situated at Dubai Plaza, Plot No. 5, Street 20, Salman Market, Sector F–11/2, Islamabad. The Company is engaged in the manufacture and sale of cigarettes.

2. Summary of significant accounting policies

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

2.1 Statement of compliance

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

(a) Standards, amendments and interpretations effective in 2008 but not relevant

IFRIC 11	Group and treasury share transaction
IFRIC 12	Service concession arrangements
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.

IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009), was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non–owner changes in equity') in the statement of changes in equity, requiring 'non–owner changes in equity' to be presented separately from owner changes in equity. All non–owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. Adoption of this standard will only impact the presentation of the financial statements.

IFRIC 13: Customer loyalty programmes, clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple–element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. Adoption of IFRIC 13 is not expected to have any significant impact on the Company's financial statements.

There are other amendments to the approved accounting standards and interpretations effective for the periods beginning from January 1, 2009 but are considered not to have any significant effect to the Company's operations.

(c) Amendments and interpretations to existing standards that are not yet effective and not relevant to the Company's operations

		Effective for periods beginning on or after
IFRS 1	First–time adoption of International Financial Reporting Standards	January 1, 2009
IFRS 2	Share–based payments	January 1, 2009
IFRS 3	Business combinations	July 1, 2009
IFRS 5	Non–current assets held–for–sale and discontinued operations	January 1, 2009
IFRS 8	Operating segments	January 1, 2009
IAS 20	Accounting for government grants and disclosure of government assistance	January 1, 2009
IAS 23	Borrowing costs	January 1, 2009
IAS 28	Investment in associates	January 1, 2009
IAS 29	Financial reporting in hyperinflationary economies	January 1, 2009
IAS 40	Investment property	January 1, 2009
IAS 41	Agriculture	January 1, 2009
IFRIC 15	Agreements for the construction of real estates	January 1, 2009
IFRIC 16	Hedges of a net investment in a foreign operation	October 1, 2008
IFRIC 17	Distribution of non–cash assets to owners	July 1, 2009
IFRIC 18	Transfer of assets from customers	July 1, 2009

2.2 Basis of measurement

These financial statements have been prepared, using accrual basis of accounting, under the historical cost convention except for modifications for financial instruments which are stated at fair value and certain employment benefits obligations which are measured at present values.

2.3 Functional and presentation currency

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

2.4 Foreign currency transactions and translation

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

2.5 Revenue recognition

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

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

(a) Sale of goods

The Company manufactures and sells cigarettes to its appointed distributors. Sales of goods are recognized when the Company has delivered products to the distributor and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributor, and either the distributor has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Notes to the Financial Statements
for the year ended December 31, 2008

(b) Income on bank deposits

Return on bank deposits and investments are accounted for on the time proportion basis using the applicable rate of return.

(c) Others

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

2.6 Taxation

The tax expense for the year comprises current and deferred income tax, and is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in the equity, where the tax is also recognized in the equity.

(a) Current

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

(b) Deferred

Deferred income tax is accounted for using the balance sheet liability method, in respect of all temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit.

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

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

2.7 Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.8 Contingent assets

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

2.9 Contingent liabilities

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

2.10 Employee benefits

(a) Retirement benefit plans

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

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

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

The Company operates:

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

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

From the current year, the Company changed its accounting policy related to recognition of actuarial gains and losses on its defined benefit schemes. Previously, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions 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 were recognized over the expected average remaining working life of employees participating in the defined benefit schemes. In 2008, the Company has withdrawn the corridor approach and adopted the policy under which actuarial gains/losses will be recognized in full in the statement of recognized income and expense in the period in which they arise, rather than using partial deferral of such gains and losses through the corridor method as also permitted by IAS–19.

The Company believes that fully recognizing actuarial gains and losses where they occur results in a better presentation of the financial statements which is more in line with current market practice and expected financial reporting developments, thus providing more comparable market information.

The Company decided to apply the policy with effect from January 1, 2005, the date of adoption of the corridor approach by the Company. Accordingly, the corresponding figures have been restated to reflect these changes, including the presentation of a Statement of Recognized Income and Expense (SORIE) which has not been required under the previous accounting policy. The effect of this change on 2007 is tabulated below. Opening revenue reserves for 2007 have been reduced by Rs 213.275 million, which is the amount of the adjustment relating to periods prior to 2007.

Notes to the Financial Statements
for the year ended December 31, 2008

	Rs '000
Effect on 2007	
Decrease in expense (net of tax)	7,149
Increase in expense recognized directly in SORIE (net of tax)	(112,051)
Total effect for 2007	(104,902)
Effect for periods prior to 2007	
Increase in expense directly recognized in equity (net of tax)	(213,275)
	(318,177)
Increase in retirement benefit obligation	(489,503)
Decrease in deferred tax liability	171,326
	(318,177)

The effect of change in accounting policy on 2008 is to reduce equity by Rs 163.130 million and increase profit by Rs 12.018 million.

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

(b) Termination benefits

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

(c) Medical benefit plans

The Company maintains a health insurance policy for its full time permanent employees. The Company contributes premium to the policy annually. Such premium is recognized as an expense in the profit and loss account.

(d) Bonus plans

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

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

2.11 Operating leases

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

2.12 Borrowing cost

Borrowing costs are expensed as incurred.

2.13 Related party transactions

Transactions with the holding company and associated companies mainly include sale and purchase of materials, manufactured goods and services. Such transactions and balances are separately disclosed in the financial statements.

2.14 Property, plant and equipment

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.16).

Gains and losses on disposals of operating fixed assets are taken to the profit and loss account.

2.15 Long term investment in subsidiary company

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

2.16 Impairment of non–financial assets

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

Notes to the Financial Statements

for the year ended December 31, 2008

2.17 Financial assets

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

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short–term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Held to maturity

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

(iii) Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non–current assets. The Company's loans and receivables comprise trade debts, loans and advances, other receivables and cash and bank balances (note 2.21).

(iv) Available–for–sale

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

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

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

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available–for–sale financial assets, the impairment loss is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts is described in note 2.21.

2.18 Stock–in–trade

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

2.19 Stores and spares

Stores and spares are stated at lower of cost and net realizable value. Cost is determined using weighted average method 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.

2.20 Dividend recognition

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

2.21 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes the party to the contractual provision of the instruments and de–recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. The particular measurement method adopted are disclosed in the individual policy statements associated with each item as shown below:

(a) 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.

(b) Trade debts

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

(c) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short–term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

2.22 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 offset the recognized amounts and the Company intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

3. Financial risk management

3.1 Financial risk factors

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

Notes to the Financial Statements

for the year ended December 31, 2008

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

(a) Market risk

(i) Foreign exchange risk

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

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Great Britain Pound Sterling (GBP). Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/ payable from/to the foreign entities and outstanding letters of credit. Most of the Company's foreign exchange risk arising out of import letters of credit was being hedged through forward contracts, however, this facility has been currently suspended by the State Bank of Pakistan (SBP). The Company's risk management policy is to hedge between 90% and 100% of anticipated cash flows (mainly materials & capex imports) in each year.

If the functional currency, at the year end date, fluctuates by 5% against the USD and GBP with all other variables held constant, the impact on profit after taxation for the year would have been Rs. 0.33 million and Rs 1.96 million (2007: Rs 0.01 million and Rs 2.13 million) respectively higher/lower, mainly as a result of exchange gains/losses on translation of foreign exchange denominated trade receivables and payables.

(ii) Price risk

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
The Company is not exposed to equity price risk since there are no investments in equity securities. The Company is also not exposed to commodity price risk.

(iii) Cash flow and fair value interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long–term interest–bearing assets. The Company's interest rate risk arises from short–term borrowings issued at variable rates.

If interest rates on short term borrowings, at the year end date, fluctuates by 1% higher/lower with all other variables held constant, profit after taxation for the year would have been Rs 3.72 million (2007: Rs 6.75 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from deposits with banks and receivables due from the holding company and other associated entities. The table below shows the balances held with/ receivable due from eight major counterparties at the balance sheet date:–

Counterparty	Rating Short term	Rating Long term	Rating Agency	Rs(million) 2008	Rs(million) 2007
Banks					
RBS The Royal Bank of Scotland	A1+	AA	PACRA	14.39	11.19
Habib Bank Limited	A–1+	AA+	JCR–VIS	7.08	12.53
MCB Bank Limited	A1+	AA+	PACRA	23.18	67.45
Citibank N.A.	P–1	Aa1	Moody's	17.76	67.81
				62.41	158.98
Holding Company and other associated entities					
British American Tobacco p.l.c. – UK				5.00	4.23
BAT Asia Pacific – Hong Kong				36.89	24.59
BAT SAA Services (Private) Limited				10.62	–
BAT Bangladesh Company Limited – Bangladesh				5.89	3.50
				58.40	32.32

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non–performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

(c) Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2008, the Company had Rs 2,228 million available borrowing limit from financial institutions and Rs 69 million cash and bank balances. Further, the Company also has strong financial support from its holding company. Based on the above, inspite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low.

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short term borrowings as shown in the balance sheet) less cash and bank balances. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

Notes to the Financial Statements
for the year ended December 31, 2008

The gearing ratio as at December 31, 2008 was 12% (2007: 19%) and is calculated is as follows:

	Rs(million) 2008	Rs(million) 2007
Total borrowings	572	1,038
Less: cash and bank balances	69	167
Net debt	503	871
Total equity	3,608	3,705
Total capital	4,111	4,576
Gearing ratio	12%	19%

3.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

4. Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires use of certain critical accounting estimates and assumptions. Estimates and judgments 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.

4.1 Critical accounting estimates and assumptions

(a) Provision for income taxes

The Company recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (note 2.6) is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

(b) Provision for retirement benefits

Actuarial valuation of gratuity and pension contributions (note 2.10) 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.

(c) Property, plant and equipment

The Company reviews useful life and residual value of property, plant and equipment (note 2.14) on regular basis. Any change in estimates may affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge.

4.2 Critical judgments in applying the entity's accounting policies

There have been no critical judgments made by the Company's management in applying the accounting policies that would have a significant effect on the amounts recognized in the financial statements except the actuarial losses in respect of defined benefit plans, which have been recognized in full in the Statement of Recognized Income and Expense.

	2008 Rs '000	Restated 2007 Rs '000
5. Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	3,515,552	3,294,469
Raw material purchases and expenses – note 5.1	8,591,376	7,074,309
Closing stock of raw materials and work in process	(3,574,582)	(3,515,552)
	8,532,346	6,853,226
Government taxes and levies		
Customs duty and surcharges	317,002	366,140
Provincial and municipal taxes and other duties	100,873	94,344
	417,875	460,484
	8,950,221	7,313,710
Royalty	306,162	267,604
Production overheads		
Salaries, wages and benefits	1,093,823	909,842
Stores, spares and machine repairs	375,347	301,793
Fuel and power	203,205	147,657
Insurance	18,673	22,107
Repairs and maintenance	83,890	57,924
Postage, telephone and stationery	9,301	5,659
Information technology / SAP implementation	67,845	59,945
Depreciation – note 14.1	418,739	374,579
Damaged and obsolete materials written off	19,526	24,236
Sundries	24,150	28,495
	2,314,499	1,932,237
Cost of goods manufactured	11,570,882	9,513,551
Cost of finished goods		
Opening stock	482,629	496,384
Closing stock	(484,481)	(482,629)
	(1,852)	13,755
	11,569,030	9,527,306

5.1 Raw material purchases and expenses

	2008 Rs '000	Restated 2007 Rs '000
Materials	7,936,445	6,481,565
Salaries, wages and benefits	303,599	266,039
Stores, spares and machine repairs	111,896	108,004
Fuel and power	75,374	59,383
Property rentals	26,190	24,250
Insurance	3,109	3,781
Repairs and maintenance	701	191
Postage, telephone and stationery	4,235	2,567
Depreciation – note 14.1	96,307	91,889
Sundries	33,520	36,640
	8,591,376	7,074,309

Notes to the Financial Statements
for the year ended December 31, 2008

	2008 Rs '000	Restated 2007 Rs '000
6. Marketing and distribution expenses		
Salaries, wages and benefits	306,208	236,355
Selling expenses	1,249,080	1,198,765
Damaged and obsolete materials written off	677	23,873
Freight	199,655	162,438
Property rentals	8,784	9,098
Insurance	7,577	8,549
Repairs and maintenance	72,543	74,366
Postage, telephone and stationery	8,032	7,643
Travelling	44,843	37,914
Depreciation – note 14.1	35,965	36,792
	1,933,364	1,795,793
7. Administrative expenses		
Salaries, wages and benefits	519,728	412,659
Fuel and power	10,126	7,708
Property rentals	40,126	38,690
Insurance	2,990	3,282
Repairs and maintenance	40,743	20,467
Postage, telephone and stationery	16,145	5,785
Legal and professional charges	13,998	12,141
Donations – note 7.1	4,565	5,742
Information technology	105,541	96,278
Travelling	81,893	54,542
Depreciation – note 14.1	43,832	34,591
Directors' fee	170	240
Auditors' remuneration and expenses – note 7.2	5,403	4,537
Sundries	43,098	39,485
	928,358	736,147

7.1 None of the directors and their spouses had any interest in any of the donees during the year.

	2008 Rs '000	2007 Rs '000
7.2 Auditors' remuneration and expenses include:		
– Fee for statutory audit	950	820
– Fee for group reporting, special certifications, audit of consolidated accounts, staff retirement benefit funds and review of half yearly accounts	2,330	1,680
– Fee for tax compliance and advisory services	1,837	1,867
– Out–of–pocket expenses	286	170
	5,403	4,537

	2008 Rs '000	2007 Rs '000
8. Other income		
Income from financial assets		
Interest on short term bank deposits	59,600	30,878
Net foreign exchange gain	29,261	4,458
Income from non–financial assets		
Gain on disposal of operating fixed assets	15,916	11,711
Income from associated company	10,616	–
Others		
Old liabilities written back	–	50,599
Miscellaneous	4,758	4,988
	120,151	102,634
9. Other expenses		
Workers' Profit Participation Fund	209,115	199,024
Workers' Welfare Fund	79,464	67,880
Head Office relocation expenses	18,602	–
Restructuring cost – note 9.1	267,326	44,470
Operating fixed assets and capital work in progress written off	13,640	–
	588,147	311,374

9.1 This includes Rs 223,623 thousand (2007: Rs 14,720 thousand) related to workforce rationalization costs.

	2008 Rs '000	2007 Rs '000
10. Finance cost		
Interest on short term running finance	26,013	25,928
Bank charges and fees	27,311	24,389
	53,324	50,317

Notes to the Financial Statements
for the year ended December 31, 2008

	2008 Rs '000	Restated 2007 Rs '000
11. Taxation		
Current – for the year	1,246,221	1,168,936
Deferred – for the year	115,201	135,431
	1,361,422	1,304,367

11.1 Effective tax rate reconciliation:

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

	2008 %	2007 %
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.01	0.02
Income taxed at different rate	(0.01)	0.02
Non taxable proceeds from asset disposals	(0.02)	(0.02)
Others	(0.02)	0.00
Average effective tax rate	34.96	35.02

	2008 Rs '000	2007 Rs '000
11.2 Tax on items directly charged to equity		
Current tax charge on retirement benefits	469	3,850
Deferred tax charge on retirement benefits	87,371	56,486
	87,840	60,336

	2008	Restated 2007
12. Earnings per share		
Profit after tax (Rs '000)	2,532,295	2,420,207
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share – Basic (Rs)	9.91	9.47

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

13. Remuneration of directors, chief executive and executives

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

	Executive directors		Chief executive		Executives				Total	
					*Key management personnel		Other executives			
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Managerial remuneration	46,210	57,501	59,058	35,869	107,910	50,051	285,913	229,869	499,091	373,290
Corporate bonus	28,080	24,150	15,336	15,871	42,893	37,083	100,850	86,162	187,159	163,266
Leave fare assistance	950	1,842	582	435	2,679	1,198	1,947	195	6,158	3,670
Housing and utilities	9,103	8,177	6,317	5,144	32,190	17,052	120,909	107,618	168,519	137,991
Medical expenses	632	501	–	–	3,069	1,714	14,337	20,596	18,038	22,811
Post employment benefits	4,955	4,413	7,590	5,405	23,582	11,891	95,578	78,822	131,705	100,531
	89,930	96,584	88,883	62,724	212,323	118,989	619,534	523,262	1,010,670	801,559
Number of persons	4	5	1	1	22	13	211	208	238	227

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

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

13.2 In addition, directors' fee of Rs 170 thousand (2007: Rs 240 thousand) was paid to four (2007: five) non–executive directors for attending board meetings during the year.

Notes to the Financial Statements
for the year ended December 31, 2008

14. Property, plant and equipment

	Operating fixed assets									Capital work in progress	Total
	Free-hold land	Buildings on free-hold land	Buildings on leasehold land	Private railway sidings	Plant and machinery	Office and household equipment	Furniture and fittings	Vehicles	Sub Total		
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
At January 1, 2007											
Cost	6,834	373,871	25,176	349	5,627,595	312,310	63,951	446,290	6,856,376	252,039	7,108,415
Accumulated depreciation	–	(103,397)	(13,146)	(323)	(1,949,442)	(185,982)	(48,967)	(277,792)	(2,579,049)	–	(2,579,049)
Net book amount at January 1, 2007	6,834	270,474	12,030	26	3,678,153	126,328	14,984	168,498	4,277,327	252,039	4,529,366
Year ended December 31, 2007											
Net book amount at January 1, 2007	6,834	270,474	12,030	26	3,678,153	126,328	14,984	168,498	4,277,327	252,039	4,529,366
Additions/transfers in	–	122,879	439	–	924,073	30,667	1,727	101,311	1,181,096	1,040,106	2,221,202
Deletions/transfers out	–	(200)	(49)	–	(47,867)	(11,315)	(20)	(48,636)	(108,087)	(1,030,578)	(1,138,665)
Depreciation charge	–	(11,171)	(467)	–	(412,166)	(39,070)	(1,736)	(73,241)	(537,851)	–	(537,851)
Depreciation on deletions	–	66	49	–	29,562	9,473	18	41,106	80,274	–	80,274
Net book amount at December 31, 2007	6,834	382,048	12,002	26	4,171,755	116,083	14,973	189,038	4,892,759	261,567	5,154,326
At January 1, 2008											
Cost	6,834	496,550	25,566	349	6,503,801	331,662	65,658	498,965	7,929,385	261,567	8,190,952
Accumulated Depreciation	–	(114,502)	(13,564)	(323)	(2,332,046)	(215,579)	(50,685)	(309,927)	(3,036,626)	–	(3,036,626)
Net book amount at January 1, 2008	6,834	382,048	12,002	26	4,171,755	116,083	14,973	189,038	4,892,759	261,567	5,154,326
Year ended December 31, 2008											
Net book amount at January 1, 2008	6,834	382,048	12,002	26	4,171,755	116,083	14,973	189,038	4,892,759	261,567	5,154,326
Additions/transfers in	–	22,344	166	–	880,197	76,571	1,121	160,048	1,140,447	872,529	2,012,976
Deletions/transfers out	–	–	(20)	–	(12,547)	(41,329)	(39,716)	(62,379)	(155,991)	(947,255)	(1,103,246)
Depreciation charge	–	(14,517)	(473)	–	(456,095)	(39,527)	(1,946)	(82,285)	(594,843)	–	(594,843)
Depreciation on deletions	–	–	20	–	11,009	34,859	32,152	52,505	130,545	–	130,545
Net book amount at December 31, 2008	6,834	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,412,917	186,841	5,599,758
At December 31, 2008											
Cost	6,834	518,894	25,712	349	7,371,451	366,904	27,063	596,634	8,913,841	186,841	9,100,682
Accumulated Depreciation	–	(129,019)	(14,017)	(323)	(2,777,132)	(220,247)	(20,479)	(339,707)	(3,500,924)	–	(3,500,924)
Net book amount	6,834	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,412,917	186,841	5,599,758

	2008 Rs'000	2007 Rs'000
14.1 Depreciation charge has been allocated as follows:		
Cost of sales - note 5	418,739	374,579
Raw material purchases and expenses - note 5.1	96,307	91,889
Marketing expenses - note 6	35,965	36,792
Administrative expenses - note 7	43,832	34,591
	594,843	537,851
14.2 Capital Work in Progress		
Civil works and buildings	11,535	5,662
Plant and machinery	128,807	176,737
Advances to suppliers	46,499	79,168
	186,841	261,567

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14.3 Details of property, plant and equipment disposals, having book value exceeding Rs. 50,000 are as follows:

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
Office and household equipment				
– by auction	217	148	4	Bahadur Khan & Co – Nowshera
	653	65	24	Sajjad Bhatti – Rawalpindi
	797	80	37	Sajjad Bhatti – Rawalpindi
Vehicles				
– as per the Company's policy	750	75	75	Shehzad Zaheer – Employee
	750	75	75	Athar Sultan – Employee
	750	75	261	Ali Haider – Employee
	1,024	102	102	Arif Bilal – Employee
	1,176	118	118	Zahid ul Islam – Employee
	1,309	736	751	Atif Hasan – Employee
	750	75	97	Turan Khan Afridi – Ex Employee
	5,600	560	2,576	Aslam Khaliq – Ex Employee
– by auction	585	59	176	Muhammad Kamran – Karachi
	618	62	136	Muhammad Kamran – Karachi
	618	62	154	Muhammad Kamran – Karachi
	627	63	348	Muhammad Farooq – Toba Tek Singh
	627	63	350	Junaid ul Hasan – Rawalpindi
	627	63	400	Zahid Rasool – Islamabad
	750	75	640	Habib Ahmed – Islamabad
	751	295	527	Liaquat Ali Khan – Rawalpindi
	778	78	432	Syed Asad Ali Shah – Islamabad
	778	78	432	Taimoor Abbassi – Rawalpindi
	835	278	243	Raja Muhammad Farooq – Rawalpindi
	849	85	586	Nadeem ul Hasan – Peshawar
	849	85	671	Arshad Qayoom – Rawalpindi
	909	91	630	Alam Zaib – Islamabad
	939	94	649	Muhammad Nazeer – Islamabad
	1,014	101	368	Khiyal Badshah – Karachi
	1,014	101	506	Shahidullah Jan – Charsaddah
	1,079	108	749	Raja Rifaqat Ali – Wah
	1,039	217	774	Salman Mehboob – Rawalpindi
	1,056	440	650	Adil Iqbal – Islamabad
	1,136	114	571	Khurram Mehboob – Rawalpindi
	3,300	330	1,360	Ch. Muhammad Salim – Rawalpindi
– by insurance claim	74	66	73	New Hampshire Insurance Company Limited
	402	235	418	New Hampshire Insurance Company Limited
	408	264	354	New Hampshire Insurance Company Limited
	408	264	354	New Hampshire Insurance Company Limited
	423	388	397	New Hampshire Insurance Company Limited
	885	276	977	New Hampshire Insurance Company Limited
	885	332	553	New Hampshire Insurance Company Limited
	1,309	709	810	New Hampshire Insurance Company Limited
	39,348	7,585	19,408	

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15. Long term investment in subsidiary company

This represents 500,001 (2007: 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 (2007: Rs 10 per share) based on audited accounts for the year ended December 31, 2008.

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

	2008 Rs '000	2007 Rs '000
16. Long term loans		
Related parties		
Key management personnel	524	470
Others		
Executives	8,590	11,863
Other employees	4,780	6,099
	13,370	17,962
	13,894	18,432
Less: Receivable within one year – note 21	4,650	5,919
	9,244	12,513

All long term loans are considered good.

16.1 Reconciliation of loans due from executive directors, executives and other employees:

	Executive directors		Executives				Other employees		Total	
			Key management personnel		Other executives					
	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000
Balance as at January 1	–	110	470	445	11,863	7,489	6,099	17,582	18,432	25,626
Disbursements	–	–	351	141	2,083	5,382	1,998	3,044	4,432	8,567
Repayments	–	110	297	116	5,356	1,008	3,317	14,527	8,970	15,761
Balance as at December 31	–	–	524	470	8,590	11,863	4,780	6,099	13,894	18,432

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

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

	2008 Rs '000	2007 Rs '000
Key management personnel	673	517
Other executives	12,415	15,513
	13,088	16,030

	2008 Rs '000	2007 Rs '000
17. Long term deposits and prepayments		
Security deposits	13,187	12,303
Prepayments	27,985	722
	41,172	13,025
18. Stock–in–trade		
Raw materials	3,363,648	3,237,065
Raw materials in transit	183,180	255,229
Work in process	27,754	23,258
Finished goods	484,481	482,629
	4,059,063	3,998,181

The costs of stock–in–trade recognized as expense and included in cost of sales amounted to Rs 8,530,494 thousand (2007: Rs 6,866,981 thousand).

Stock–in–trade written off during the year was Rs 15,086 thousand (2007: Rs 38,915 thousand).

	2008 Rs '000	2007 Rs '000
19. Stores and spares		
Stores	1,518	1,412
Machine spares	187,133	137,370
Machine spares in transit	1,995	1,995
	190,646	140,777

The amount of stores and spares written off during the year was Rs 5,117 thousand (2007:Rs 9,194 thousand).

	2008 Rs '000	2007 Rs '000
20. Trade debts		
Considered good	2,666	2,386
Considered doubtful	2,322	2,322
	4,988	4,708
Provision for doubtful debts	(2,322)	(2,322)
	2,666	2,386

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	2008 Rs '000	2007 Rs '000
21. Loans and advances		
Related parties – unsecured		
Loans to key management personnel – note 16	172	105
Advances due from key management personnel	1,446	568
Others		
Loans to executives and other employees – note 16	4,478	5,814
Advances due from executives and other employees – note 21.1	24,599	19,176
Advances due from others	35,222	12,917
	65,917	38,580

All loans and advances are considered good.

21.1 Includes Rs 11,934 thousand (2007: Rs 10,891 thousand) due from executives of the Company.

	2008 Rs '000	2007 Rs '000
22. Other receivables		
Related parties – unsecured		
Due from holding company / associated companies – note 22.1	61,587	46,217
Due from subsidiary company	24,835	24,507
Employees' provident fund	48,653	389
Management provident fund	–	1,186
Workers' Profit Participation Fund	–	1,000
Others		
Sales tax adjustable	–	85,516
Margin against guarantees	81,057	4,569
Claims	22,757	65,089
Others	7,786	1,418
	246,675	229,891

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

	2008 Rs '000	2007 Rs '000
Holding Company		
British American Tobacco p.l.c. – UK	5,005	4,225
Associated Companies		
BAT Asia–Pacific Region Ltd – Hong Kong	36,893	24,588
BAT SAA Services (Private) Limited – Pakistan	10,616	–
BAT Bangladesh Co. Ltd – Bangladesh	5,895	3,507
BAT Aspac Service Centre – Malaysia	819	–
Ceylon Tobacco Company Plc – Sri Lanka	780	4,080
BAT (Thailand) Ltd – Thailand	–	3,630
BAT Nigeria Ltd – Nigeria	–	1,330
BAT Uzbekistan Ltd – Uzbekistan	–	1,264
BAT Uganda Ltd – Uganda	–	1,083
BAT Equatorial Africa Area Ltd – Kenya	–	837
Tobacco Marketing Consultants – Senegal	–	634
Rothmans Far East B.V – South Korea	343	375
BAT Prilucky Tobacco Co Ltd – Ukraine	–	230
BAT Syria Ltd – Syria	–	176
BAT (Malaysia) Berhad – Malaysia	–	156
BAT FZ LLC – Dubai	–	102
BAT Vietnam Ltd – Vietnam	324	–
PT Export Leaf Indonesia – Indonesia	299	–
BAT (Taiwan) Ltd – Taiwan	266	–
BAT (Singapore) Pte Ltd – Singapore	233	–
BAT China Ltd – China	114	–
	61,587	46,217

23. Cash and bank balances

Deposit accounts	16,748	14,205
Current accounts		
Local currency	18,362	24,862
Foreign currency	32,159	79,001
	67,269	118,068
Cash in transit	1,199	46,934
Cash in hand	704	1,664
	69,172	166,666

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	2008 Rs '000	2007 Rs '000
24. Trade and other payables		
Related parties – unsecured		
Due to holding company / associated companies – note 24.1	204,614	182,441
Others		
Creditors	680,602	536,087
Restructuring cost	–	14,720
Federal excise duty – note 24.2	2,176,647	1,665,499
Sales tax	528,318	–
Tobacco excise duty / Tobacco development cess – note 24.3	64,509	63,474
Accrued liabilities	220,605	103,815
Other employee benefits – note 24.4	306,673	293,903
Management provident fund	3,325	–
Staff pension fund – defined contribution	662	–
Workers' Profit Participation Fund	2,099	–
Workers' Welfare Fund	88,470	76,913
Advances from customers	7,292	69,551
Security deposits	16,748	14,205
Unpaid and unclaimed dividend	24,140	527,629
	4,324,704	3,548,237

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

	2008 Rs '000	2007 Rs '000
Holding Company		
British American Tobacco p.l.c. – UK	102,584	96,893
Associated Companies		
BAT Asia–Pacific Region Ltd – Hong Kong	81,856	42,338
BAT Bangladesh Co. Ltd – Bangladesh	10,413	92
Souza Cruz Overseas, S.A – Brazil	–	24,891
BAT (Singapore) Pte Ltd – Singapore	2,833	2,902
Ceylon Tobacco Company Plc – Sri Lanka	3,126	1,008
BAT FZ LLC – Dubai	2,236	–
BAT Australia Ltd EFT – Australia	638	58
BAT (Malaysia) Berhad – Malaysia	523	14,219
Nobleza Picardo – Argentina	253	–
BAT Switzerland SA – Switzerland	86	–
C.A Cigarrera Bigott – Venezuela	66	–
BAT Vietnam Ltd – Vietnam	–	40
	204,614	182,441

24.2 Federal excise duty

	2008 Rs '000	2007 Rs '000
Balance as at January 1	1,665,499	739,118
Charge for the year	23,378,440	19,311,946
Payment to the Government during the year	(22,867,292)	(18,385,565)
Balance as at December 31	2,176,647	1,665,499

		2008 Rs '000	2007 Rs '000
24.3	**Tobacco excise duty / Tobacco development cess:**		
	Balance as at January 1	63,474	58,784
	Charge for the year	65,006	62,300
	Payment to the Government during the year	(63,971)	(57,610)
	Balance as at December 31	64,509	63,474
24.4	**Other employee benefits**		
	Balance as at January 1	293,903	183,907
	Charge for the year	261,025	282,076
	Payment to employees during the year	(248,255)	(172,080)
	Balance as at December 31	306,673	293,903

Other employee benefits represent bonus to eligible employees.

25. Short term borrowings – Secured

	2008 Rs '000	2007 Rs '000
From banking companies		
Short term loan	–	360,000
Short term running finance	572,397	678,550
	572,397	1,038,550

(a) Short term running finance

Short term running finance facilities available under mark–up arrangements with banks amount to Rs 2,800 million (2007: Rs 2,600 million), out of which the amount unavailed at the year end was Rs 2,228 million (2007: Rs 1,921 million). These facilities are secured by hypothecation of stock in trade amounting to Rs 3,734 million (2007: Rs 3,734 million). The mark–up ranges between 9.87% and 17% (2007: 9.52% and 11.14%) per annum and is payable quarterly. The facilities are renewable on annual basis.

(b) Non–funded finance facilities

The Company has also non–funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 1,545 million (2007: Rs 1,545 million) and Rs 235 million (2007: Rs 140 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 617 million (2007: Rs 620 million) and Rs 118 million (2007: Rs 108 million) for letter of credit and letter of guarantee respectively. The letter of guarantee facility is secured by second ranking hypothecation charge over stock–in–trade amounting to Rs 285 million (2007: Rs 190 million).

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	2008 Rs '000	Restated 2007 Rs '000
26. Retirement benefits		
Staff pension fund	536,808	336,498
Employees gratuity fund	202,325	153,005
	739,133	489,503

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2008 using the projected unit credit method. Details of the defined benefit plans are:

	Defined benefit pension plan		Defined benefit gratuity plan	
	2008 Rs '000	Restated 2007 Rs '000	2008 Rs '000	Restated 2007 Rs '000
(a) The amounts recognized in the balance sheet:				
Present value of defined benefit obligations	1,769,557	1,704,382	460,720	490,379
Fair value of plan assets	(1,232,749)	(1,367,884)	(258,395)	(337,374)
Net liability	536,808	336,498	202,325	153,005
(b) Movement in the liability recognized in the balance sheet is as follow:				
Balance as at January 1	336,498	–	153,005	–
Effect of change in accounting policy	–	210,705	–	117,410
Restated balance as at January 1	336,498	210,705	153,005	117,410
Charge for the year – SORIE	185,689	130,748	65,281	41,639
Charge for the year – profit and loss account	88,474	71,077	39,834	33,032
Payments during the year	(73,853)	(76,032)	(55,795)	(39,076)
Balance as at December 31	536,808	336,498	202,325	153,005
(c) The amounts recognized in the profit and loss account:				
Net current service cost	54,767	49,906	25,425	22,049
Interest on obligation	171,858	142,617	48,720	38,727
Expected return on plan assets	(138,151)	(121,446)	(34,311)	(27,744)
	88,474	71,077	39,834	33,032

(d) The aggregate amounts recognized in the statement of recognized income and expense are as follows:

	2008 Rs '000	Restated 2007 Rs '000
Defined benefit pension plan	185,689	130,748
Defined benefit gratuity plan	65,281	41,639
	250,970	172,387

The cumulative actuarial losses recognized in the statement of recognized income and expense in respect of both defined benefit plans are Rs 751,472 thousand (2007: Rs 500,502 thousand).

		Defined benefit pension plan		Defined benefit gratuity plan	
		2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
(e)	**Changes in the present value of defined benefit obligation:**				
	Present value of defined benefit obligation as at Jan 1	1,704,382	1,413,319	490,379	388,407
	Net current service cost	54,767	49,906	25,425	22,049
	Interest cost	171,858	142,617	48,720	38,727
	Actuarial (gains) / losses	(119,638)	122,206	(1,942)	46,209
	Contribution by plan participants	24,528	20,189	–	–
	Recovery against secondees	11,047	5,334	3,026	1,784
	Benefits paid	(77,387)	(49,189)	(104,888)	(6,797)
	Present value of defined benefit obligation as at Dec 31	1,769,557	1,704,382	460,720	490,379
(f)	**Changes in the fair value of plan assets:**				
	Fair value of plan assets as at Jan 1	1,367,884	1,202,614	337,374	270,997
	Expected return	138,151	121,446	34,311	27,744
	Actuarial (losses)/gains	(305,327)	(8,542)	(67,223)	4,570
	Contribution by plan participants	24,528	20,189	–	–
	Recovery against secondees	11,047	5,334	3,026	1,784
	Contributions by employer	73,853	76,032	55,795	39,076
	Benefits paid	(77,387)	(49,189)	(104,888)	(6,797)
	Fair value of plan assets as at Dec 31	1,232,749	1,367,884	258,395	337,374
	Actual return on plan assets	(195,225)	108,568	(30,580)	27,592

During the year 2009 the Company expects to contribute Rs 185.128 million and Rs 63.797 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
(g)	**The major categories of plan assets:**				
	Investment in equities	49,604	100,955	14,999	30,127
	Investment in bonds	741,272	736,049	163,810	225,909
	Cash and cash equivalents	441,873	530,880	79,586	81,338
		1,232,749	1,367,884	258,395	337,374
(h)	**Significant actuarial assumptions at the balance sheet date:**				
	Discount rate	15%	10%	15%	10%
	Expected return on plan assets	10%	10%	10%	10%
	Future salary increases	17%	14%	17%	14%
	Future pension increases	11%	6%	–	–

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.

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	2008 Rs '000	2007 Rs '000	2006 Rs '000	2005 Rs '000	2004 Rs '000
(i) Amounts for the current and previous four years:					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	(1,769,557)	(1,704,382)	(1,413,319)	(1,214,950)	(965,451)
Fair value of plan assets	1,232,749	1,367,884	1,202,614	1,036,970	963,846
Deficit	(536,808)	(336,498)	(210,705)	(177,980)	(1,605)
Experience adjustments on plan liabilities	(63,120)	(122,206)	(97,267)	(73,958)	2,330
Experience adjustments on plan assets	(333,376)	12,878	(27,420)	43,548	70,279
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	(460,720)	(490,379)	(388,407)	(316,968)	(215,533)
Fair value of plan assets	258,395	337,374	270,997	224,990	213,021
Deficit	(202,325)	(153,005)	(117,410)	(91,978)	(2,512)
Experience adjustments on plan liabilities	(73,527)	(46,209)	(39,159)	(43,111)	(13,834)
Experience adjustments on plan assets	(64,891)	152	(7,230)	4,585	15,694

26.1 Salaries, wages and benefits as appearing in note 5, 6 and 7 include amounts in respect of the following:

	2008 Rs '000	2007 Rs '000
Provident Fund	42,597	36,620
Pension Fund	88,474	71,077
Gratuity Fund	39,834	33,032
	170,905	140,729

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27. Deferred taxation

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

	2008 Rs '000	Restated 2007 Rs '000
The offset amounts are as follows:		
Deferred tax assets	258,697	171,326
Deferred tax liabilities	1,095,636	980,435
Deferred tax liability (net)	836,939	809,109
The gross movement on deferred income tax account is as follows:		
At January 1	809,109	730,163
Charge for the year – profit and loss account	115,201	135,432
Credit for the year – SORIE	(87,371)	(56,486)
At December 31	836,939	809,109

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

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

	2008 Rs '000	2007 Rs '000
Balance as at January 1	980,435	845,004
Charge for the year	115,201	135,431
Balance as at December 31	1,095,636	980,435

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

	2008 Rs '000	Restated 2007 Rs '000
Balance as at January 1	171,326	–
Effect of change in policy	–	114,840
Restated balance as at January 1	171,326	114,840
Credit for the year – SORIE	87,371	56,486
Balance as at December 31	258,697	171,326

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28. Share capital

28.1 Authorized share capital

2008 (Number of shares)	2007		2008 Rs '000	2007 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

28.2 Issued, subscribed and paid–up capital

2008 (Number of shares)	2007		2008 Rs '000	2007 Rs '000
230,357,068	230,357,068	Cash	2,303,571	2,303,571
25,136,724	25,136,724	Bonus shares	251,367	251,367
255,493,792	255,493,792		2,554,938	2,554,938

British American Tobacco (Investments) Limited held 241,045,141 (2007: 241,045,141) ordinary shares at the year end.

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

29. Statement of movement in equity

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance as at December 31, 2006	2,554,938	1,584,249	4,139,187
Effect of change in accounting policy as referred in note 2.10		(213,275)	(213,275)
Restated balance	2,554,938	1,370,974	3,925,912
Final dividend of Rs 4.40 per share relating to the year ended December 31, 2006		(1,124,173)	(1,124,173)
Profit for the year		2,420,207	2,420,207
Actuarial loss on defined benefit plans (net of tax)		(112,051)	(112,051)
1st Interim dividend of Rs 1.50 per share relating to the year ended December 31, 2007		(383,241)	(383,241)
2nd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2007		(510,987)	(510,987)
3rd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2007		(510,987)	(510,987)
Balance as at December 31, 2007	2,554,938	1,149,742	3,704,680
Final dividend of Rs 3.90 per share relating to the year ended December 31, 2007		(996,426)	(996,426)
Profit for the year		2,532,295	2,532,295
Actuarial loss on defined benefit plans (net of tax)		(163,130)	(163,130)
1st Interim dividend of Rs 1.75 per share relating to the year ended December 31, 2008		(447,114)	(447,114)
2nd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008		(510,987)	(510,987)
3rd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008		(510,987)	(510,987)
Balance as at December 31, 2008	2,554,938	1,053,393	3,608,331

30. Contingencies and commitments

	2008 Rs '000	2007 Rs '000
30.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Company not acknowledged as debt	87,688	59,944
(ii) Guarantees issued by banks on behalf of the Company	118,008	107,908

(b) Litigation

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

30.2 Commitments

(a) All property rentals are under cancelable operating lease arrangements as follows:

	2008 Rs '000	2007 Rs '000
– due not later than one year	26,770	63,648
– due later than one year and not later than five years		
within 2 years	67,275	27,164
within 3 years	96,109	24,198
within 4 years	29,321	23,131
within 5 years	28,744	23,469
– due later than five years	9,241	16,859

(b) Letters of credit outstanding at December 31, 2008 were Rs 616,502 thousand (2007: Rs 620,219 thousand), out of which Rs nil (2007: Rs 462,362 thousand) were hedged through forward foreign currency contracts with various banks.

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31. Financial instruments

Financial assets and liabilities

	2008			2007		
	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	Rs '000	Rs '000	Rs '000	Rs '000
Financial assets						
Maturity up to one year:						
Trade debts	–	2,666	2,666	–	2,386	2,386
Loans and advances	–	65,917	65,917	–	38,580	38,580
Other receivables						
Local Currency	–	147,051	147,051	–	95,583	95,583
Foreign Currency	–	50,971	50,971	–	46,217	46,217
Cash and bank balances						
Local Currency	16,748	20,265	37,013	14,205	73,460	87,665
Foreign Currency	–	32,159	32,159	–	79,001	79,001
Maturity after one year:						
Loans	–	9,244	9,244	–	12,513	12,513
Security deposits	–	13,187	13,187	–	12,303	12,303
	16,748	341,460	358,208	14,205	360,043	374,248
Financial liabilities						
Maturity up to one year:						
Trade and other payables						
Local Currency		1,416,379	1,416,379		1,636,334	1,636,334
Foreign Currency		131,559	131,559		113,379	113,379
Accrued interest / mark–up	–	10,354	10,354	–	8,401	8,401
Short term borrowings	572,397	–	572,397	1,038,550	–	1,038,550
	572,397	1,558,292	2,130,689	1,038,550	1,758,114	2,796,664
Off balance sheet items						
Letters of credit	–	616,502	616,502	–	620,219	620,219
Bank guarantees	–	118,008	118,008	–	107,908	107,908
	–	734,510	734,510	–	728,127	728,127

32. Transactions with related parties

British American Tobacco (Investments) Limited (BAT–IL) holds 94.34% (2007: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT–IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Company. Such entities are also referred to as 'BAT' in these financial statements. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is disclosed in note 13 to the financial statements.

Rs '000

	Purchase				Royalty		Reimbursement of Expenses		Sales				Expenses on behalf of related party	
	Goods		Services						Goods		Services			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Ultimate parent company														
British American Tobacco, p.l.c – UK	70,116	12,931	173,697	117,952	306,162	267,604	19	–	–	–	5,105	2,616	263	458
Associated Companies														
BAT Asia–Pacific Region Ltd, Hong Kong	–	–	91,473	90,821	–	–	–	–	–	–	20,433	11,054	–	934
BAT Australia Ltd EFT, Australia	723	50		1,023	–	–	–	–	–	–	–	–	265	–
BAT Bangladesh Co. Ltd, Bangladesh	154,343	68,979	10,315	267	–	–	467	–	–	–	3,908	3,276	75	232
Ceylon Tobacco Company Plc, Sri Lanka	–	–	3,111	244	–	–	562	136	–	–	3,314	408	188	208
C.A Cigarrera Bigott, Venezuela	66	–	–	–	–	–	–	–	–	–	–	–	–	–
BAT Cambodia Ltd, Cambodia	–	–	–	–	–	–	–	44	–	–	261	–	–	–
BAT China Ltd, China	–	–	4,640	–	–	–	–	–	–	–	261	–	114	–
BAT FZ LLC, Dubai	–	–	2,236	–	–	–	–	–	–	–	–	1,401	–	–
BAT (Germany) Gmbh, Germany	–	–	–	542	–	–	–	–	–	–	–	–	–	–
BAT Japan Ltd, Japan	–	–	–	–	–	–	–	–	–	–	121	–	–	–
Nobleza Picardo – Argentina	253	–	–	–	–	–	–	–	–	–	–	–	–	–
PT BAT Indonesia Tbk, Indonesia	235	132,873	–	–	–	–	–	10	–	12,966	261	–	–	70
PT Export Leaf Indonesia, Indonesia	–	–	–	–	–	–	–	–	–	–	696	–	–	
Rothmans Far East B.V, South Korea	–	–	570	–	–	–	–	–	–	–	1,527	1,439	–	–
BAT Equatorial Africa Area Ltd, Kenya	–	–	–	–	–	–	–	–	–	–	981	7,440	–	–
BAT Aspac Service Centre, Malaysia	1,240	–	49,044	42,252	–	–	–	–	–	–	2,102	606	255	97
BAT Nigeria Ltd, Nigeria	–	–	–	–	–	–	–	–	–	–	–	1,665	–	–
BAT New Zealand EFT, New Zealand	–	–	–	–	–	–	–	–	–	–	–	–	130	–
BAT Switzerland SA, Switzerland	86	–	–	–	–	–	–	–	–	–	–	–	–	–
Tobacco Marketing Consultants, Senegal	–	–	–	–	–	–	–	–	–	–	1,402	952	–	–
BAT (Singapore) Pte Ltd, Singapore	17,394	28,843	3,228	7,879	–	–	28	–	–	–	522	–	233	–
Souza Cruz Overseas, S.A., Brazil	232,539	256,356	502	–	–	–	–	–	–	–	–	–	–	–
Solomon Islands Tobacco Co Ltd	–	–	–	–	–	–	–	–	–	–	–	5,737	–	299
BAT SA (Pty) Ltd, South Africa	–	–	–	30	–	–	–	–	–	–	–	–	–	–
BAT Syria Ltd, Syria	–	–	–	–	–	–	–	–	–	–	–	681	–	–
BAT (Taiwan) Ltd, Taiwan	–	–	–	–	–	–	–	–	–	–	1,868	–	–	
BAT (Thailand) Ltd, Thailand	–	–	1,781	–	–	–	–	–	–	–	–	3,630	–	–
BAT Uganda Ltd, Uganda	–	–	–	–	–	–	–	–	–	–	1,934	4,286	–	238
BAT Prilucky Tobacco Co Ltd, Ukraine	–	–	–	–	–	–	–	–	–	–	1,379	880	121	–
BAT Uzbekistan Ltd, Uzbekistan	–	–	–	–	–	–	–	–	–	–	598	1,264	–	–
BAT Vietnam Ltd, Vietnam	–	–	–	–	–	–	–	40	–	–	2,628	179	323	486
Imperial Tobacco Company, Canada	–	16,342	–	–	–	–	–	–	–	–	–	–	–	–
BAT SAA Services (Private) Limited, Pakistan	–	–	–	–	–	–	–	–	–	–	10,616	–	–	–
ICI Pakistan Limited	55,640	35,920	–	–	–	–	–	–	–	–	–	–	–	–
Pakistan State Oil Company Ltd	134,183	27,981	6,258	6,320	–	–	–	–	–	–	–	–	–	–
Contribution to retirement benefit funds by the Company														
Provident Fund	–	–	42,597	36,620	–	–	–	–	–	–	–	–	–	–
Pension Fund	–	–	88,474	71,077	–	–	–	–	–	–	–	–	–	–
Gratuity Fund	–	–	39,834	33,032	–	–	–	–	–	–	–	–	–	–
Subsidiary company														
Phoenix (Private) Limited, Azad Jammu and Kashmir	–	–	–	–	–	–	–	–	–	–	–	–	328	325

Notes to the Financial Statements
for the year ended December 31, 2008

33. Post balance sheet event

Final dividend in respect of the year ended December 31, 2008 of Rs 2.30 (2007: Rs 3.90) per share amounting to a total dividend of Rs 587,636 thousand (2007: 996,426 thousand) has been proposed, over and above the interim dividends of Rs 5.75 (2007: Rs 5.50) per share paid during the year, out of the unappropriated profit at the Board of Directors meeting held on March 20, 2009. These financial statements do not reflect this proposed dividend.

34. General

34.1 Capacity and production

Against an estimated manufacturing capacity of 43,991 million (2007: 42,797 million) cigarettes, actual production was 41,159 million (2007: 38,183 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

34.2 Number of employees

Total number of employees as at December 31, 2008 was 1,655 (2007: 1,668).

34.3 Corresponding figures

(i) Consequent to change in accounting policy for recognition of actuarial gains and losses on defined benefit plans, corresponding figures have been restated as referred to in note 2.10.

(ii) Federal excise duty amounting to Rs 19,311,946 has been shown as reduction from gross turnover. Previously this was shown under cost of sales.

34.4 Date of authorization

These financial statements have been authorized for issue by the Board of Directors of the Company on March 20, 2009.

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Phoenix (Private) Limited

Financial Statements

for the Year ended December 31, 2008

Company Information

BOARD OF DIRECTORS

SYED NASIR SHAMS
Chief Executive

AHMED ZEB
Director

KHALIL AHMED
Director

NAVEED AFTAB AHMAD
Director & Company Secretary

AUDITORS

A.F. FERGUSON & CO
Chartered Accountants

REGISTERED OFFICE

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

Directors' Review

PAKISTAN TOBACCO COMPANY

The Directors have pleasure in presenting report together with the Audited Accounts of the Company for the year ended December 31, 2008.

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

Khalil Ahmed
Director

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Phoenix (Private) Limited (the Company) as at December 31, 2008 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 conduct 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 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 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, 2008 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), by the Company.

Chartered Accountants

Islamabad

Date : March 20, 2009

Balance Sheet
as at December 31, 2008

Pakistan Tobacco Company

	Note	2008 Rs '000	2007 Rs '000
Property, plant and equipment	3	29,857	29,529
Preliminary expenses	4	1	1
Current assets			
Balance with bank in current account		4	4
Less:current liablities			
Trade and other payables	5	24,862	24,534
Net current liablities		(24,858)	(24,530)
		5,000	5,000
Financed by:			
Share capital	6	5,000	5,000
		5,000	5,000

The annexed notes 1 to 8 form an integral part of these financial statements.

Syed Nasir Shams
Chief Executive

Khalil Ahmed
Director

Cash Flow Statement
for the year ended December 31, 2008

	2008 Rs '000	2007 Rs '000
Cash flow from investing activities		
Capital work–in–progress	(328)	(325)
Net cash outflow from investing activities	(328)	(325)
Cash flow from financing activities		
Cash received from Pakistan Tobacco Company Limited	328	325
Net cash inflow from financing activities	328	325
Net (decrease)/ increase 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 1 to 8 form an integral part of these financial statements.

Syed Nasir Shams
Chief Executive

Khalil Ahmed
Director

1. Legal status and operations

Phoenix (Private) Limited (the Company) is a private Company incorporated on March 9, 1992 in Azad Jammu and Kashmir under the Companies Ordinance, 1984.The registered office of the Company is situated at Bun Khuma, Chichian Road, Mirpur, Azad Jammu and Kashmir.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 is a wholly owned subsidiary of Pakistan Tobacco Company Limited, Pakistan and its ultimate parent company is British American Tobacco p.l.c, United Kingdom.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has not yet commenced its commercial operations, therefore, the Profit and Loss account has not been prepared.

2.1 Statement of compliance

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

2.2 Property, plant and equipment

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

	2008 Rs '000	2007 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	4,809	4,481
	26,493	26,165
	29,857	29,529
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

Notes to the Financial Statements
for the year ended December 31, 2008

		2008 Rs '000	2007 Rs '000
5.	**Trade and other payables**		
	Due to Pakistan Tobacco Company Limited	24,835	24,507
	Others	27	27
		24,862	24,534

6. Share capital

6.1 Authorized share capital

2008	2007		2008	2007
(Number of shares)			Rs '000	Rs '000
5,000,000	5,000,000	Ordinary shares of Rs 10 each	50,000	50,000

6.2 Issued, subscribed and paid–up capital

2008	2007		2008	2007
(Number of shares)			Rs '000	Rs '000
500,001	500,001	Fully Paid in cash	5,000	5,000

All the shares of the Company are held by Pakistan Tobacco Company Limited.

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

		2008 Rs '000	2007 Rs '000
7.	**Financial assets and liabilities**		
	Maturity upto one year		
	Not exposed to interest rate risk		
	FINANCIAL ASSETS		
	Balance with bank in current account	4	4
	FINANCIAL LIABILITIES		
	Trade and other payables	24,862	24,534

7.1 Fair value of financial assets and liabilities

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

8. Date of authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on March 20, 2009.

Syed Nasir Shams
Chief Executive

Khalil Ahmed
Director

Pakistan Tobacco Company Limited

Consolidated Financial Statements

for the Year ended December 31, 2008

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan Tobacco Company Limited (the Company) and its subsidiary Company, Phoenix (Private) Limited as at December 31, 2008 and the related consolidated profit and loss account, consolidated statement of recognized income and consolidated cash flow statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of the Company and its subsidiary Company. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the consolidated financial statements present fairly the financial position of the Company and its subsidiary company consolidated therein as at December 31, 2008 and the results of their operations for the year then ended.

Chartered Accountants

Date : March 20, 2009

Islamabad

Consolidated Profit and Loss Account

for the year ended December 31, 2008

	Note	2008 Rs '000	Restated 2007 Rs '000
Gross turnover		49,053,928	40,889,275
Excise duties		23,378,440	19,311,946
Sales tax		6,829,699	5,534,452
Turnover - net of sales tax and excise duties		18,845,789	16,042,877
Cost of sales	5	11,569,030	9,527,306
Gross profit		7,276,759	6,515,571
Marketing and distribution expenses	6	1,933,364	1,795,793
Administrative expenses	7	928,358	736,147
		2,861,722	2,531,940
Operating profit		4,415,037	3,983,631
Other income	8	120,151	102,634
Other expenses	9	588,147	311,374
		3,947,041	3,774,891
Finance cost	10	53,324	50,317
Profit before taxation		3,893,717	3,724,574
Taxation	11	1,361,422	1,304,367
Profit for the year		2,532,295	2,420,207
Earnings per share - basic and diluted (Rupees)	12	9.91	9.47

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Consolidated Balance Sheet
as at December 31, 2008

	Note	2008 Rs '000	Restated 2007 Rs '000
Property, plant and equipment	14	5,629,615	5,183,855
Long term loans	15	9,244	12,513
Long term deposits and prepayments	16	41,172	13,025
Current assets			
Stock-in-trade	17	4,059,063	3,998,181
Stores and spares	18	190,646	140,777
Trade debts	19	2,666	2,386
Loans and advances	20	65,917	38,580
Short term prepayments		105,728	64,887
Other receivables	21	221,841	205,385
Cash and bank balances	22	69,176	166,670
		4,715,037	4,616,866
Less: current liabilities			
Trade and other payables	23	4,324,731	3,548,264
Accrued interest / mark-up		10,354	8,401
Short term borrowings	24	572,397	1,038,550
Income tax payable		303,183	227,752
		5,210,665	4,822,967
Net current liabilities		(495,628)	(206,101)
Retirement benefits	25	(739,133)	(489,503)
Deferred taxation	26	(836,939)	(809,109)
Net assets		3,608,331	3,704,680
Financed by:			
Share capital and reserves			
Share capital	27	2,554,938	2,554,938
Revenue reserves	28	1,053,393	1,149,742
		3,608,331	3,704,680
Contingencies and commitments	29		

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Consolidated Statement of Recognized Income and Expense

for the year ended December 31, 2008

	Note	2008 Rs '000	Restated 2007 Rs '000
Actuarial loss on defined benefit plans	25	(250,970)	(172,387)
Tax credit related to actuarial loss on defined benefit plans	11	87,840	60,336
Net expense recognized directly in equity	28	(163,130)	(112,051)
Profit for the year		2,532,295	2,420,207
Total recognized income for the year		2,369,165	2,308,156

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Consolidated Cash Flow Statement
for the year ended December 31, 2008

	2008 Rs '000	2007 Rs '000
Cash flow from operating activities		
Cash receipts from customers	48,988,209	40,954,716
Cash paid to Government for federal excise duty, Sales tax and other levies	(29,499,997)	(24,851,618)
Cash paid to suppliers	(11,225,963)	(9,219,439)
Cash paid as royalty	(294,714)	(262,538)
Cash paid to employees and retirement funds	(2,138,229)	(1,659,487)
Income tax paid	(1,170,321)	(1,171,046)
Other cash payments	(291,225)	(244,404)
Net cash from operating activities	4,367,760	3,546,184
Cash flow from investing activities		
Purchase of property, plant and equipment	(1,073,693)	(1,190,949)
Proceeds from sale of property, plant and equipment	35,366	39,524
Net cash used in investing activities	(1,038,327)	(1,151,425)
Cash flow from financing activities		
Dividend paid	(2,969,003)	(2,014,232)
Financial charges paid	(51,371)	(53,031)
Interest received	59,600	30,878
Net cash used in financing activities	(2,960,774)	(2,036,385)
Net increase in cash and cash equivalents	368,659	358,374
Cash and cash equivalents at January 1	(871,880)	(1,230,254)
Cash and cash equivalents at December 31	(503,221)	(871,880)
Cash and cash equivalents comprise:		
Cash and bank balances	69,176	166,670
Short term borrowings	(572,397)	(1,038,550)
	(503,221)	(871,880)

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

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008

1. The Group and its operations

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

Pakistan Tobacco Company Limited (the Company) is a public listed Company incorporated in Pakistan on November 18,1947 under the Companies Act, 1913 (now the Companies Ordinance, 1984) and its shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The Company is a subsidiary of British American Tobacco (Investments) Limited, United Kingdom, whereas its ultimate parent company is British American Tobacco p.l.c, United Kingdom. The registered office of the Company is situated at Dubai Plaza, Plot No. 5, Street 20, Salman Market, Sector F–11/2, Islamabad. The Company is engaged in the manufacture and sale of cigarettes.

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

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

2. Summary of significant accounting policies

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

2.1 Statement of compliance

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

(a) Standards, amendments and interpretations effective in 2008 but not relevant

IFRIC 11	Group and treasury share transaction
IFRIC 12	Service concession arrangements
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009), was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non–owner changes in equity') in the statement of changes in equity, requiring 'non–owner changes in equity' to be presented separately from owner changes in equity. All non–owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. Adoption of this standard will only impact the presentation of the consolidated financial statements.

IFRIC 13: Customer loyalty programmes, clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple–element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. Adoption of IFRIC 13 is not expected to have any significant impact on the Group's consolidated financial statements.

There are other amendments to the approved accounting standards and interpretations effective for the periods beginning from January 1, 2009 but are considered not to have any significant effect to the Group's operations.

(c) Amendments and interpretations to existing standards that are not yet effective and not relevant to the Group's operations

		Effective for periods beginning on or after
IFRS 1	First–time adoption of International Financial Reporting Standards	January 1, 2009
IFRS 2	Share–based payments	January 1, 2009
IFRS 3	Business combinations	July 1, 2009
IFRS 5	Non–current assets held–for–sale and discontinued operations	January 1, 2009
IFRS 8	Operating segments	January 1, 2009
IAS 20	Accounting for government grants and disclosure of government assistance	January 1, 2009
IAS 23	Borrowing costs	January 1, 2009
IAS 28	Investment in associates	January 1, 2009
IAS 29	Financial reporting in hyperinflationary economies	January 1, 2009
IAS 40	Investment property	January 1, 2009
IAS 41	Agriculture	January 1, 2009
IFRIC 15	Agreements for the construction of real estates	January 1, 2009
IFRIC 16	Hedges of a net investment in a foreign operation	October 1, 2008
IFRIC 17	Distribution of non–cash assets to owners	July 1, 2009
IFRIC 18	Transfer of assets from customers	July 1, 2009

2.2 Basis of measurement

These consolidated financial statements have been prepared, using accrual basis of accounting, under the historical cost convention except for modifications for financial instruments which are stated at fair value and certain employment benefits obligations which are measured at present values.

2.3 Consolidation – Subsidiaries

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

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

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

2.4 Functional and presentation currency

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

Notes to the Consolidated Financial Statements
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2.5 Foreign currency transactions and translation

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

2.6 Revenue recognition

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

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

(a) Sale of goods

The Group manufactures and sells cigarettes to its appointed distributors. Sales of goods are recognized when the Group has delivered products to the distributor and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributor, and either the distributor has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Income on bank deposits

Return on bank deposits and investments are accounted for on the time proportion basis using the applicable rate of return.

(c) Others

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

2.7 Taxation

The tax expense for the year comprises current and deferred income tax, and is recognized in the consolidated profit and loss account, except to the extent that it relates to items recognized directly in the equity, where the tax is also recognized in the equity.

(a) Current

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

(b) Deferred

Deferred income tax is accounted for using the balance sheet liability method, in respect of all temporary differences arising between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit.

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

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

2.8 Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.9 Contingent assets

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

2.10 Contingent liabilities

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

2.11 Employee benefits

(a) Retirement benefit plans

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

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

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

The Group operates:

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

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

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008

From the current year, the Group changed its accounting policy related to recognition of actuarial gains and losses on its defined benefit schemes. Previously, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions 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 were recognized over the expected average remaining working life of employees participating in the defined benefit schemes. In 2008, the Group has withdrawn the corridor approach and adopted the policy under which actuarial gains/losses will be recognized in full in the statement of recognized income and expense in the period in which they arise, rather than using partial deferral of such gains and losses through the corridor method as also permitted by IAS–19.

The Group believes that fully recognizing actuarial gains and losses where they occur results in a better presentation of the consolidated financial statements which is more in line with current market practice and expected financial reporting developments, thus providing more comparable market information.

The Group decided to apply the policy with effect from January 1, 2005, the date of adoption of the corridor approach by the Group. Accordingly, the corresponding figures have been restated to reflect these changes, including the presentation of a consolidated Statement of Recognized Income and Expense (SORIE) which has not been required under the previous accounting policy. The effect of this change on 2007 is tabulated below. Opening revenue reserves for 2007 have been reduced by Rs 213.275 million, which is the amount of the adjustment relating to periods prior to 2007.

	Rs '000
Effect on 2007	
Decrease in expense (net of tax)	7,149
Increase in expense recognized directly in SORIE (net of tax)	(112,051)
Total effect for 2007	(104,902)
Effect for periods prior to 2007	
Increase in expense directly recognized in equity (net of tax)	(213,275)
	(318,177)
Increase in retirement benefit obligation	(489,503)
Decrease in deferred tax liability	171,326
	(318,177)

The effect of change in accounting policy on 2008 is to reduce equity by Rs 163.130 million and increase profit by Rs 12.018 million.

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

(b) Termination benefits

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

(c) Medical benefit plans

The Group maintains a health insurance policy for its full time permanent employees. The Group contributes premium to the policy annually. Such premium is recognized as an expense in the consolidated profit and loss account.

(d) Bonus plans

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

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

2.12 Operating leases

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

2.13 Borrowing cost

Borrowing costs are expensed as incurred.

2.14 Related party transactions

Transactions with the holding company and associated companies mainly include sale and purchase of materials, manufactured goods and services. Such transactions and balances are separately disclosed in the consolidated financial statements.

2.15 Property, plant and equipment

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.16).

Gains and losses on disposals of operating fixed assets are taken to the consolidated profit and loss account.

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008

2.16 Impairment of non–financial assets

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

2.17 Financial assets

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

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short–term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Held to maturity

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

(iii) Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non–current assets. The Group's loans and receivables comprise trade debts, loans and advances, other receivables and cash and bank balances (note 2.21).

(iv) Available–for–sale

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available–for–sale financial assets, the impairment loss is removed from equity and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. Impairment testing of trade debts is described in note 2.21.

2.18 Stock–in–trade

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

2.19 Stores and spares

Stores and spares are stated at lower of cost and net realizable value. Cost is determined using weighted average method 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.

2.20 Dividend recognition

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

2.21 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes the party to the contractual provision of the instruments and de–recognised when the Group loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. The particular measurement method adopted are disclosed in the individual policy statements associated with each item as shown below:

(a) 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.

(b) Trade debts

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

(c) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short–term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the consolidated balance sheet.

Notes to the Consolidated Financial Statements
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2.22 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 offset the recognised amounts and the Group intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

3. Financial risk management

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Great Britain Pound Sterling (GBP). Currently, the Group's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/ payable from/to the foreign entities and outstanding letters of credit. Most of the Group's foreign exchange risk arising out of import letters of credit was being hedged through forward contracts, however, this facility has been currently suspended by the State Bank of Pakistan (SBP). The Group's risk management policy is to hedge between 90% and 100% of anticipated cash flows (mainly materials & capex imports) in each year.

If the functional currency, at the year end date, fluctuates by 5% against the USD and GBP with all other variables held constant, the impact on profit after taxation for the year would have been Rs. 0.33 million and Rs 1.96 million (2007: Rs 0.01 million and Rs 2.13 million) respectively higher/lower, mainly as a result of exchange gains/losses on translation of foreign exchange denominated trade receivables and payables.

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has no significant long–term interest–bearing assets. The Group's interest rate risk arises from short–term borrowings issued at variable rates.

If interest rates on short term borrowings, at the year end date, fluctuates by 1% higher/lower with all other variables held constant, profit after taxation for the year would have been Rs 3.72 million (2007: Rs 6.75 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from deposits with banks and receivables due from the holding company and other associated entities. The table below shows the balances held with/ receivable due from eight major counterparties at the balance sheet date:–

Counterparty	Rating Short term	Rating Long term	Rating Agency	Rs(million) 2008	Rs(million) 2007
Banks					
RBS The Royal Bank of Scotland	A1+	AA	PACRA	14.39	11.19
Habib Bank Limited	A–1+	AA+	JCR–VIS	7.08	12.53
MCB Bank Limited	A1+	AA+	PACRA	23.18	67.45
Citibank N.A.	P–1	Aa1	Moody's	17.76	67.81
				62.41	158.98
Holding Company and other associated entities					
British American Tobacco p.l.c. – UK				5.00	4.23
BAT Asia Pacific – Hong Kong				36.89	24.59
BAT SAA Services (Private) Limited				10.62	–
BAT Bangladesh Company Limited – Bangladesh				5.89	3.50
				58.40	32.32

Due to the Group's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non–performance by these counter parties on their obligations to the Group. Accordingly the credit risk is minimal.

(c) Liquidity risk

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

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2008, the Group had Rs 2,228 million available borrowing limit from financial institutions and Rs 69 million cash and bank balances. Further, the Group also has strong financial support from its holding company. Based on the above, inspite the fact that the Group is in a negative working capital position at the year end, management believes the liquidity risk to be low.

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short term borrowings as shown in the consolidated balance sheet) less cash and bank balances. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

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The gearing ratio as at December 31, 2008 was 12% (2007: 19%) and is calculated is as follows:

	Rs(million) 2008	Rs(million) 2007
Total borrowings	572	1,038
Less: cash and bank balances	69	167
Net debt	503	871
Total equity	3,608	3,705
Total capital	4,111	4,576
Gearing ratio	12%	19%

3.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

4. Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with approved accounting standards requires use of certain critical accounting estimates and assumptions. Estimates and judgments 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.

4.1 Critical accounting estimates and assumptions

(a) Provision for income taxes

The Group recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (note 2.7) is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

(b) Provision for retirement benefits

Actuarial valuation of gratuity and pension contributions (note 2.11) 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.

(c) Property, plant and equipment

The Group reviews useful life and residual value of property, plant and equipment (note 2.15) on regular basis. Any change in estimates may affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge.

4.2 Critical judgments in applying the entity's accounting policies

There have been no critical judgments made by the Group's management in applying the accounting policies that would have a significant effect on the amounts recognised in the consolidated financial statements except the actuarial losses in respect of defined benefit plans, which have been recognised in full in the consolidated Statement of Recognized Income and Expense.

		2008 Rs '000	Restated 2007 Rs '000
5.	**Cost of sales**		
	Raw material consumed		
	Opening stock of raw materials and work in process	3,515,552	3,294,469
	Raw material purchases and expenses – note 5.1	8,591,376	7,074,309
	Closing stock of raw materials and work in process	(3,574,582)	(3,515,552)
		8,532,346	6,853,226
	Government taxes and levies		
	Customs duty and surcharges	317,002	366,140
	Provincial and municipal taxes and other duties	100,873	94,344
		417,875	460,484
		8,950,221	7,313,710
	Royalty	306,162	267,604
	Production overheads		
	Salaries, wages and benefits	1,093,823	909,842
	Stores, spares and machine repairs	375,347	301,793
	Fuel and power	203,205	147,657
	Insurance	18,673	22,107
	Repairs and maintenance	83,890	57,924
	Postage, telephone and stationery	9,301	5,659
	Information technology / SAP implementation	67,845	59,945
	Depreciation – note 14.1	418,739	374,579
	Damaged and obsolete materials written off	19,526	24,236
	Sundries	24,150	28,495
		2,314,499	1,932,237
	Cost of goods manufactured	11,570,882	9,513,551
	Cost of finished goods		
	Opening stock	482,629	496,384
	Closing stock	(484,481)	(482,629)
		(1,852)	13,755
		11,569,030	9,527,306

5.1 Raw material purchases and expenses

	2008 Rs '000	Restated 2007 Rs '000
Materials	7,936,445	6,481,565
Salaries, wages and benefits	303,599	266,039
Stores, spares and machine repairs	111,896	108,004
Fuel and power	75,374	59,383
Property rentals	26,190	24,250
Insurance	3,109	3,781
Repairs and maintenance	701	191
Postage, telephone and stationery	4,235	2,567
Depreciation – note 14.1	96,307	91,889
Sundries	33,520	36,640
	8,591,376	7,074,309

Notes to the Consolidated Financial Statements
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		2008 Rs '000	Restated 2007 Rs '000
6.	**Marketing and distribution expenses**		
	Salaries, wages and benefits	306,208	236,355
	Selling expenses	1,249,080	1,198,765
	Damaged and obsolete materials written off	677	23,873
	Freight	199,655	162,438
	Property rentals	8,784	9,098
	Insurance	7,577	8,549
	Repairs and maintenance	72,543	74,366
	Postage, telephone and stationery	8,032	7,643
	Travelling	44,843	37,914
	Depreciation – note 14.1	35,965	36,792
		1,933,364	1,795,793
7.	**Administrative expenses**		
	Salaries, wages and benefits	519,728	412,659
	Fuel and power	10,126	7,708
	Property rentals	40,126	38,690
	Insurance	2,990	3,282
	Repairs and maintenance	40,743	20,467
	Postage, telephone and stationery	16,145	5,785
	Legal and professional charges	13,998	12,141
	Donations – note 7.1	4,565	5,742
	Information technology	105,541	96,278
	Travelling	81,893	54,542
	Depreciation – note 14.1	43,832	34,591
	Directors' fee	170	240
	Auditors' remuneration and expenses – note 7.2	5,403	4,537
	Sundries	43,098	39,485
		928,358	736,147

7.1 None of the directors and their spouses had any interest in any of the donees during the year.

		2008 Rs '000	2007 Rs '000
7.2	**Auditors' remuneration and expenses include:**		
	– Fee for statutory audit	950	820
	– Fee for group reporting, special certifications, audit of consolidated accounts, staff retirement benefit funds and review of half yearly accounts	2,330	1,680
	– Fee for tax compliance and advisory services	1,837	1,867
	– Out–of–pocket expenses	286	170
		5,403	4,537

	2008 Rs '000	2007 Rs '000
8. Other income		
Income from financial assets		
Interest on short term bank deposits	59,600	30,878
Net foreign exchange gain	29,261	4,458
Income from non–financial assets		
Gain on disposal of operating fixed assets	15,916	11,711
Income from associated company	10,616	–
Others		
Old liabilities written back	–	50,599
Miscellaneous	4,758	4,988
	120,151	102,634
9. Other expenses		
Workers' Profit Participation Fund	209,115	199,024
Workers' Welfare Fund	79,464	67,880
Head Office relocation expenses	18,602	–
Restructuring cost – note 9.1	267,326	44,470
Operating fixed assets and capital work in progress written off	13,640	–
	588,147	311,374

9.1 This includes Rs 223,623 thousand (2007: Rs 14,720 thousand) related to workforce rationalization costs.

	2008 Rs '000	2007 Rs '000
10. Finance cost		
Interest on short term running finance	26,013	25,928
Bank charges and fees	27,311	24,389
	53,324	50,317

Notes to the Consolidated Financial Statements
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	2008 Rs '000	Restated 2007 Rs '000
11. Taxation		
Current – for the year	1,246,221	1,168,936
Deferred – for the year	115,201	135,431
	1,361,422	1,304,367

11.1 Effective tax rate reconciliation:

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

	2008 %	2007 %
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.01	0.02
Income taxed at different rate	(0.01)	0.02
Non taxable proceeds from asset disposals	(0.02)	(0.02)
Others	(0.02)	0.00
Average effective tax rate	34.96	35.02

	2008 Rs '000	2007 Rs '000
11.2 Tax on items directly charged to equity		
Current tax charge on retirement benefits	469	3,850
Deferred tax charge on retirement benefits	87,371	56,486
	87,840	60,336

	2008	Restated 2007
12. Earnings per share		
Profit after tax (Rs '000)	2,532,295	2,420,207
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share – Basic (Rs)	9.91	9.47

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

13. Remuneration of directors, chief executive and executives

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

	Executive directors		Chief executive		Executives				Total	
					*Key management personnel		Other executives			
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Managerial remuneration	46,210	57,501	59,058	35,869	107,910	50,051	285,913	229,869	499,091	373,290
Corporate bonus	28,080	24,150	15,336	15,871	42,893	37,083	100,850	86,162	187,159	163,266
Leave fare assistance	950	1,842	582	435	2,679	1,198	1,947	195	6,158	3,670
Housing and utilities	9,103	8,177	6,317	5,144	32,190	17,052	120,909	107,618	168,519	137,991
Medical expenses	632	501	–	–	3,069	1,714	14,337	20,596	18,038	22,811
Post employment benefits	4,955	4,413	7,590	5,405	23,582	11,891	95,578	78,822	131,705	100,531
	89,930	96,584	88,883	62,724	212,323	118,989	619,534	523,262	1,010,670	801,559
Number of persons	4	5	1	1	22	13	211	208	238	227

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

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

13.2 In addition, directors' fee of Rs 170 thousand (2007: Rs 240 thousand) was paid to four (2007: five) non–executive directors for attending board meetings during the year.

Notes to the Consolidated Financial Statements
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14. Property, plant and equipment

	Operating fixed assets					
	Free-hold land	Buildings on free-hold land	Buildings on leasehold land	Private railway sidings	Plant and machinery	Office and household equipment
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
At January 1, 2007						
Cost	10,198	373,871	25,176	349	5,627,595	312,310
Accumulated depreciation	–	(103,397)	(13,146)	(323)	(1,949,442)	(185,982)
Net book amount at January 1, 2007	10,198	270,474	12,030	26	3,678,153	126,328
Year ended December 31, 2007						
Net book amount at January 1, 2007	10,198	270,474	12,030	26	3,678,153	126,328
Additions/transfers in	–	122,879	439	–	924,073	30,667
Deletions/transfers out	–	(200)	(49)	–	(47,867)	(11,315)
Depreciation charge	–	(11,171)	(467)	–	(412,166)	(39,070)
Depreciation on deletions	–	66	49	–	29,562	9,473
Net book amount at December 31, 2007	10,198	382,048	12,002	26	4,171,755	116,083
At January 1, 2008						
Cost	10,198	496,550	25,566	349	6,503,801	331,662
Accumulated Depreciation	–	(114,502)	(13,564)	(323)	(2,332,046)	(215,579)
Net book amount at January 1, 2008	10,198	382,048	12,002	26	4,171,755	116,083
Year ended December 31, 2008						
Net book amount at January 1, 2008	10,198	382,048	12,002	26	4,171,755	116,083
Additions/transfers in	–	22,344	166	–	880,197	76,571
Deletions/transfers out	–	–	(20)	–	(12,547)	(41,329)
Depreciation charge	–	(14,517)	(473)	–	(456,095)	(39,527)
Depreciation on deletions	–	–	20	–	11,009	34,859
Net book amount at December 31, 2008	10,198	389,875	11,695	26	4,594,319	146,657
At December 31, 2008						
Cost	10,198	518,894	25,712	349	7,371,451	366,904
Accumulated Depreciation	–	(129,019)	(14,017)	(323)	(2,777,132)	(220,247)
Net book amount	10,198	389,875	11,695	26	4,594,319	146,657

	Operating fixed assets			Capital	Total
	Furniture and fittings	Vehicles	Sub Total	work in progress	
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
At January 1, 2007					
Cost	63,951	446,290	6,859,740	277,879	7,137,619
Accumulated depreciation	(48,967)	(277,792)	(2,579,049)	–	(2,579,049)
Net book amount at January 1, 2007	14,984	168,498	4,280,691	277,879	4,558,570
Year ended December 31, 2007					
Net book amount at January 1, 2007	14,984	168,498	4,280,691	277,879	4,558,570
Additions/transfers in	1,727	101,311	1,181,096	1,040,431	2,221,527
Deletions/transfers out	(20)	(48,636)	(108,087)	(1,030,578)	(1,138,665)
Depreciation charge	(1,736)	(73,241)	(537,851)	–	(537,851)
Depreciation on deletions	18	41,106	80,274	–	80,274
Net book amount at December 31, 2007	14,973	189,038	4,896,123	287,732	5,183,855
At January 1, 2008					
Cost	65,658	498,965	7,932,749	287,732	8,220,481
Accumulated Depreciation	(50,685)	(309,927)	(3,036,626)	–	(3,036,626)
Net book amount at January 1, 2008	14,973	189,038	4,896,123	287,732	5,183,855
Year ended December 31, 2008					
Net book amount at January 1, 2008	14,973	189,038	4,896,123	287,732	5,183,855
Additions/transfers in	1,121	160,048	1,140,447	872,857	2,013,304
Deletions/transfers out	(39,716)	(62,379)	(155,991)	(947,255)	(1,103,246)
Depreciation charge	(1,946)	(82,285)	(594,843)	–	(594,843)
Depreciation on deletions	32,152	52,505	130,545	–	130,545
Net book amount at December 31, 2008	6,584	256,927	5,416,281	213,334	5,629,615
At December 31, 2008					
Cost	27,063	596,634	8,917,205	213,334	9,130,539
Accumulated Depreciation	(20,479)	(339,707)	(3,500,924)	–	(3,500,924)
Net book amount	6,584	256,927	5,416,281	213,334	5,629,615

	2008 Rs'000	2007 Rs'000
14.1 Depreciation charge has been allocated as follows:		
Cost of sales - note 5	418,739	374,579
Raw material purchases and expenses - note 5.1	96,307	91,889
Marketing expenses - note 6	35,965	36,792
Administrative expenses - note 7	43,832	34,591
	594,843	537,851
14.2 Capital Work in Progress		
Civil works and buildings	24,096	18,223
Plant and machinery	142,737	190,339
Advances to suppliers	46,501	79,170
	213,334	287,732

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14.3 Details of property, plant and equipment disposals, having book value exceeding Rs. 50,000 are as follows:

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
Office and household equipment				
– by auction	217	148	4	Bahadur Khan & Co – Nowshera
	653	65	24	Sajjad Bhatti – Rawalpindi
	797	80	37	Sajjad Bhatti – Rawalpindi
Vehicles				
– as per the Company's policy	750	75	75	Shehzad Zaheer – Employee
	750	75	75	Athar Sultan – Employee
	750	75	261	Ali Haider – Employee
	1,024	102	102	Arif Bilal – Employee
	1,176	118	118	Zahid ul Islam – Employee
	1,309	736	751	Atif Hasan – Employee
	750	75	97	Turan Khan Afridi – Ex Employee
	5,600	560	2,576	Aslam Khaliq – Ex Employee
– by auction	585	59	176	Muhammad Kamran – Karachi
	618	62	136	Muhammad Kamran – Karachi
	618	62	154	Muhammad Kamran – Karachi
	627	63	348	Muhammad Farooq – Toba Tek Singh
	627	63	350	Junaid ul Hasan – Rawalpindi
	627	63	400	Zahid Rasool – Islamabad
	750	75	640	Habib Ahmed – Islamabad
	751	295	527	Liaquat Ali Khan – Rawalpindi
	778	78	432	Syed Asad Ali Shah – Islamabad
	778	78	432	Taimoor Abbassi – Rawalpindi
	835	278	243	Raja Muhammad Farooq – Rawalpindi
	849	85	586	Nadeem ul Hasan – Peshawar
	849	85	671	Arshad Qayoom – Rawalpindi
	909	91	630	Alam Zaib – Islamabad
	939	94	649	Muhammad Nazeer – Islamabad
	1,014	101	368	Khiyal Badshah – Karachi
	1,014	101	506	Shahidullah Jan – Charsaddah
	1,079	108	749	Raja Rifaqat Ali – Wah
	1,039	217	774	Salman Mehboob – Rawalpindi
	1,056	440	650	Adil Iqbal – Islamabad
	1,136	114	571	Khurram Mehboob – Rawalpindi
	3,300	330	1,360	Ch. Muhammad Salim – Rawalpindi
– by insurance claim	74	66	73	New Hampshire Insurance Company Limited
	402	235	418	New Hampshire Insurance Company Limited
	408	264	354	New Hampshire Insurance Company Limited
	408	264	354	New Hampshire Insurance Company Limited
	423	388	397	New Hampshire Insurance Company Limited
	885	276	977	New Hampshire Insurance Company Limited
	885	332	553	New Hampshire Insurance Company Limited
	1,309	709	810	New Hampshire Insurance Company Limited
	39,348	7,585	19,408	

Notes to the Consolidated Financial Statements
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	2008 Rs '000	2007 Rs '000
15. Long term loans		
Related parties		
Key management personnel	524	470
Others		
Executives	8,590	11,863
Other employees	4,780	6,099
	13,370	17,962
	13,894	18,432
Less: Receivable within one year – note 20	4,650	5,919
	9,244	12,513

All long term loans are considered good.

15.1 Reconciliation of loans due from executive directors, executives and other employees:

	Executive directors		Executives				Other employees		Total	
			Key management personnel		Other executives					
	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000	2008 Rs'000	2007 Rs'000
Balance as at January 1	–	110	470	445	11,863	7,489	6,099	17,582	18,432	25,626
Disbursements	–	–	351	141	2,083	5,382	1,998	3,044	4,432	8,567
Repayments	–	110	297	116	5,356	1,008	3,317	14,527	8,970	15,761
Balance as at December 31	–	–	524	470	8,590	11,863	4,780	6,099	13,894	18,432

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

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

	2008 Rs '000	2007 Rs '000
Key management personnel	673	517
Other executives	12,415	15,513
	13,088	16,030

PAKISTAN TOBACCO COMPANY

		2008 Rs '000	2007 Rs '000
16.	**Long term deposits and prepayments**		
	Security deposits	13,187	12,303
	Prepayments	27,985	722
		41,172	13,025
17.	**Stock–in–trade**		
	Raw materials	3,363,648	3,237,065
	Raw materials in transit	183,180	255,229
	Work in process	27,754	23,258
	Finished goods	484,481	482,629
		4,059,063	3,998,181

The costs of stock–in–trade recognized as expense and included in cost of sales amounted to Rs 8,530,494 thousand (2007: Rs 6,866,981 thousand).

Stock–in–trade written off during the year was Rs 15,086 thousand (2007: Rs 38,915 thousand).

		2008 Rs '000	2007 Rs '000
18.	**STORES AND SPARES**		
	Stores	1,518	1,412
	Machine spares	187,133	137,370
	Machine spares in transit	1,995	1,995
		190,646	140,777

The amount of stores and spares written off during the year was Rs 5,117 thousand (2007:Rs 9,194 thousand).

		2008 Rs '000	2007 Rs '000
19.	**Trade debts**		
	Considered good	2,666	2,386
	Considered doubtful	2,322	2,322
		4,988	4,708
	Provision for doubtful debts	(2,322)	(2,322)
		2,666	2,386

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	2008 Rs '000	2007 Rs '000
20. Loans and advances		
Related parties – unsecured		
Loans to key management personnel – note 15	172	105
Advances due from key management personnel	1,446	568
Others		
Loans to executives and other employees – note 15	4,478	5,814
Advances due from executives and other employees – note 20.1	24,599	19,176
Advances due from others	35,222	12,917
	65,917	38,580

All loans and advances are considered good.

20.1 Includes Rs 11,934 thousand (2007: Rs 10,891 thousand) due from executives of the Group.

	2008 Rs '000	2007 Rs '000
21. Other receivables		
Related parties – unsecured		
Due from holding company / associated companies – note 21.1	61,587	46,217
Employees' provident fund	48,653	389
Management provident fund	–	1,186
Workers' Profit Participation Fund	–	1,000
Others		
Sales tax adjustable	–	85,516
Margin against guarantees	81,057	4,569
Claims	22,757	65,089
Others	7,787	1,419
	221,841	205,385

21.1 The amount due from holding company / associated companies comprises:

	2008 Rs '000	2007 Rs '000
Holding Company		
British American Tobacco p.l.c. – UK	5,005	4,225
Associated Companies		
BAT Asia–Pacific Region Ltd – Hong Kong	36,893	24,588
BAT SAA Services (Private) Limited – Pakistan	10,616	–
BAT Bangladesh Co. Ltd – Bangladesh	5,895	3,507
BAT Aspac Service Centre – Malaysia	819	–
Ceylon Tobacco Company Plc – Sri Lanka	780	4,080
BAT (Thailand) Ltd – Thailand	–	3,630
BAT Nigeria Ltd – Nigeria	–	1,330
BAT Uzbekistan Ltd – Uzbekistan	–	1,264
BAT Uganda Ltd – Uganda	–	1,083
BAT Equatorial Africa Area Ltd – Kenya	–	837
Tobacco Marketing Consultants – Senegal	–	634
Rothmans Far East B.V – South Korea	343	375
BAT Prilucky Tobacco Co Ltd – Ukraine	–	230
BAT Syria Ltd – Syria	–	176
BAT (Malaysia) Berhad – Malaysia	–	156
BAT FZ LLC – Dubai	–	102
BAT Vietnam Ltd – Vietnam	324	–
PT Export Leaf Indonesia – Indonesia	299	–
BAT (Taiwan) Ltd – Taiwan	266	–
BAT (Singapore) Pte Ltd – Singapore	233	–
BAT China Ltd – China	114	–
	61,587	46,217

22. Cash and bank balances

Deposit accounts	16,748	14,205
Current accounts		
Local currency	18,366	24,866
Foreign currency	32,159	79,001
	67,273	118,072
Cash in transit	1,199	46,934
Cash in hand	704	1,664
	69,176	166,670

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	2008 Rs '000	2007 Rs '000
23. Trade and other payables		
Related parties – unsecured		
Due to holding company / associated companies – note 23.1	204,614	182,441
Others		
Creditors	680,629	536,114
Restructuring cost	–	14,720
Federal excise duty – note 23.2	2,176,647	1,665,499
Sales tax	528,318	–
Tobacco excise duty / Tobacco development cess – note 23.3	64,509	63,474
Accrued liabilities	220,605	103,815
Other employee benefits – note 23.4	306,673	293,903
Management provident fund	3,325	–
Staff pension fund – defined contribution	662	–
Workers' Profit Participation Fund	2,099	–
Workers' Welfare Fund	88,470	76,913
Advances from customers	7,292	69,551
Security deposits	16,748	14,205
Unpaid and unclaimed dividend	24,140	527,629
	4,324,731	3,548,264

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

Holding Company		
British American Tobacco p.l.c. – UK	102,584	96,893
Associated Companies		
BAT Asia–Pacific Region Ltd – Hong Kong	81,856	42,338
BAT Bangladesh Co. Ltd – Bangladesh	10,413	92
Souza Cruz Overseas, S.A – Brazil	–	24,891
BAT (Singapore) Pte Ltd – Singapore	2,833	2,902
Ceylon Tobacco Company Plc – Sri Lanka	3,126	1,008
BAT FZ LLC – Dubai	2,236	–
BAT Australia Ltd EFT – Australia	638	58
BAT (Malaysia) Berhad – Malaysia	523	14,219
Nobleza Picardo – Argentina	253	–
BAT Switzerland SA – Switzerland	86	–
C.A Cigarrera Bigott – Venezuela	66	–
BAT Vietnam Ltd – Vietnam	–	40
	204,614	182,441

23.2 Federal excise duty

Balance as at January 1	1,665,499	739,118
Charge for the year	23,378,440	19,311,946
Payment to the Government during the year	(22,867,292)	(18,385,565)
Balance as at December 31	2,176,647	1,665,499

		2008 Rs '000	2007 Rs '000
23.3	**Tobacco excise duty / Tobacco development cess:**		
	Balance as at January 1	63,474	58,784
	Charge for the year	65,006	62,300
	Payment to the Government during the year	(63,971)	(57,610)
	Balance as at December 31	64,509	63,474
23.4	**Other employee benefits**		
	Balance as at January 1	293,903	183,907
	Charge for the year	261,025	282,076
	Payment to employees during the year	(248,255)	(172,080)
	Balance as at December 31	306,673	293,903

Other employee benefits represent bonus to eligible employees.

24. Short term borrowings – Secured

	2008 Rs '000	2007 Rs '000
From banking companies		
Short term loan	–	360,000
Short term running finance	572,397	678,550
	572,397	1,038,550

(a) Short term running finance

Short term running finance facilities available under mark–up arrangements with banks amount to Rs 2,800 million (2007: Rs 2,600 million), out of which the amount unavailed at the year end was Rs 2,228 million (2007: Rs 1,921 million). These facilities are secured by hypothecation of stock in trade amounting to Rs 3,734 million (2007: Rs 3,734 million). The mark–up ranges between 9.87% and 17% (2007: 9.52% and 11.14%) per annum and is payable quarterly. The facilities are renewable on annual basis.

(b) Non–funded finance facilities

The Group has also non–funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 1,545 million (2007: Rs 1,545 million) and Rs 235 million (2007: Rs 140 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 617 million (2007: Rs 620 million) and Rs 118 million (2007: Rs 108 million) for letter of credit and letter of guarantee respectively. The letter of guarantee facility is secured by second ranking hypothecation charge over stock–in–trade amounting to Rs 285 million (2007: Rs 190 million).

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	2008 Rs '000	Restated 2007 Rs '000
25. Retirement benefits		
Staff pension fund	536,808	336,498
Employees gratuity fund	202,325	153,005
	739,133	489,503

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2008 using the projected unit credit method. Details of the defined benefit plans are:

	Defined benefit pension plan		Defined benefit gratuity plan	
	2008 Rs '000	Restated 2007 Rs '000	2008 Rs '000	Restated 2007 Rs '000
(a) The amounts recognized in the Consolidated balance sheet:				
Present value of defined benefit obligations	1,769,557	1,704,382	460,720	490,379
Fair value of plan assets	(1,232,749)	(1,367,884)	(258,395)	(337,374)
Net liability	536,808	336,498	202,325	153,005
(b) Movement in the liability recognized in the Consolidated balance sheet is as follow:				
Balance as at January 1	336,498	–	153,005	–
Effect of change in accounting policy	–	210,705	–	117,410
Restated balance as at January 1	336,498	210,705	153,005	117,410
Charge for the year – consolidated SORIE	185,689	130,748	65,281	41,639
Charge for the year – consolidated profit and loss account	88,474	71,077	39,834	33,032
Payments during the year	(73,853)	(76,032)	(55,795)	(39,076)
Balance as at December 31	536,808	336,498	202,325	153,005
(c) The amounts recogn ized in the consolidated profit and loss account:				
Net current service cost	54,767	49,906	25,425	22,049
Interest on obligation	171,858	142,617	48,720	38,727
Expected return on plan assets	(138,151)	(121,446)	(34,311)	(27,744)
	88,474	71,077	39,834	33,032

(d) The aggregate amounts recognized in the consolidated statement of recognized income and expense are as follows:

	2008 Rs '000	Restated 2007 Rs '000
Defined benefit pension plan	185,689	130,748
Defined benefit gratuity plan	65,281	41,639
	250,970	172,387

The cumulative actuarial losses recognized in the consolidated statement of recognized income and expense in respect of both defined benefit plans are Rs 751,472 thousand (2007: Rs 500,502 thousand).

		Defined benefit pension plan		Defined benefit gratuity plan	
		2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
(e)	**Changes in the present value of defined benefit obligation:**				
	Present value of defined benefit obligation as at Jan 1	1,704,382	1,413,319	490,379	388,407
	Net current service cost	54,767	49,906	25,425	22,049
	Interest cost	171,858	142,617	48,720	38,727
	Actuarial (gains) / losses	(119,638)	122,206	(1,942)	46,209
	Contribution by plan participants	24,528	20,189	–	–
	Recovery against secondees	11,047	5,334	3,026	1,784
	Benefits paid	(77,387)	(49,189)	(104,888)	(6,797)
	Present value of defined benefit obligation as at Dec 31	1,769,557	1,704,382	460,720	490,379
(f)	**Changes in the fair value of plan assets:**				
	Fair value of plan assets as at Jan 1	1,367,884	1,202,614	337,374	270,997
	Expected return	138,151	121,446	34,311	27,744
	Actuarial (losses)/gains	(305,327)	(8,542)	(67,223)	4,570
	Contribution by plan participants	24,528	20,189	–	–
	Recovery against secondees	11,047	5,334	3,026	1,784
	Contributions by employer	73,853	76,032	55,795	39,076
	Benefits paid	(77,387)	(49,189)	(104,888)	(6,797)
	Fair value of plan assets as at Dec 31	1,232,749	1,367,884	258,395	337,374
	Actual return on plan assets	(195,225)	108,568	(30,580)	27,592

During the year 2009 the Group expects to contribute Rs 185.128 million and Rs 63.797 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
(g)	**The major categories of plan assets:**				
	Investment in equities	49,604	100,955	14,999	30,127
	Investment in bonds	741,272	736,049	163,810	225,909
	Cash and cash equivalents	441,873	530,880	79,586	81,338
		1,232,749	1,367,884	258,395	337,374
(h)	**Significant actuarial assumptions at the balance sheet date:**				
	Discount rate	15%	10%	15%	10%
	Expected return on plan assets	10%	10%	10%	10%
	Future salary increases	17%	14%	17%	14%
	Future pension increases	11%	6%	–	–

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.

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008

	2008 Rs '000	2007 Rs '000	2006 Rs '000	2005 Rs '000	2004 Rs '000
(i) Amounts for the current and previous four years:					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	(1,769,557)	(1,704,382)	(1,413,319)	(1,214,950)	(965,451)
Fair value of plan assets	1,232,749	1,367,884	1,202,614	1,036,970	963,846
Deficit	(536,808)	(336,498)	(210,705)	(177,980)	(1,605)
Experience adjustments on plan liabilities	(63,120)	(122,206)	(97,267)	(73,958)	2,330
Experience adjustments on plan assets	(333,376)	12,878	(27,420)	43,548	70,279
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	(460,720)	(490,379)	(388,407)	(316,968)	(215,533)
Fair value of plan assets	258,395	337,374	270,997	224,990	213,021
Deficit	(202,325)	(153,005)	(117,410)	(91,978)	(2,512)
Experience adjustments on plan liabilities	(73,527)	(46,209)	(39,159)	(43,111)	(13,834)
Experience adjustments on plan assets	(64,891)	152	(7,230)	4,585	15,694

25.1 Salaries, wages and benefits as appearing in note 5, 6 and 7 include amounts in respect of the following:

	2008 Rs '000	2007 Rs '000
Provident Fund	42,597	36,620
Pension Fund	88,474	71,077
Gratuity Fund	39,834	33,032
	170,905	140,729

26. Deferred taxation

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

	2008 Rs '000	Restated 2007 Rs '000
The offset amounts are as follows:		
Deferred tax assets	258,697	171,326
Deferred tax liabilities	1,095,636	980,435
Deferred tax liability (net)	836,939	809,109
The gross movement on deferred income tax account is as follows:		
At January 1	809,109	730,163
Charge for the year – consolidated profit and loss account	115,201	135,432
Credit for the year – consolidated SORIE	(87,371)	(56,486)
At December 31	836,939	809,109

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

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

	2008 Rs '000	2007 Rs '000
Balance as at January 1	980,435	845,004
Charge for the year	115,201	135,431
Balance as at December 31	1,095,636	980,435

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

	2008 Rs '000	Restated 2007 Rs '000
Balance as at January 1	171,326	–
Effect of change in policy	–	114,840
Restated balance as at January 1	171,326	114,840
Credit for the year – consolidated SORIE	87,371	56,486
Balance as at December 31	258,697	171,326

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008

27. Share capital

27.1 Authorized share capital

2008 (Number of shares)	2007 (Number of shares)		2008 Rs '000	2007 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

27.2 Issued, subscribed and paid–up capital

2008 (Number of shares)	2007 (Number of shares)		2008 Rs '000	2007 Rs '000
230,357,068	230,357,068	Cash	2,303,571	2,303,571
25,136,724	25,136,724	Bonus shares	251,367	251,367
255,493,792	255,493,792		2,554,938	2,554,938

British American Tobacco (Investments) Limited held 241,045,141 (2007: 241,045,141) ordinary shares at the year end.

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

28. Statement of movement in equity

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance as at December 31, 2006	2,554,938	1,584,249	4,139,187
Effect of change in accounting policy as referred in note 2.11		(213,275)	(213,275)
Restated balance	2,554,938	1,370,974	3,925,912
Final dividend of Rs 4.40 per share relating to the year ended December 31, 2006		(1,124,173)	(1,124,173)
Profit for the year		2,420,207	2,420,207
Actuarial loss on defined benefit plans (net of tax)		(112,051)	(112,051)
1st Interim dividend of Rs 1.50 per share relating to the year ended December 31, 2007		(383,241)	(383,241)
2nd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2007		(510,987)	(510,987)
3rd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2007		(510,987)	(510,987)
Balance as at December 31, 2007	2,554,938	1,149,742	3,704,680
Final dividend of Rs 3.90 per share relating to the year ended December 31, 2007		(996,426)	(996,426)
Profit for the year		2,532,295	2,532,295
Actuarial loss on defined benefit plans (net of tax)		(163,130)	(163,130)
1st Interim dividend of Rs 1.75 per share relating to the year ended December 31, 2008		(447,114)	(447,114)
2nd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008		(510,987)	(510,987)
3rd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008		(510,987)	(510,987)
Balance as at December 31, 2008	2,554,938	1,053,393	3,608,331

29. CONTINGENCIES AND COMMITMENTS

	2008 Rs '000	2007 Rs '000
29.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Group not acknowledged as debt	87,688	59,944
(ii) Guarantees issued by banks on behalf of the Group	118,008	107,908

(b) Litigation

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

29.2 Commitments

(a) All property rentals are under cancelable operating lease arrangements as follows:

	2008 Rs '000	2007 Rs '000
– due not later than one year	26,770	63,648
– due later than one year and not later than five years		
within 2 years	67,275	27,164
within 3 years	96,109	24,198
within 4 years	29,321	23,131
within 5 years	28,744	23,469
– due later than five years	9,241	16,859

(b) Letters of credit outstanding at December 31, 2008 were Rs 616,502 thousand (2007: Rs 620,219 thousand), out of which Rs nil (2007: Rs 462,362 thousand) were hedged through forward foreign currency contracts with various banks.

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008

30. Financial instruments

Financial assets and liabilities

	2008			2007		
	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	Rs '000	Rs '000	Rs '000	Rs '000
Financial assets						
Maturity up to one year:						
Trade debts	–	2,666	2,666	–	2,386	2,386
Loans and advances	–	65,917	65,917	–	38,580	38,580
Other receivables						
Local Currency	–	122,217	122,217	–	71,077	71,077
Foreign Currency	–	50,971	50,971	–	46,217	46,217
Cash and bank balances						
Local Currency	16,748	20,269	37,017	14,205	73,464	87,669
Foreign Currency	–	32,159	32,159	–	79,001	79,001
Maturity after one year:						
Loans	–	9,244	9,244	–	12,513	12,513
Security deposits	–	13,187	13,187	–	12,303	12,303
	16,748	316,630	333,378	14,205	335,541	349,746
Financial liabilities						
Maturity up to one year:						
Trade and other payables						
Local Currency		1,416,406	1,416,406		1,636,361	1,636,361
Foreign Currency		131,559	131,559		113,379	113,379
Accrued interest / mark–up	–	10,354	10,354	–	8,401	8,401
Short term borrowings	572,397	–	572,397	1,038,550	–	1,038,550
	572,397	1,558,319	2,130,716	1,038,550	1,758,141	2,796,691
Off balance sheet items						
Letters of credit	–	616,502	616,502	–	620,219	620,219
Bank guarantees	–	118,008	118,008	–	107,908	107,908
	–	734,510	734,510	–	728,127	728,127

31. Transactions with related parties

British American Tobacco (Investments) Limited (BAT–IL) holds 94.34% (2007: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT–IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Group. Such entities are also referred to as 'BAT' in these consolidated financial statements. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is disclosed in note 13 to the financial statements.

Rs '000

	Purchase				Royalty		Reimbursement of Expenses		Sales				Expenses on behalf of related party	
	Goods		Services						Goods		Services			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Ultimate parent company														
British American Tobacco, p.l.c – UK	70,116	12,931	173,697	117,952	306,162	267,604	19	–	–	–	5,105	2,616	263	458
Associated Companies														
BAT Asia–Pacific Region Ltd, Hong Kong	–	–	91,473	90,821	–	–	–	–	–	–	20,433	11,054	–	934
BAT Australia Ltd EFT, Australia	723	50		1,023	–	–	–	–	–	–	–	–	265	–
BAT Bangladesh Co. Ltd, Bangladesh	154,343	68,979	10,315	267	–	–	467	–	–	–	3,908	3,276	75	232
Ceylon Tobacco Company Plc, Sri Lanka	–	–	3,111	244	–	–	562	136	–	–	3,314	408	188	208
C.A Cigarrera Bigott, Venezuela	66	–	–	–	–	–	–	–	–	–	–	–	–	–
BAT Cambodia Ltd, Cambodia	–	–	–	–	–	–	–	44	–	–	261	–	–	–
BAT China Ltd, China	–	–	4,640	–	–	–	–	–	–	–	261	–	114	–
BAT FZ LLC, Dubai	–	–	2,236	–	–	–	–	–	–	–	–	1,401	–	–
BAT (Germany) Gmbh, Germany	–	–	–	542	–	–	–	–	–	–	–	–	–	–
BAT Japan Ltd, Japan	–	–	–	–	–	–	–	–	–	–	121	–	–	–
Nobleza Picardo – Argentina	253	–	–	–	–	–	–	–	–	–	–	–	–	–
PT BAT Indonesia Tbk, Indonesia	235	132,873	–	–	–	–	–	10	–	12,966	261	–	–	70
PT Export Leaf Indonesia, Indonesia	–	–	–	–	–	–	–	–	–	–	696	–	–	–
Rothmans Far East B.V, South Korea	–	–	570	–	–	–	–	–	–	–	1,527	1,439	–	–
BAT Equatorial Africa Area Ltd, Kenya	–	–	–	–	–	–	–	–	–	–	981	7,440	–	–
BAT Aspac Service Centre, Malaysia	1,240	–	49,044	42,252	–	–	–	–	–	–	2,102	606	255	97
BAT Nigeria Ltd, Nigeria	–	–	–	–	–	–	–	–	–	–	–	1,665	–	–
BAT New Zealand EFT, New Zealand	–	–	–	–	–	–	–	–	–	–	–	–	130	–
BAT Switzerland SA, Switzerland	86	–	–	–	–	–	–	–	–	–	–	–	–	–
Tobacco Marketing Consultants, Senegal	–	–	–	–	–	–	–	–	–	–	1,402	952	–	–
BAT (Singapore) Pte Ltd, Singapore	17,394	28,843	3,228	7,879	–	–	28	–	–	–	522	–	233	–
Souza Cruz Overseas, S.A., Brazil	232,539	256,356	502	–	–	–	–	–	–	–	–	–	–	–
Solomon Islands Tobacco Co Ltd	–	–	–	–	–	–	–	–	–	–	–	5,737	–	299
BAT SA (Pty) Ltd, South Africa	–	–	–	30	–	–	–	–	–	–	–	–	–	–
BAT Syria Ltd, Syria	–	–	–	–	–	–	–	–	–	–	–	681	–	–
BAT (Taiwan) Ltd, Taiwan	–	–	–	–	–	–	–	–	–	–	1,868	–	–	
BAT (Thailand) Ltd, Thailand	–	–	1,781	–	–	–	–	–	–	–	–	3,630		–
BAT Uganda Ltd, Uganda	–	–	–	–	–	–	–	–	–	–	1,934	4,286	–	238
BAT Prilucky Tobacco Co Ltd, Ukraine	–	–	–	–	–	–	–	–	–	–	1,379	880	121	–
BAT Uzbekistan Ltd, Uzbekistan	–	–	–	–	–	–	–	–	–	–	598	1,264	–	–
BAT Vietnam Ltd, Vietnam	–	–	–	–	–	–	–	40	–	–	2,628	179	323	486
Imperial Tobacco Company, Canada	–	16,342	–	–	–	–	–	–	–	–	–	–	–	–
BAT SAA Services (Private) Limited, Pakistan	–	–	–	–	–	–	–	–	–	–	10,616	–	–	–
ICI Pakistan Limited	55,640	35,920	–	–	–	–	–	–	–	–	–	–	–	–
Pakistan State Oil Company Ltd	134,183	27,981	6,258	6,320	–	–	–	–	–	–	–	–	–	–
Contribution to retirement benefit funds by the Company														
Provident Fund	–	–	42,597	36,620	–	–	–	–	–	–	–	–	–	–
Pension Fund	–	–	88,474	71,077	–	–	–	–	–	–	–	–	–	–
Gratuity Fund	–	–	39,834	33,032	–	–	–	–	–	–	–	–	–	–

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008

32. Post balance sheet event

Final dividend in respect of the year ended December 31, 2008 of Rs 2.30 (2007: Rs 3.90) per share amounting to a total dividend of Rs 587,636 thousand (2007: 996,426 thousand) has been proposed, over and above the interim dividends of Rs 5.75 (2007: Rs 5.50) per share paid during the year, out of the unappropriated profit at the Board of Directors meeting held on March 20, 2009. These consolidated financial statements do not reflect this proposed dividend.

33. General

33.1 Capacity and production

Against an estimated manufacturing capacity of 43,991 million (2007: 42,797 million) cigarettes, actual production was 41,159 million (2007: 38,183 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

33.2 Number of employees

Total number of employees as at December 31, 2008 was 1,655 (2007: 1,668).

33.3 Corresponding figures

(i) Consequent to change in accounting policy for recognition of actuarial gains and losses on defined benefit plans, corresponding figures have been restated as referred to in note 2.11.

(ii) Federal excise duty amounting to Rs 19,311,946 has been shown as reduction from gross turnover. Previously this was shown under cost of sales.

33.4 Date of authorization

These consolidated financial statements have been authorized for issue by the Board of Directors of the Company on March 20, 2009.

Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Form of Proxy

Pakistan Tobacco Company

PAKISTAN TOBACCO COMPANY

I, ____

of ____

a member of Pakistan Tobacco Company Limited, hereby appoint ____________________

____________________ of ____________________

or failing him ____________________ of ____________________

or failing him either of them, may in writing appoint any other person to act as my proxy at the 62nd Annual General Meeting of the Company to be held on the April 23, 2009 and at any and every adjournment thereof.

As witness my hand this ____________ day of ____________ 2009.

Revenue Stamp
Rs 5/=

Signed ____________________

Shareholder's folio No. ____________________

Note:

1. The signature should agree with the specimen signature registered with the Company.
2. A proxy need not be a member of the Company.
3. Proxy Forms properly completed should be deposited at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd., State Life Building No. 2A, 4th Floor , Wallace Road, Off I.I. Chundrigar Road, Karachi not later than 48 hours before the time for holding the Meeting or adjourned Meeting and in default the instrument of proxy shall not be treated as valid.

For Beneficial Owners as per CDC List

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

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

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

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

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

Witness as per (ii) above:

1. ____________________

2. ____________________

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