Annual Report
for the year ended December 31, 2012

PAKISTAN TOBACCO COMPANY

Sustaining Seasons

65 Years and Counting...

Sustaining Seasons

Life is like a year full of seasons, always in motion. In spring, we watch the flowers bloom in wild abandon and in summer, we sniff the intriguing scent of monsoon rains piercing the ground. Soon, we behold the glorious beauty of shedding leaves in autumn, before we watch the scene fade away into the delicious chill of a winter's night.

At Pakistan Tobacco Company, we have learned to embrace all seasons. Our historic journey is an inspiring tale of great perseverance and an unyielding dynamism that continues to shine for a period of over six decades.

On our cover this year, we reflect on our enduring belief; to retain the essence of our business principles while remaining steadfast in our voyage towards a sustainable future.

We at PTC are sustaining seasons...

throughout our past, our present and our future.

65 Years and Counting...

Pakistan Tobacco Company Limited (PTC) is the oldest multinational in Pakistan that has been contributing towards the economic, social and human resource development of the country in various forms for the past 65 years. PTC has always endeavored to adhere to good Corporate Governance and being consistently recognized as one of the "Best Governed Companies" in the country.

PTC has helped in accelerating the development of Pakistan's industrial and overall business sector not only by year-on-year investments in the in-house production facilities, but more importantly by strong external economic linkages (both backwards and forward) which the Company nurtured and fostered for the last many decades. It has also been contributing billions of rupees annually to the Government treasury in the form of taxes which help Pakistan in meeting developmental objectives.

The Company has also pioneered transformation of the agricultural sector through PTC's extensive agronomy programs for farmers, not only making tobacco crop yields in Pakistan one of the highest in the world but also helping farmers utilize the skills, technology and cultivation processes for improvement of other crops. It has also supported sustainable development in Pakistan through its "Corporate Social Responsibility" programs, with primary focus on sustainable agriculture, afforestation, empowerment, and improved civic life.

PTC has been generating income and employment for the last 65 years for millions of people all over the country, with nearly half a million people in Pakistan currently associated with PTC's operations for their source of livelihood. It has helped develop National Talent Pool by hiring and training over the years thousands of managers who not only contribute to Company's business results, but also apply their skills, learnings, and experiences wherever they chose to work thus playing a vital role in the national economic development.

Mr. E.H. Hare - Territorial Director, British American Tobacco Company (BAT), with team on 7th December, 1956

Mr. Harold Macmillan, British Prime Minister, during visit to Pakistan Tobacco Company (PTC) factory in 1958.

"Sustainable business practices are at the heart of PTC's strategy. Such practices are reflected by the relentless and dedicated efforts of our most valuable asset - our people. Their commitment and motivation led us to fare well as a Company and withstand the tough seasons. Going forward, our aim is to continue in shaping a fit-for-future organization, both responsibly and according to the ethical standards of business conduct."

Graeme Amey
(Managing Director and CEO)

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Corporate Information

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Pakistan Tobacco Company Limited
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Islamabad-44000
Telephone: +92 (51) 2083200-1
Fax: +92 (51) 2224216
Web: www.ptc.com.pk

Company Secretary

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

Factories

Akora Khattak Factory
P.O. Akora Khattak
Tehsil and District Nowshera, Khyber Pakhtunkhwa
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 & Khyber Pakhtunkhwa
House # 57-A/6, Satellite Town
Rawalpindi
Telephone: +92 (51) 4582390-1
Fax: +92 (51) 4582392

Central Punjab
128/129-G, Commercial Area
Phase-1, Defence Housing Authority
Lahore
Telephone: +92 (42) 35899351-4
Fax: +92 (42) 35899356

Southern Punjab
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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) 35635490-5
Fax: +92 (21) 35635500

Bankers

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

Auditors

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

Share Registrar

FAMCO Associates (Pvt.) Ltd.
State Life Building No. 1-A, 1st Floor
Off I.I.Chundrigar Road
Karachi
Telephone: +92 (21) 32420755

Corporate Objectives

Our Vision

First Choice for Everyone.

Our Mission

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

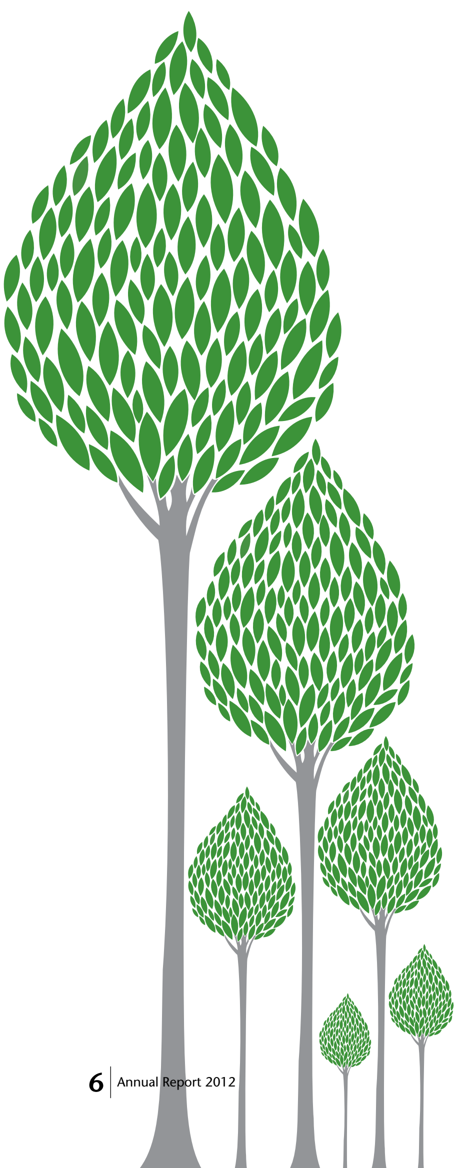
Strategic Objectives

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

Business Principles

Our Company follows three fundamental Business Principles:

- Mutual Benefit
- Responsible Product Stewardship
- Good Corporate Conduct



Mutual Benefit

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

Core Beliefs

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

Responsible Product Stewardship

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

Core Beliefs

- Provision of accurate, clear health messages about the risks of tobacco consumption
- Reduction of the health impact of tobacco consumption whilst respecting the right of informed adults to choose the products they prefer
- Continued availability of

relevant and meaningful information about our products.

- Underage people should not consume tobacco products
- Responsible marketing of our brands and products directed at adult consumers.
- Appropriate taxation of tobacco products and elimination of illicit trade
- Regulation that balances the interests of all sections of society, including tobacco consumers and the tobacco industry
- Approach public smoking in a way that balances the interests of smokers and non-smokers

Good Corporate Conduct

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

Core Beliefs

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

The Board of Directors

Mueen Afzal
(Chairman and Non-Executive Director)

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

Graeme Amey
(Managing Director and CEO)

Graeme has been with the group for 34 years, he commenced his career in 1979 at Virginia Park, Melbourne for WD & HO Wills. Graeme worked at the Melbourne site in the GLT/Leaf department for 10 years. In 1989, he moved to take up the role of Assistant Leaf Blender and co ordinated the GLT processing.

In 1991 Graeme took up the position of General Manager, Solomon Islands. On returning to Australia in 1996, Graeme joined the Australian Marketing Team and held a number of positions at state and national level in key accounts. Following the merger with Rothmans, Graeme was appointed as National Account Manager Wholesale. In 2001, Graeme was appointed as Project Manager, Supply Chain and lead the integration of the two supply chains post merger. In 2002, Graeme was appointed as Marketing Manager, South Pacific a position held for 2 years. In 2004 Graeme was appointed as General Manager, Papua New Guinea, a position he held until September 2007. He held the position of Manufacturing Manager for Australia also. In November 2008, he was appointed General Manager, New Zealand and South Pacific. Graeme was a Trustee Director of the Wills Superannuation plan from 1998 - 2001 and was a Regional Safety Auditor for BAT from 1994 - 1998.

In 2012, he was appointed as the Managing Director and Chief Executive Officer of the Company after Nick Hales.

Mobasher Raza
(Deputy Managing Director and Finance Director)

Mobasher Raza has been with the Company for the last 33 years. He joined the Company as a Management Trainee and has held various key positions in the Finance function within PTC as well as with the other Group Companies. In 2006, in addition to his role as a Finance Director he was appointed as the Deputy Managing Director of the Company.

Mustanser Muhammad Ali Khan
(Supply Chain Director)

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

Feroze Ahmed
(Strategy and Planning Director)

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

Tajamal Shah
(Legal Director)

Tajamal qualified as a Barrister in 1989. He started his career in England as an Assistant Company Secretary in a private company and then became a part of the British civil service when he joined the Department of Trade and Industry. In 1992, he took up an in-house position as a Legal Advisor specialising in project and aircraft financing. In 1996, he moved to a leading law firm DLA as a Senior Associate. He moved to Pakistan and joined PTC as Company Secretary in 1999. He joined the Board in 2009 as Legal director.

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

General Ali was commissioned in the Pakistan Army in 1964 and retired as its Chief Of General Staff in 1998; some of his other important assignments include, Commander 10 Corps,Director General Military Intelligence and Commandant Staff College, Quetta. He belongs to a prominent Industrial family of KPK and sits on the Board of Directors of his family concerns which include Textiles, Automobile Assembly and Tyre Manufacturing.

Abid Niaz Hasan
(Non-Executive Director)

Mr. Hasan has over 31 years of global experience in Economic Development, having worked for the World Bank from 1975-2006. Mr. Hasan has worked extensively with countries in South and West Asia and the Asian Tiger economies. He has worked in the capacity of an advisor to various Governments and managed various World Bank programmes. During his career with the Bank, he represented International Finance Corporation (IFC) on the boards of several companies that were financed by it. He is also on the Board of Wateen Telecoms and two NGOs, Chal Foundation and The Hunar Foundation.

Syed Asif Shah
(Non-Executive Director)

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

Chairman's Message

Despite macroeconomic challenges, volatile security environment and a growing illicit cigarette sector, Pakistan Tobacco Company Limited has managed to sustain itself in 2012. The Company's performance has been steadfast, both, in terms of volume and market share. PTC aspires to achieve its objectives in a socially responsible manner and according to the highest ethical standards of business conduct.

2012 has been a year of sustaining our business in an unstable and evolving security environment. PTC embarked upon the journey to deliver a reliable supply chain and focused on achieving excellence through a machinery footprint upgrade. The company had to take tough decisions of rationalizing its workforce to meet the regulatory requirements. However, attractive packages were offered to our team members in order to ensure that there was a happy parting of ways.

Illicit trade continues to be one of the foremost threats to the sustainability of the legitimate tobacco sector in Pakistan. Illicit trade continued its growth momentum unchecked, becoming an ever bigger menace. The two key factors driving this growth are increasing price differential between tax-paid cigarettes and cheap, duty-evaded cigarettes. Though the relevant authorities of government initiated some enforcement drives in 2012, the overall enforcement environment did not change drastically. More and more consumers are switching to cheap, duty evaded brands causing not only an enormous loss to government revenues but also creating an un-level playing field for legitimate tobacco industry. The total government revenue loss over the past 5 years due to illicit trade is estimated to be Rs. 80 Billion. In the next 5 years, total government revenue loss due to illicit trade is projected to be more than Rs. 100 Billion, which is more than US $ 1 Billion.

Internally, we continue to focus and invest on our fundamental strengths i.e. our people, brand portfolio and a sustainable growth model. PTC further strengthened its brand portfolio through various marketing initiatives including the launch of Dunhill Master Blend, broader marketing of John Player's Gold Leaf and pack changes for Capstan by Pall Mall Original (CbPMO) and Gold Flake. Achieving success has never been easy. We, as a company, first and foremost accredit these initiatives to our people being our most valuable asset. Also, the company has invested in a number of productivity and efficiency enhancement initiatives to enable future business sustainability.

Overall, in an environment that is constantly changing and has many complexities and risks attached to it, Pakistan Tobacco Company Limited has always been and will remain to be a transparent, well-prepared and well-managed entity, with strong controls and efficient processes. The management and I have full confidence in the Company's sustainability.

Mueen Afzal
Chairman

Managing Director's Review

I am pleased to share company's results with you for the year 2012. This year our business faced significant challenges including high inflation, consumers' down-trading and energy crisis. Unabated growth momentum of illicit cigarette trade and volatile security situation further added to the complexities of the business environment. Despite all the challenges, we were able to sustain our business. Our market share in 2012 was 50.4% as compared to 48.6% in 2011. These business results have been led by one of our strongest brands, Capstan by Pall Mall Original (CbPMO), launched in July 2010.

Persistent inflation and a weak local currency continued to increase our cost base. However, the impact was mitigated to some extent through smart cost management and various productivity initiatives. One such commendable initiative was of the machinery footprint up-gradation. Our Profit after Tax in 2012 was a mere 2.3% of our Gross Turnover.

Despite challenges, we have continued our commitment to invest in critical areas of the business, i.e., our people, technology footprint, our brands and the distribution network. A number of marketing initiatives like product line extensions, pack changes and restructuring of our trade and distribution networks were initiated. These were aimed at strengthening our brand portfolio and sustaining our market presence. 2012 business results are a testament to the success of these initiatives.

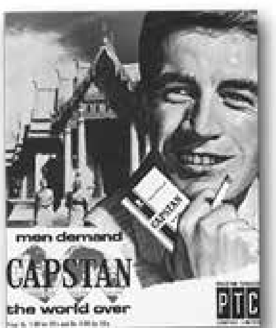
During 2012 we contributed over Rs: 51 Billion to government exchequer in the form of Excise and Sales Tax, Income Tax and Custom duties. Cigarette Industry remains a significant source of revenue for the government. The heavy loss to National exchequer due to the growing sales of tax-evaded cigarettes, however, continued to grow in 2012 also. Alarmingly, this illicit segment has flourished during the last few years while the legal industry has been under immense pressure from numerous sources. This segment not only denies the legitimate players of their right to a level playing field. We, therefore, continue to urge the authorities to undertake strict enforcement of the regulatory and fiscal regime.

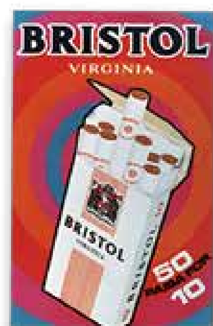
Our Brands

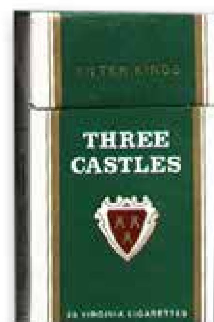
PTC's brands continue to outperform the competition in the industry. Our premium portfolio has performed well with Dunhill gaining volume as a result of a re-launch, brand building activities and distribution expansion. Benson & Hedges also continued to show positive signs in 2012. John Player Gold Leaf (JPGL) continues to lead in the Premium segment delivering unparalleled value to its loyal consumers.

CbPMO has continued its astounding success story by outperforming the competition to become the biggest tobacco brand of the industry. Gold Flake supported the VFM portfolio by holding onto a major portion of its consumer base establishing PTC's overall leadership position in the segment.

The Legacy







The Present

Our People

The success of PTC as an industry leader is attributed to the commitment and hard work of our people coupled with their collective drive to continually deliver great results amid challenging circumstances. We maintain an attractive reward proposition along with a focus on providing career development opportunities. Throughout the global BAT world, PTC is recognized as producing high performing talent. 22 managers of PTC are today working on international BAT assignments abroad, making us one of the leading companies in Pakistan offering, sustainable and robust career growth.

As a Centre of learning, we have invested in a comprehensive training infrastructure. There are self-paced, e-learning facilities as well as Instructor lead training interventions on a variety of vocational and leadership disciplines. This is a key enabler for our people to continually enhance and stay current with their functional and leadership skills.

As part of a global brand, recognized for excellence in integrated systems and processes, PTC continues to be the employer of choice for ambitious and result oriented professionals.

Business Process Re-engineering

In 2012, PTC conducted a series of sessions to re-evaluate its strategic business priorities. All key initiatives undertaken by PTC during 2012 were focused on ensuring that apart from delivering results here and now, we also continue to consider, focus and invest in all those areas which are critical for a sustainable business on a long-term basis.

To facilitate the effectiveness and efficiency of our employees and be aligned with global BAT practices, many technological innovations were undertaken during the course of the year, such as;

- Adopting the concept of "contemporary technology". PTC upgraded the current IT system platform to state of the art soft wares, which supported in global integration. All of this was done taking into consideration our future needs and initiatives.
- Implemented "Centralized Service Desk system" by revamping existing internal processes to facilitate internal users of our IT systems. This enabled the business to enjoy support services round the clock.

Environment, Health & Safety

PTC has always endeavored to achieve distinction in its Environment, Health and Safety performance. PTC's is focused on providing all its employees with a safe and healthy work environment.

Corporate Social Responsibility

For PTC, Corporate Social Responsibility (CSR) is aimed at caring for and working with communities where it operates in, going beyond commercial relations and legal requirements. It is a clear expression of our internal commitment to serve the community through responsible and sustainable business practices.

PTC's afforestation program in the country, which started in 1981, is the largest private sector driven initiative, promoting sustainable development in Pakistan. The company is recognized for this program which has helped in making significant contributions towards a greener environment. It not only empowers farmers to take part in such efforts but also motivates its people to actively participate in such environmental protection programs that help at improving civic life in a sustainable manner. We have distributed over 60 million saplings for plantation around the country to date. In 2012 alone, around 3 million saplings were distributed in Pakistan.

Public-Private Partnership

One of our major accomplishments this year was the completion of our M-1 Motorway plantation project. PTC in collaboration with the National Highway Authority and the Ministry of Communication initiated a tree plantation project in 2009. On completion, more than half a million trees have been planted along the Motorway (M-1) from Islamabad to Peshawar.

In 2012, we continued to operate our Mobile Doctor Units (MDUs) for the provision of vital facilities in the underprivileged and remote areas of the country. We are running 7 Mobile Doctor Units with 7 doctors. In 2012, over 82,000 patients were treated as part of our MDU program in several medical camps held in less privileged areas of Punjab and Khyber Pukhtoonkhwa Provinces.

Illicit Sector

Illicit cigarette trade globally remains a serious problem. In Pakistan, these contrabands now account for almost 22% of the market, ranking 3rd highest in Asia Pacific countries. Among other reasons, a high tax incidence on cigarettes has led to a higher price differential between legal and tax-evaded products, propelling the trend of consumers down trading to cheaper tax evaded brands, selling far below the minimum prescribed price limit. Lax enforcement has just added to this phenomenon causing a staggering loss of Rs. 80 Billion in the last 5 years.

Smuggled brands have doubled their market share in the last two years alone. This has contributed significantly to increasing illicit cigarette trade segment. This growing trend seriously distorts the level playing field for legitimate players and should be discouraged through regulatory and enforcement measures.

Business Outlook

Our business continues to face challenges on multiple fronts including the illicit cigarette trade, rising cost base, increasing taxes, down-trading, tobacco control regulations, and a volatile security environment. The growing share of the illicit remains the biggest threat to the legitimate industry and sustainability of government revenues. We will continue to support sensible regulation and enforcement drive of the government to curb this issue.

We value the strong bond we have with our communities and remain committed to working together for the sustainability of our business. With strong business fundamentals and a highly committed and motivated team, I am confident that we will strengthen the business in our quest to deliver greater shareholder value.

Graeme Amey
Managing Director & CEO

Illicit Trade in Cigarettes

1 out of every 4
Cigarettes sold in Pakistan is illicit

3rd Highest
Pakistan's country rank in illicit trade in Asia-Pacific

62.7% in 5 years
Increase in sale of illicit cigarettes in Pakistan

23.5 Billion Illicit Cigarettes
or 26.7% of Pakistan's total cigarette consumption is illicit

Rs. 80 Billion Lost
In tax revenues by Government from sale of duty-evaded cigarettes between 2007-2011

Rs. 100 Billion loss
In next 5 years due to sale of tax - evaded cigarettes

68.5% to 81%
Is the range of tax levied on retail price of each packet of cigarettes

Fiscal Deficit Exacerbated
Tax evasion by illicit cigarettes keeps Pakistan dependent upon foreign aid

Promotes Criminality
Illicit manufacturing and smuggling are organized crimes

High Taxes
Coupled with weak enforcement fuel illicit trade in cigarettes

Mobile Enforcement Units
Key to improve chances of compliance

Auditing Company Accounts
Will help enhance Government revenue

Caring for Communities

PTC has been one of the pioneers of CSR Programs in Pakistan. For PTC, Corporate Social Responsibility (CSR) is aimed at caring for and working with communities where it operates in, going beyond commercial relations and legal requirements. The CSR platforms PTC focuses on are sustainable agriculture, afforestation, empowerment, and improved civic life. Such initiatives ultimately improve the civic life and the overall environment at large, creating many positive externalities for the people of Pakistan to benefit from.

PTC's afforestation program in the country, which started in 1981, is the largest private sector driven initiative in Pakistan. In 2012 only, around 3 million saplings were distributed in Pakistan through this program. The key initiative that was finalized in 2012, in collaboration with Government of Pakistan, was completion of plantation of more than half a million trees along Motorway (M-1) from Islamabad to Peshawar.

The Company's CSR programs have won numerous awards including the 'Environmental Excellence Award' (2002) the ACCA-WWF Pakistan Environmental Reporting Award for the 'Best Sustainability Report' (2007), and CSR 'National Excellence Award' (2011) awarded by the CSR Association of Pakistan.

Public Sculpture (Globe) on Constitutional Avenue, Islamabad, donated by Pakistan Tobacco Company Limited (PTC).

Afforestation Program - "Working for a Greener Tomorrow" by PTC.

CSR National Excellence Award, 2011.

Relief goods being sent in 2010 for flood affectees by PTC.

Plantation on M1 Motorway (Islamabad to Peshawar) by PTC.

Free medical camp set up at Mianwali by PTC.

Director's Review

The Directors present the 66th Annual Report along with the audited financial statements of the Company for the year ended December 31, 2012.

2012 has been a challenging year for PTC with rising inflation, falling disposable incomes, consumers' down-trading on the back of largely unchecked illicit sector, increased tobacco control regulations and intensifying competition. However, PTC has registered growth in sales volume and shown improvement in market share despite a decline in overall industry volumes.

Business Performance

Provided here are the key financial indicators for the year 2012.

(Rs in million)

	2012	2011
Gross Turnover	75,531	67,492
Net Turnover	25,880	22,950
Gross Profit	8,446	6,241
Operating Profit	2,729	661
Profit before Tax	2,655	559
Profit after Tax	1,728	364
Earnings per Share - EPS (Rs)	6.77	1.42

Our sales, at 40.6 bn sticks were 2.1% higher vs. SPLY resulting in net turnover growth vs. last year. The Company was able to take price increase in line with excise threshold increase across the portfolio in an environment where consumer affordability remains stretched. PTC has controlled its cost base through productivity initiatives including machinery footprint alignment post imposition of less than 20s pack ban on cigarette manufacturers in Q3' 2011. Our 2011 profitability was significantly lower primarily due to full year impact of 2010 excise shock in 2011 and higher liability on account of Voluntary Separation Scheme to our factory workforce in the wake of regulatory ban on below 20s pack manufacturing. We have registered an improvement in our profitability during 2012 primarily due to strict cost control on raw materials, lower than inflationary increase in our administrative expenses & prudent spend on our marketing initiatives. However, 2012 PAT at 2.3% of Gross Turnover is still considerably low from an operating concern standpoint.

Sales Performance

We faced several challenges during the year. Persistent down-trading accelerated by strained disposable incomes and the presence of numerous cheap non-duty paid brands of the illicit sector continued to threaten our volumes. Precarious law and order situation, intense competition, increased regulations and easy availability of the illicit brands that do not comply with Government regulations made the operating environment even worse. However PTC, its brands and its people, once again proved resilient in the face of these challenges. In 2012, PTC gave a commendable performance and benefitted from the success of Capstan by Pall Mall Original (CbPMO) which was launched in July 2010. We sold 0.8bn more sticks than 2011 and grew our overall market share to 50.4% vs. 48.6% in SPLY.

Our premium portfolio, being a strategic segment catering to a niche market, has shown good growth on a relatively small volume base at the back of consistent distribution expansion and trade development activities. Dunhill has established itself as an innovative brand in the premium segment with improved sales vs. SPLY. Marketing activities on Dunhill Master Blend re-launch, Dunhill Swiss & the launch of innovative Switch technology during 2012 coupled with improvement in the overall blend of the product enabled Dunhill to outperform competition. Moreover, B&H continued to perform strongly, growing sales while withstanding aggressive competitive activities resulting in steady growth of PTC's market share in the premium segment.

Our flagship brand in the premium segment, John Player Gold Leaf, continues to grow at the back of a strong brand equity in-spite of adverse economic conditions, squeezing disposable incomes and successive price increases in the recent years. Riding on its inherent strength and supported by the right initiatives, the brand increased its volume base to close the year at 10.1% market share with sales for the year higher vs. last year by 2.6%.

In the Value for Money ('VFM') segment, CbPMO has proved to be an exceptional success in the domestic market becoming the biggest cigarette brand in Pakistan towards end of the year. Capturing a further 3.5% of the market in the current year CbPMO's market share stood at 18.0% in 2012. Sales were higher vs. SPLY enabling the brand to firmly establish itself as the leading brand of the domestic tobacco market partially cannibalizing Gold Flake in the same segment.

Contribution to the National Exchequer

PTC continues to be one of the largest contributor to the Government Revenue. Despite an extraordinarily challenging macroeconomic environment, our contribution to the Government continued to grow. Our contribution to the national exchequer was over Rs. 51bn in 2012 as against Rs. 45bn in SPLY, attributed to Excise Duty, Sales Tax, Income Tax and Custom duties. This however, is under threat as Excise driven price increases accelerate consumers' down trading to the ultra-low price segment in the tax evaded sector.

Cost of Sales

Ongoing rupee devaluation and double digit inflation continues to put pressure on our input costs. In addition, energy crisis continued to adversely affect our cost base coupled with expenses on ensuring a safe and secure environment for our People in a highly volatile environment. We have been able to achieve a below inflation increase in Cost of Sales primarily due to reduction in head count of our factory workforce in the wake of below 20s pack ban imposed by the Government.

We continue to strictly review our cost base and promote a culture of spend efficacy throughout our operations. PTC has managed to control the inflationary increase in cost of sales to a tolerable level resulting in Gross Profit growth.

Operating and Other Costs

With the aim to further strengthen our brand portfolio and increase our volume share, marketing spend has increased by 9% vs. SPLY primarily on account of pack change initiatives in VFM segment coupled with brand re-launch and innovative initiatives in premium segment. Additionally, there has been a continued spend to increase rural sector availability of our brands.

PTC has remained committed with its focus on people and their development in 2012. People, being our core pillar of strength in the business, have been attracted and retained by higher than market remuneration packages, fast paced professional growth and career advancements on the back of local and international Training and Development opportunities.

Regulatory ban on production and sale of below 20s pack of cigarette has had major implications on our production processes resulting in changes in our machinery footprint and workforce. This has resulted in cost implications for 2011 and 2012 with the aim to realign our manufacturing facilities and processes. PTC incurred costs related to machinery footprint modifications and workforce rationalization following the government's decision to ban below 20's cigarette packs. A Voluntary Separation Scheme with generous packages was offered to our workforce to enable headcount reduction in an amicable and fair manner.

Cash Flows

Our gross turnover has increased during the year driven by higher sales volume coupled with price increases on all our brands. The positive impact of a higher gross turnover, lower capital expenditure vs. 2011 and a one-off gain through divestment of company owned fleet and shift to leasing arrangement for fleet financing, has resulted in an increase of cash & cash equivalents by Rs. 575mn despite interim dividends being declared during 2012.

Manufacturing Excellence

Consumer-centric quality coupled with productivity improvements has been the key focus for PTC's Supply Chain in 2012. We developed improved and differentiated blends catering to consumer preferences and our factories produced over 40 Billion sticks to support market share growth through superior quality products.

Quality Management approach was revamped from being 'process centric' to becoming 'consumer centric'. Moreover in 2012, the Company completed the realignment of our production facilities post imposition of below 20's cigarette packs ban.

Dividend

In light of the company financials and ground realities we have decided to declare a dividend of Rs. 3.25 per share for the year ended December 31, 2012 (2011: Re. 1 per share).

Appropriation of Profits

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

(Rs in million)

	2012	2011
Operating Profit	2,729	661
Profit After Tax	1,728	364
Accumulated Profit brought forward	779	1,047
Actuarial Gains / (Losses) taken to Equity (net of tax)	80	(95)
Profit available for appropriation	2,587	1,316
Appropriations:		
Final dividend of Re. 1 per share		
(Year ended December 31, 2011)	256	-
1st interim dividend of Rs 1.25 per share (Q1 2012)	319	-
2nd interim dividend of Rs. 1.80 per share (Q3 2012)	460	-
Final dividend 2010 @ 21 % (2009:47.5%)	-	537
Unappropriated Profit carried forward	1,552	779

This shall be subject to the approval of shareholders in their meeting scheduled for April 19, 2013.

Good Corporate Governance

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

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

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

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

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

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

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

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

h) All major Government levies in

the normal course of business, payable as at December 31, 2012 have been cleared subsequent to the year-end.

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

j) Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2012 are as follows:

	(Rs. in million)
Staff Pension Funds	2,912
Employees' Gratuity Fund	807
Management Provident Fund Pakistan Tobacco Company	546
Limited Provident Fund Staff Defined	687
Contribution Pension Fund	26

The Board

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

Changes in the Board

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

Nicholas Stewart Hales resigned from the Board of the Company effective 31st January, 2012. The casual vacancy created by his resignation was filled in by Graeme Douglas Amey effective 31st January, 2012.

Board of Directors Meetings

During the year 2012, six meetings of the Board of Directors were held on 13th January, 19th March, 23rd April, 17th August, 22nd October and 3rd December. Attendances are detailed below:

	Name of Director	No. of meetings attended
1.	Mueen Afzal Chairman and Non-Executive Director	05
2.	Graeme Amey Managing Director & Chief Executive	05
3.	Mobasher Raza Deputy Managing Director and Finance Director	05
4.	Mustanser Muhammad Ali Khan Supply Chain Director	05
5.	Feroze Ahmed Strategy & Planning Director	05
6.	Tajamal Shah Legal Director	06
7.	Lt. Gen. (Retd.) Ali Kuli Khan Khattak (Non-Executive Director)	04
8.	Abid Niaz Hasan (Non-Executive Director)	05
9.	Syed Asif Shah (Non-Executive Director)	06

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 three Non-Executive Directors:

Abid Niaz Hasan (Chairman)

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

Syed Asif Shah

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

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

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

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

Auditors

Statutory Audit for the Company for the financial year ended December 31, 2012 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, 2013 on the recommendation of the Audit Committee.

Shareholding

The pattern of shareholding as at December 31, 2012 alongside the disclosure as required under Code of Corporate Governance is annexed within this report. The Directors, CEO, Chief Financial Officer, Company Secretary and their spouses and minors have reportedly not performed any trading in the shares of the Company.

Holding Company

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

Consolidated Financial Statements

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

Environment, Health and Safety

PTC continued its focus on Environment, Health and Safety (EH&S) parameters of the business in 2012 with no accidents in any site. This is a true reflection of our determination and resolve to ensure that our people operate in a safe environment and our business is driven in an environmentally responsible manner.

As part of EH&S initiatives, we have placed enhanced focus on contractor management, devoting significant resources to ensure people in our premises work according to prescribed EH&S standards and return home safe and sound. PTC aims to improve its EH&S performance through investment in infrastructure as well as training and education of all relevant stakeholders.

Corporate Social Responsibility

As a business that operates in a controversial industry, we have an increased impetus to demonstrate to our stakeholders that we run our business in a sustainable manner. Such viable business practices are at the heart of PTC's strategy which is why the Company has always believed in extending support through its CSR activities to the communities at large.

In 2012, PTC continued its Corporate Social Responsibility initiatives amidst the challenging macro-economic and unstable security environment. For over a decade, we have been firmly working in three main areas of Empowerment, Civic Life and Sustainability.

PTC has been on the forefront of afforestation efforts in the country to promote sustainable development. This program, probably one of the largest within the private sectors, was initiated in 1981 through which we have distributed over 60 million saplings for plantation around the country. In 2012, around 3 million saplings were distributed in Khyber Pukhtoonkhwa and Punjab through this program.

PTC in collaboration with the National Highway Authority and the Ministry of Communication, initiated a tree plantation project in 2009 which came to a successful completion in 2012. Through this initiative, more than half a million trees alone have been planted along the Motorway (M-1) from Islamabad to Peshawar. The Company also revamped Woodland Public Park in collaboration with District Government Mianwali and Golra Railway Station in collaboration with Pakistan Railway Authority, Islamabad.

PTC has also been providing basic health facilities through the Mobile Doctor Units (MDUs). We are running 7 Mobile Doctor Units with 7 doctors. 5 of these MDUs are providing services in Khyber Pukhtoonkhwa (Akora Khattak, Mardan, Mansera and Swabi) and 2 in Punjab (Mianwali and Jhelum). 82,000 patients in 2012 alone were treated in several medical camps held in Punjab and Khyber Pukhtoonkhwa.

We recognize that Corporate Social Responsibility (CSR) presents particular challenges for a tobacco company. Tobacco products pose real risks to health and raise important questions about how best to define responsible product stewardship. We, therefore, believe that for our business, the only meaningful approach to CSR is one based squarely on our products, on the issues around them and on ways of responding to the sometimes strongly held views of our stakeholders

Business Challenges and Future Outlook

PTC's business continues to face immense challenges including cost pressures, rising taxes, increasing regulations, stiff competition from the growing illicit trade in the wake of weak enforcement. We urge the Government to take radical steps to rectify the situation and curb the growing illicit trade which continues to be a threat due to ultra-low prices and non-conformity to regulations. The illicit trade in cigarettes rose tremendously over the last year, owing to weak enforcement and heavy influx of smuggled brands, causing an estimated loss of Rs. 19.6bn to the national revenues. With our prominent involvement in various industry forums committed to raise awareness about threats posed by the illicit sector, we remain fully committed to the cause and continue to offer our support to the Government in all possible ways to control illicit trade activities.

Ongoing security situation continues to be a grave concern for us and all our stakeholders. PTC remains committed in ensuring the safety and security of our people and assets.

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

With firm belief in our long term strategy, competitive edge and right ingredients in terms of brand portfolio, production excellence and dedicated human resource, we endeavor a long term and sustainable growth to our shareholders.

Mueen Afzal
Chairman

Graeme Amey
Managing Director & CEO

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Sixth Annual General Meeting ("the Meeting") of Pakistan Tobacco Company Limited ("the Company") will be held at Silver Square, Plot No.15, F-11 Markaz, Islamabad on Friday 19th April, 2013 at 3.30 p.m. to transact the following business: -

A. Ordinary Business:

1. To receive, consider and adopt the audited Accounts for the year ended 31st December, 2012, 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.
4. To elect 9 directors as fixed by the Board, for a period of three years commencing 19th April, 2013 (close of business). The names of the retiring directors are Mueen Afzal, Graeme Amey, Mobasher Raza, Mustanser Muhammad Ali Khan, Feroze Ahmed, Tajamal Shah, Lt. Gen. (Retd.) Ali Kuli Khan Khattak, Abid Niaz Hasan and Syed Asif Shah.

By order of the Board

Ayesha Rafique
Company Secretary
Islamabad:
27th March, 2013

Notes:

1. The Share Transfer Books of the Company will be closed from 13th April, 2013 to 19th April, 2013 both days inclusive. Transfers received in order at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.1-A, 1st Floor, I. I. Chundrigar Road, Karachi at the close of business on 12th April, 2013, will be in time to be entitled to vote and for the entitlement of dividend.
2. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy and such proxy will have the right to attend, speak and vote in place of that member. Forms of proxy must be deposited at the office of the Company's Share Registrar not less than 48 hours before the time appointed for the Meeting and in default, forms of proxy will not be treated as valid.
3. Attendance of members who have deposited their shares into Central Depository Company of Pakistan Limited shall be in accordance with the following:-

   a) In Person:

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

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

   b) By Proxy:

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

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

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

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

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

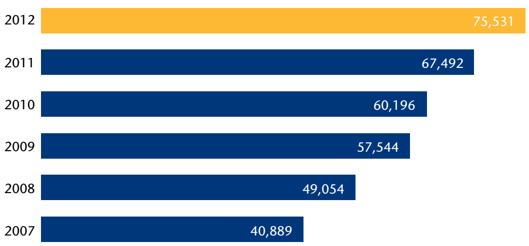
4. Members are requested to notify the Company's Share Registrar promptly of changes in their address, and the Members who have not yet submitted a photocopy of their valid computerized National Identity Cards to the Company are requested to send the same at the earliest directly to our Share Registrar.

Financial Highlights

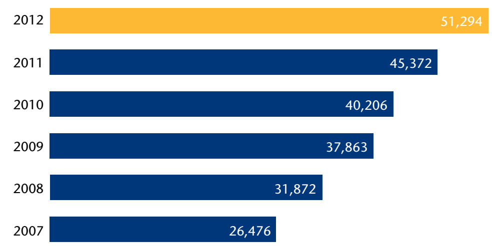
		2012	2011	2010	2009	2008	2007
PROFIT & LOSS							
Volume	Million Sticks	40,615	39,795	36,831	41,183	41,469	37,188
Gross Turnover	Rs million	75,531	67,492	60,196	57,544	49,054	40,889
Excise & Sales Tax	Rs million	49,651	44,542	39,243	35,878	30,181	24,846
Net Turnover	Rs million	25,880	22,950	20,953	21,667	18,872	16,043
Gross Profit	Rs million	8,446	6,241	6,205	8,224	7,277	6,516
Operating Profit	Rs million	2,729	661	1,531	4,589	3,860	3,720
Profit Before Tax	Rs million	2,655	559	1,418	4,648	3,894	3,725
Profit After Tax	Rs million	1,728	364	925	3,022	2,532	2,420
EBITDA	Rs million	3,514	1,435	2,276	5,246	4,455	4,257
Dividends	Rs million	1,035	537	1,533	2,440	2,466	2,529
Balance Sheet							
Paid up capital	Rs million	2,555	2,555	2,555	2,555	2,555	2,555
Shareholders' Funds	Rs million	4,107	3,334	3,602	4,260	3,608	3,705
Reserves	Rs million	1,552	779	1,047	1,705	1,053	1,150
Property, Plant & Equipment	Rs million	5,695	6,092	5,824	5,952	5,600	5,154
Net Current Liabilities	Rs million	(426)	(1,705)	(1,108)	(614)	(471)	(182)
Capital Employed	Rs million	5,294	4,416	4,740	5,370	5,184	5,003
Capital Expenditure during the year	Rs million	421	1,167	646	1,045	1,073	1,191
Long Term / Deferred Liabilities	Rs million	1,187	1,082	1,138	1,110	1,576	1,299
Investor Information							
Return on Assets	%	12.75	2.84	7.52	26.72	25.05	26.08
Return on Equity	%	42.08	10.91	25.68	70.94	70.18	65.33
Return on Capital Employed	%	32.65	8.24	19.52	56.28	48.84	48.37
Earnings per share After Tax	Rs	6.77	1.42	3.62	11.83	9.91	9.47
Price-Earning Ratio	Rs	9.99	38.98	30.44	8.88	10.73	16.42
Dividend yield ratio	%	6.00	3.79	5.44	9.10	9.08	6.37
Dividend payout ratio	%	59.88	147.61	165.71	80.73	97.38	104.50
Break-up value per share	Rs	16.08	13.05	14.10	16.67	14.12	14.50
Market value per share at year end	Rs	67.56	55.50	110.23	105.00	106.30	155.50
Highest Market value per share during the year	Rs	72.58	116.00	119.90	117.00	161.00	198.30
Lowest Market value per share during the year	Rs	46.00	55.50	100.58	52.90	106.30	74.50
Gross profit ratio	%	32.63	27.19	29.61	37.96	38.56	40.61
EBITDA Margin	%	4.65	2.13	3.78	9.12	9.08	10.41
Net Profit Margin	%	6.68	1.59	4.42	13.95	13.42	15.09
Inventory Turnover Ratio		2.41	2.59	2.46	2.33	2.86	2.38
Creditor Turnover		6.97	4.65	8.42	8.03	7.83	7.98
Operating Cycle		99	63	105	111	81	107
Total Assets Turnover Ratio		5.44	5.10	4.87	4.71	4.72	4.16
Fixed Assets Turnover Ratio		13.26	11.08	10.34	9.67	8.76	7.93
Current Ratio		0.95	0.81	0.85	0.91	0.91	0.96
Quick / Acid Test Ratio		0.11	0.07	0.07	0.07	0.13	0.13
Dividend Per Share	Rs	4.05	2.10	6.00	9.55	9.65	9.90
Dividend Cover Ratio		1.67	0.68	0.60	1.24	1.03	0.96
Debt to Equity Ratio		0.30	0.53	0.63	0.31	0.16	0.28
Interest Cover Ratio		20.17	4.98	10.47	107.13	150.68	144.65
Govt levies as a percentage of turnover	%	67.91	67.23	66.79	65.80	64.97	64.75
Government Levies							
Customs, Excise Duties & Sales Tax	Rs million	50,167	45,036	39,652	36,367	30,525	25,213
Local Taxes and Other Duties	Rs million	143	137	116	105	101	94
Income Tax	Rs million	984	199	438	1,391	1,246	1,169

Graphs

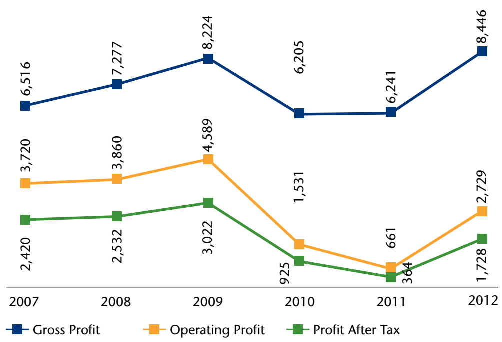
Gross Turnover
Rs (million)



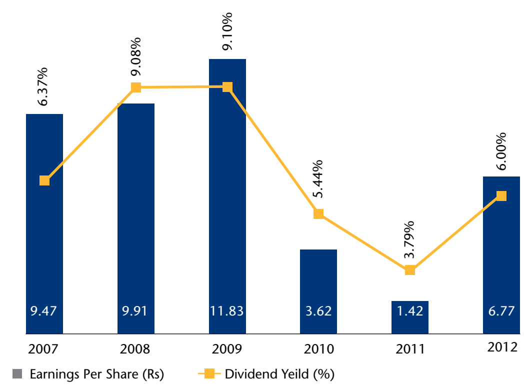
Government Levies
Rs (million)



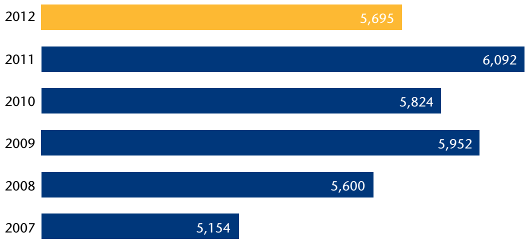
Gross, Operating and After Tax Profit
Rs (million)



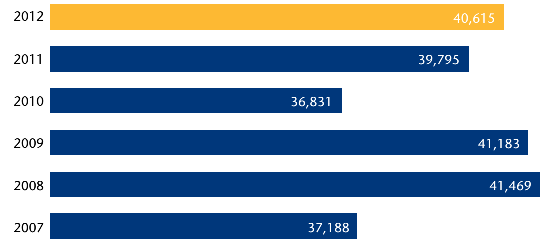
Earnings per Share and Dividend Yield



Property, Plant and Equipment
Rs (million)



Volume
Sticks (million)



Horizontal & Vertical Analysis

Source Data

	2007	2008	2009	2010	2011	2012
			(Rs. '000)			
Balance Sheet						
Non Current Assets						
Property Plant And Equipment	5,154,326	5,599,758	5,952,108	5,823,688	6,092,284	5,694,961
Investment in Subsidiary Company at Cost	5,000	5,000	5,000	5,000	5,000	5,000
Long Term Loans	12,513	9,244	7,310	3,417	1,260	457
Long Term Deposits and Prepayments	13,025	41,172	19,915	15,375	22,640	20,286
	5,184,864	5,655,174	5,984,333	5,847,480	6,121,184	5,720,704
Current Assets						
Stocks in trade	3,998,181	4,059,063	5,765,367	6,002,824	6,462,330	7,225,301
Stores and spares	140,777	190,646	218,375	199,208	190,110	341,855
Trade debts	2,386	2,666	1,684	1,597	1,202	1,073
Loans and advances	38,580	65,917	48,598	48,267	64,310	68,632
Short term prepayments	64,887	105,728	72,483	118,329	94,052	99,509
Other receivables	229,891	246,675	88,147	93,546	196,249	287,696
Cash and bank balances	166,666	69,172	47,874	51,945	109,631	139,030
	4,641,368	4,739,867	6,242,528	6,515,716	7,117,884	8,163,096
	9,826,232	10,395,041	12,226,861	12,363,196	13,239,068	13,883,800
Share Capital & Reserves						
Share Capital	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938
Revenue Reserves	1,149,742	1,053,393	1,705,296	1,047,151	778,997	1,552,462
	3,704,680	3,608,331	4,260,234	3,602,089	3,333,935	4,107,400
Non Current Liabilities						
Retirement Benefits	489,503	739,133	-	-	-	-
Deferred Taxation	809,109	836,939	1,109,847	1,137,581	1,082,038	1,090,892
Lease liability	-	-	-	-	-	96,024
	1,298,612	1,576,072	1,109,847	1,137,581	1,082,038	1,186,916
Current Liabilities						
Trade and other payables	3,548,237	4,324,704	5,037,469	5,339,725	7,067,704	6,991,911
Accrued interest / mark-up accrued	8,401	10,354	27,659	46,789	51,187	40,880
Short term finances	1,038,550	572,397	1,300,837	2,252,218	1,783,623	1,237,772
Lease liability	-	-	-	-	-	50,009
Income tax payable	227,752	303,183	490,815	(15,206)	(79,419)	268,912
	4,822,940	5,210,638	6,856,780	7,623,526	8,823,095	8,589,484
	9,826,232	10,395,041	12,226,861	12,363,196	13,239,068	13,883,800
Profit & Loss Account						
Gross turnover	40,889,275	49,053,928	57,544,309	60,195,535	67,491,816	75,531,228
Excise duties	19,311,946	23,351,734	27,654,345	30,476,421	34,719,661	38,854,830
Sales tax	5,534,452	6,829,699	8,223,439	8,766,485	9,822,181	10,796,089
Net turnover	16,042,877	18,872,495	21,666,525	20,952,629	22,949,974	25,880,309
Cost of sales	9,527,306	11,595,736	13,442,066	14,747,717	16,709,273	17,434,790
Gross Profit	6,515,571	7,276,759	8,224,459	6,204,912	6,240,701	8,445,519
Selling and distribution expenses	1,795,793	1,933,364	2,246,014	3,279,390	3,129,938	3,516,601
Administration expenses	736,147	928,358	1,100,814	1,233,165	1,321,713	1,381,918
Other operating income	71,756	60,551	226,499	46,610	53,967	90,400
Other operating expenses	335,763	615,458	514,665	208,211	1,182,363	908,888
Operating profit	3,719,624	3,860,130	4,589,465	1,530,756	660,654	2,728,512
Finance income	30,878	59,600	102,826	36,933	39,160	65,057
Finance cost	25,928	26,013	43,802	149,680	140,539	138,533
Profit before taxation	3,724,574	3,893,717	4,648,489	1,418,009	559,275	2,655,036
Taxation	1,304,367	1,361,422	1,626,083	492,909	195,490	926,578
Profit for the year	2,420,207	2,532,295	3,022,406	925,100	363,785	1,728,458
Earnings per Share - (Rupees)	9.47	9.91	11.83	3.62	1.42	6.77

	Horizontal Analysis						Vertical Analysis					
	2007	08 Vs 07	09 Vs 08	10 Vs 09	11 Vs 10	12 Vs 11	2007	2008	2009	2010	2011	2012
	Variance (%)						Percentage					
	100	8.64	6.29	(2.16)	4.61	(6.52)	52.45	53.87	48.68	47.11	46.02	41.02
	100	-	-	-	-	-	0.05	0.05	0.04	0.04	0.04	0.04
	100	(26.12)	(20.92)	(53.26)	(63.13)	(63.73)	0.13	0.09	0.06	0.03	0.01	-
	100	216.10	(51.63)	(22.80)	47.25	(10.40)	0.13	0.40	0.16	0.12	0.17	0.15
	100	9.07	5.82	(2.29)	4.68	(6.54)	52.77	54.40	48.94	47.30	46.24	41.20
	100	1.52	42.04	4.12	7.65	11.81	40.69	39.05	47.15	48.55	48.81	52.04
	100	35.42	14.54	(8.78)	(4.57)	79.82	1.43	1.83	1.79	1.61	1.44	2.46
	100	11.74	(36.83)	(5.17)	(24.73)	(10.73)	0.02	0.03	0.01	0.01	0.01	0.01
	100	70.86	(26.27)	(0.68)	33.24	6.72	0.39	0.63	0.40	0.39	0.49	0.49
	100	62.94	(31.44)	63.25	(20.52)	5.80	0.66	1.02	0.59	0.96	0.71	0.72
	100	7.30	(64.27)	6.12	109.79	46.60	2.34	2.37	0.72	0.76	1.48	2.07
	100	(58.50)	(30.79)	8.50	111.05	26.82	1.70	0.67	0.39	0.42	0.83	1.00
	100	2.12	31.70	4.38	9.24	14.68	47.23	45.60	51.06	52.70	53.76	58.80
	100	5.79	17.62	1.12	7.08	4.87	100	100	100	100	100	100
	100	-	-	-	-	-	26.00	24.58	20.90	20.67	19.30	18.40
	100	(8.38)	61.89	(38.59)	(25.61)	99.29	11.70	10.13	13.95	8.47	5.88	11.18
	100	(2.60)	18.07	(15.45)	(7.44)	23.20	37.70	34.71	34.84	29.14	25.18	29.58
	100	51.00	(100.00)	-	-	-	4.98	7.11	-	-	-	-
	100	3.44	32.61	2.50	(4.88)	0.82	8.23	8.05	9.08	9.20	8.17	7.86
	100	-	-	-	-	100.00	-	-	-	-	-	0.69
	100	21.37	(29.58)	2.50	(4.88)	9.69	13.22	15.16	9.08	9.20	8.17	8.55
	100	21.88	16.48	6.00	32.36	(1.07)	36.11	41.60	41.20	43.19	53.39	50.36
	100	23.25	167.13	69.16	9.40	(20.14)	0.09	0.10	0.23	0.38	0.39	0.29
	100	(44.88)	127.26	73.14	(20.81)	(30.60)	10.57	5.51	10.64	18.22	13.47	8.92
	100	-	-	-	-	100.00	-	-	-	-	-	0.36
	100	33.12	61.89	(103.10)	422.29	(438.60)	2.32	2.92	4.01	(0.12)	(0.60)	1.92
	100	8.04	31.59	11.18	15.74	(2.65)	49.08	50.13	56.08	61.66	66.64	61.87
	100	5.79	17.62	1.12	7.08	4.87	100	100	100	100	100	100
	100	19.97	17.31	4.61	12.12	11.91						
	100	20.92	18.43	10.20	13.92	11.91						
	100	23.40	20.41	6.60	12.04	9.92						
	100	17.64	14.80	(3.29)	9.53	12.77	100	100	100	100	100	100
	100	21.71	15.92	9.71	13.30	4.34	59.39	61.44	62.04	70.39	72.81	67.37
	100	11.68	13.02	(24.56)	0.58	35.33	40.61	38.56	37.96	29.61	27.19	32.63
	100	7.66	16.17	46.01	(4.56)	12.35	11.19	10.24	10.37	15.65	13.64	13.59
	100	26.11	18.58	12.02	7.18	4.56	4.59	4.92	5.08	5.89	5.76	5.34
	100	(15.62)	274.06	(79.42)	15.78	67.51	0.45	0.32	1.05	0.22	0.24	0.35
	100	83.30	(16.38)	(59.54)	467.87	(23.13)	2.09	3.26	2.38	0.99	5.15	3.51
	100	3.78	18.89	(66.65)	(56.84)	313.00	23.19	20.45	21.18	7.31	2.88	10.54
	100	93.02	72.53	(64.08)	6.03	66.13	0.19	0.32	0.47	0.18	0.17	0.25
	100	0.33	68.39	241.72	(6.11)	(1.43)	0.16	0.14	0.20	0.71	0.61	0.54
	100	4.54	19.38	(69.50)	(60.56)	374.73	23.22	20.63	21.45	6.77	2.44	10.26
	100	4.37	19.44	(69.69)	(60.34)	373.98	8.13	7.21	7.51	2.35	0.85	3.58
	100	4.63	19.35	(69.39)	(60.68)	375.13	15.09	13.42	13.95	4.42	1.59	6.68
	100	4.65	19.37	(69.39)	(60.78)	376.76						

Summary of Cash Flows

(Rs in million)	2012	2011	2010	2009	2008	2007
Cash flow from Operating Activities	1,775	2,151	1,149	2,545	4,316	3,546
Cash flow from Investing Activities	(119)	(1,089)	(565)	(860)	(978)	(1,151)
Cash flow from Financing Activities	(1,081)	(536)	(1,531)	(2,435)	(2,969)	(2,036)
Net Change in Cash and Cash Equivalents	575	526	(947)	(750)	369	358
Beginning Cash and Cash Equivalents	(1,674)	(2,200)	(1,253)	(503)	(872)	(1,230)
Ending Cash and Cash Equivalents	(1,099)	(1,674)	(2,200)	(1,253)	(503)	(872)
Cash and Cash Equivalents comprise						
Cash and Bank Balances	139	110	52	48	69	167
Short Term Borrowings	(1,238)	(1,784)	(2,252)	(1,301)	(572)	(1,039)
	(1,099)	(1,674)	(2,200)	(1,253)	(503)	(872)

Financial Calendar

2012	
1st Quarter Results issued on	April 23, 2012
2nd Quarter Results issued on	August 17, 2012
3rd Quarter Results issued on	October 22, 2012
Recommendation of Annual Results by the BOD	February 20, 2013
66th Annual General Meeting scheduled for	April 19, 2013

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

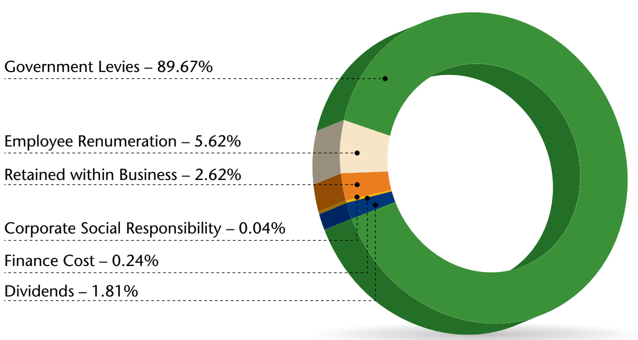
Analysis of Quarterly Results

	2011				2012			
(Rs in million)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Balance Sheet								
Non Current Assets								
Property Plant and Equipment	5,657	5,592	5,616	6,093	5,885	5,810	5,773	5,695
Investment in Subsidiary Company at Cost	5	5	5	5	5	5	5	5
Long Term Loans	2	2	2	1	1	1	1	-
Long Term Deposits and Prepayments	16	20	19	23	22	23	21	20
Current Assets								
Stocks in trade	5,004	4,007	7,385	6,462	5,684	3,778	8,032	7,225
Stores and spares	216	255	241	169	243	281	310	342
Trade debts	1	2	2	1	1	1	2	1
Loans,advances, short term prepayments and other receivables	270	255	216	355	265	500	272	456
Cash and bank balances	59	73	112	110	405	145	324	139
	5,549	4,592	7,956	7,097	6,598	4,704	8,939	8,163
CURRENT LIABILITIES								
Trade and other payables	5,973	3,500	6,536	7,075	7,651	4,789	8,176	6,992
Accrued interest / mark-up	43	17	29	51	42	10	41	41
Liability against assets subject to finance lease	-	-	-	-	-	27	39	50
Short term finances	29	1,768	1,526	1,784	-	1,441	1,211	1,238
Income tax payable	138	210	387	(107)	86	(78)	219	269
	6,183	5,495	8,478	8,803	7,779	6,189	9,685	8,589
Net Current Liabilities	(634)	(903)	(523)	(1,706)	(1,181)	(1,485)	(746)	(426)
Non Current Liabilities								
Liability against assets subject to finance lease	-	-	-	-	-	66	96	96
Deferred Taxation	1,101	1,072	1,043	1,082	1,038	1,067	1,046	1,091
	1,101	1,072	1,043	1,082	1,038	1,134	1,142	1,187
Net Assets	3,946	3,644	4,077	3,334	3,694	3,220	3,912	4,107
Share Capital & Reserves								
Share Capital	2,555	2,555	2,555	2,555	2,555	2,555	2,555	2,555
Revenue Reserves	1,391	1,089	1,521	779	1,139	666	1,357	1,552
	3,946	3,644	4,076	3,334	3,694	3,220	3,912	4,107
Profit & Loss Account								
Gross Turnover	16,455	17,384	16,107	17,546	17,705	20,858	17,124	19,844
Excise Duties	8,487	9,013	8,270	8,950	9,119	10,714	8,797	10,225
Sales tax	2,457	2,590	2,289	2,486	2,529	2,981	2,449	2,838
Net Turnover	5,511	5,781	5,548	6,110	6,057	7,163	5,879	6,782
Cost of sales	4,092	4,329	3,874	4,414	4,197	5,070	3,803	4,365
Gross Profit	1,419	1,452	1,673	1,697	1,860	2,093	2,076	2,416
Selling and distribution expenses	505	707	612	1,306	897	823	675	1,121
Administration expenses	304	381	312	325	330	379	327	347
Other operating expenses	45	38	70	1,010	51	805	(5)	57
Other operating income	1	17	3	14	9	22	24	35
	853	1,109	991	2,627	1,269	1,986	973	1,489
Operating profit	566	343	682	(930)	591	108	1,102	927
Finance income	2	30	5	2	1	59	3	2
Finance cost	44	17	28	52	41	9	44	44
Finance (cost)/income - net	(42)	13	(23)	(50)	(40)	49	(41)	(42)
Profit before taxation	524	356	659	(980)	552	157	1,062	885
Taxation	180	121	(227)	(269)	192	55	370	309
Profit for the year	344	235	432	(647)	360	102	692	575

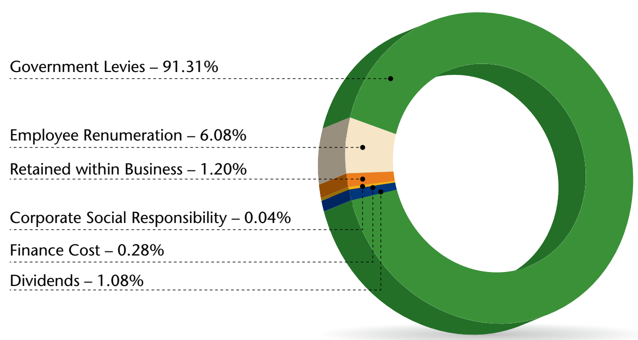
Statement of Value Generated and Distributed

	(Rs in million) 2012	%	(Rs in million) 2011	%
Value Generation				
Gross Revenues	75,687		67,585	
Material, Services and Other Costs	(18,486)		17,894	
Value added	57,201		49,691	
Value Distribution				
Employee Remuneration	3,212	5.62	3,022	6.08
Government Levies	51,294	89.67	45,372	91.31
Dividends	1,035	1.81	537	1.08
Finance Cost	139	0.24	141	0.28
Corporate Social Responsibility	23	0.04	22	0.04
Retained within Business	1,498	2.62	597	1.20
	57,201	100.00	49,691	100.00

Value Distribution
2012



Value Distribution
2011



Board Committees

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

Executive Committee of the Board (ExCo):

1. Graeme Amey
(Member & Chairman)
2. Mobasher Raza
3. Mustanser Muhammad Ali Khan
4. Asim Imdad
5. Tajamal Shah
6. Feroze Ahmed
7. Syed Imtiaz Faruque
8. Shehzad Munim
9. Ayesha Rafique
(Secretary)

Audit Committee

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

Human Resources & Remuneration Committee:

1. Lt. Gen.(Retd) Ali Kuli Khan Khattak
(Member & Chairman)
2. Graeme Amey
(Member)
3. Syed Asif Shah
(Independent Director)
4. Syed Imtiaz Faruque
(Secretary)

Shares Transfer Committee

1. Graeme Amey
(Member & Chairman)
2. Mobasher Raza
(Member)
3. Tajamal Shah
(Member)
4. Ayesha Rafique
(Secretary)

Functions of Board Committees

	Committees	Function:
1.	Executive Committee of the Board (ExCo)	The Committee is the central working nucleus of the organization. Comprising on Executive Directors and Head of the Departments of the Company, the EXCo drives to achieve the strategic targets set by the Board of Directors.
2.	Human Resources and Remuneration Committee	The Committee is responsible for : • Recommending human resources management policies to the board; • Recommending to the board the selection , evaluation, compensation (including retirement benefits) and succession planning of the Directors (including the CEO and CFO), Company Secretary and Head of Internal Audit; and • Consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO
3.	Audit Committee	The Committee assists the Board of Directors in management of business risks, internal controls and the conduct of the business in economically sound and ethical manner in line with the code of Corporate Governance principles. Audit Committee also reviews the Company's Corporate Social Responsibility (CSR) initiatives and their alignment with Statement of Business Principles.
4.	Share Transfer Committee	The Committee is Responsible for dealing with the day to day shares transfers matters of the Company.

Pattern of Shareholding

As at December 31, 2012

No. of Shareholders		Categories			Total Shares
1,455	From	1	To	100	48,587
1,278	From	101	To	500	379,135
454	From	501	To	1,000	331,928
394	From	1,001	To	5,000	901,910
58	From	5,001	To	10,000	438,850
15	From	10,001	To	15,000	181,854
11	From	15,001	To	20,000	194,983
18	From	20,001	To	25,000	425,208
2	From	25,001	To	30,000	60,000
2	From	35,001	To	40,000	73,081
5	From	45,001	To	50,000	247,500
3	From	55,001	To	60,000	173,000
2	From	60,001	To	65,000	124,918
2	From	65,001	To	70,000	133,000
1	From	70,001	To	75,000	70,140
3	From	75,001	To	80,000	231,102
1	From	85,001	To	90,000	89,350
2	From	140,001	To	145,000	286,531
1	From	150,001	To	155,000	154,000
1	From	155,001	To	160,000	156,700
1	From	165,001	To	170,000	167,633
1	From	175,001	To	180,000	175,184
1	From	230,001	To	235,000	234,909
1	From	290,001	To	295,000	291,000
1	From	295,001	To	300,000	296,900
1	From	300,001	To	305,000	300,752
1	From	360,001	To	365,000	364,600
1	From	400,001	To	405,000	401,800
1	From	455,001	To	460,000	456,639
1	From	505,001	To	510,000	507,000
1	From	595,001	To	600,000	598,249
1	From	605,001	To	610,000	608,481
1	From	795,001	To	800,000	798,282
1	From	1,110,001	To	1,115,000	1,110,202
1	From	1,595,001	To	1,600,000	1,600,000
1	From	1,835,001	To	1,840,000	1,835,243
1	From	241,045,001	To	241,050,000	241,045,141
3,725					255,493,792

	No. of Shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	1,835,758
Directors, CEO, their spouse and minor children	12,274
Executives	34
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, Modaraba and Mutual Funds	1,775,102
Others	4,714,535
Individuals	5,312,666
	255,493,792

Categories of Shareholders	Number	Shares Held	%
Directors, CEO, their spouse and minor children	8	12,274	0.0
Executives	3	34	0.0
Associated Companies, Undertakings and Related Parties	2	241,843,423	94.7
Investment Companies	2	1,835,758	0.7
Modarabas & Mutual Funds	4	57,990	0.0
Insurance Companies	8	1,305,268	0.5
Banks, development and other Financial Institutions	14	411,844	0.2
Individuals	3,620	4,714,535	1.8
Others	64	5,312,666	2.1
Total	3,725	255,493,792	100.0

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

Statement of Compliance
with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (Code) contained in 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:

Category	Names
Independent Directors	Syed Asif Shah Abid Niaz Hasan
Executive Directors	Graeme Amey Mobasher Raza Tajamal Shah Feroze Ahmed Mustansar Muhammad Ali Khan
Non- Executive Directors	Mueen Afzal Lt Gen. (Retd.) Ali Kuli Khan

   The Independent directors meet the criteria of Independence under clause i(b) of CCG. The requirement of restricting maximum number of executive directors to one third of the elected directors is applicable to the Company from next election of directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).The requirement of maximum limit of seven number of directorships in listed companies is applicable to the Company from next election of directors.

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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. A casual vacancy occurring on the Board on 31st January, 2012 was filled up by the directors on the same day.

5. The Company has prepared a 'Code of Conduct', and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

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/Shareholders.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board will arrange a training program for one of its directors by June 30, 2013.

10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. 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.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises of 3 members, all of whom are non-executive directors and the chairman of the committee is independent Director.

16. 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 CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises 3 members, of whom 2 are non-executive directors including one independent director and the chairman of the committee is a non-executive director.

18. The Board has set-up an effective internal audit function that has suitably 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.

19. 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.

20. 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.

21. The 'closed period', prior to the announcement of interim /final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange (s).

22. Material /price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles contained in the Code have been complied with.

Graeme Amey
Managing Director and CEO

Review Report to the Members

on Statement of Compliance with Best Practices of Code of Corporate Governance

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

The responsibility for compliance with the Code is that of the Board 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, the Code requires the Company to place before the audit committee and upon recommendation of the audit committee, before the board for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and upon recommendation of the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the Code of Corporate governance as applicable to the Company for the year ended December 31, 2012.

Chartered Accountants
Islamabad
Date: February 20, 2013
Engagement partner: Sohail M Khan

Statement of Compliance

with the Best Practices on Transfer Pricing for the year ended December 31, 2012

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

Graeme Amey
Managing Director and CEO

Pakistan Tobacco Company Limited

Financial Statements

for the year ended December 31, 2012

Auditor's Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2012 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and

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

Chartered Accountants
Islamabad
Date: February 20, 2013

Engagement partner: Sohail M Khan

Profit & Loss Account

for the year ended December 31, 2012

	Note	2012 Rs '000	2011 Rs '000
Gross turnover		75,531,228	67,491,816
Excise duties		(38,854,830)	(34,719,661)
Sales tax		(10,796,089)	(9,822,181)
Net turnover		25,880,309	22,949,974
Cost of sales	7	(17,434,790)	(16,709,273)
Gross profit		8,445,519	6,240,701
Selling and distribution expenses	8	(3,516,601)	(3,129,938)
Administrative expenses	9	(1,381,918)	(1,321,713)
Other operating expenses	10	(908,888)	(1,182,363)
Other operating income	11	90,400	53,967
		(5,717,007)	(5,580,047)
Operating profit		2,728,512	660,654
Finance income		65,057	39,160
Finance cost	12	(138,533)	(140,539)
Net finance cost		(73,476)	(101,379)
Profit before income tax		2,655,036	559,275
Income tax expense	13	(926,578)	(195,490)
Profit for the year		1,728,458	363,785
Earnings per share - (Rupees)	14	6.77	1.42

The annexed notes 1 to 36 form an integral part of these financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Statement of Comprehensive Income

for the year ended December 31, 2012

	Note	2012 Rs '000	2011 Rs '000
Profit for the year		1,728,458	363,785
Other comprehensive gain/(loss) for the year:			
Actuarial gain/(loss) on defined benefit pension and gratuity plans	28	146,834	(146,770)
Tax charge/(credit) related to actuarial gain/(loss) on defined benefit pension and gratuity plans	13	(67,077)	51,370
Other comprehensive gain/(loss) for the year - net of tax		79,757	(95,400)
Total comprehensive income for the year		1,808,215	268,385

The annexed notes 1 to 36 form an integral part of these financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Balance Sheet

as at December 31, 2012

	Note	2012 Rs '000	2011 Rs '000
Non current assets			
Property, plant and equipment	16	5,694,961	6,092,284
Long term investment in subsidiary company	17	5,000	5,000
Long term loans	18	457	1,260
Long term deposits and prepayments	19	20,286	22,640
Current assets			
Stock-in-trade	20	7,225,301	6,462,330
Stores and spares	21	341,855	190,110
Trade debts	22	1,073	1,202
Loans and advances	23	68,632	64,310
Short term prepayments		99,509	94,052
Other receivables	24	287,696	196,249
Income tax paid in advance		-	79,419
Cash and bank balances	25	139,030	109,631
		8,163,096	7,197,303
Current liabilities			
Trade and other payables	26	6,991,911	7,067,704
Short term running finance	27	1,237,772	1,783,623
Finance lease obligation	30	50,009	-
Accrued interest / mark-up		40,880	51,187
Current income tax liability		268,912	-
		8,589,484	8,902,514
Net current liabilities		(426,388)	(1,705,211)
Non current liabilities			
Deferred income tax liability	29	(1,090,892)	(1,082,038)
Finance lease obligation	30	(96,024)	-
		(1,186,916)	(1,082,038)
Net assets		4,107,400	3,333,935
Share capital and reserves			
Share capital	31	2,554,938	2,554,938
Revenue reserves		1,552,462	778,997
		4,107,400	3,333,935
Contingencies and commitments	32		

The annexed notes 1 to 36 form an integral part of these financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Cash Flow Statement

for the year ended December 31, 2012

	2012 Rs '000	2011 Rs '000
Cash flows from operating activities		
Cash receipts from customers	75,532,896	67,422,034
Cash paid to Government for Federal excise duty, Sales tax and other levies	(49,340,561)	(45,211,155)
Cash paid to suppliers	(18,198,476)	(16,525,288)
Finance cost paid	(148,840)	(136,141)
Cash paid as royalty	(374,057)	(352,169)
Cash paid to employees and retirement funds	(4,901,928)	(2,711,246)
Income tax paid	(636,470)	(263,876)
Other cash payments	(157,072)	(64,245)
	1,775,492	2,157,914
Cash flows from investing activities		
Additions in property, plant and equipment	(420,835)	(1,167,254)
Proceeds from disposal of property, plant and equipment	236,469	32,073
Finance income received	65,057	39,160
	(119,309)	(1,096,021)
Cash flows from financing activities		
Dividends paid	(1,030,562)	(535,612)
Finance lease payments	(50,371)	-
	(1,080,933)	(535,612)
Increase in cash and cash equivalents	575,250	526,281
Cash and cash equivalents at beginning of year	(1,673,992)	(2,200,273)
Cash and cash equivalents at end of year	(1,098,742)	(1,673,992)
Cash and cash equivalents comprise:		
Cash and bank balances	139,030	109,631
Short term running finance	(1,237,772)	(1,783,623)
	(1,098,742)	(1,673,992)

The annexed notes 1 to 36 form an integral part of these financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Statement of Changes in Equity

for the year ended December 31, 2012

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2011	2,554,938	1,047,149	3,602,087
Comprehensive income:			
Profit for the year	-	363,785	363,785
Other comprehensive loss for the year	-	(95,400)	(95,400)
Total Comprehensive income for the year	-	268,385	268,385
Transactions with owners:			
Final dividend of Rs 2.10 per share relating to the year ended December 31, 2010	-	(536,537)	(536,537)
Total transactions with owners	-	(536,537)	(536,537)
Balance at December 31, 2011	2,554,938	778,997	3,333,935
Balance at January 1, 2012	2,554,938	778,997	3,333,935
Comprehensive income:			
Profit for the year	-	1,728,458	1,728,458
Other comprehensive gain for the year	-	79,757	79,757
Total Comprehensive income for the year	-	1,808,215	1,808,215
Transactions with owners:			
Final dividend of Rs 1.00 per share relating to the year ended December 31, 2011	-	(255,494)	(255,494)
1st interim dividend of Rs 1.25 per share relating to the year ended December 31, 2012	-	(319,367)	(319,367)
2nd interim dividend of Rs 1.80 per share relating to the year ended December 31, 2012	-	(459,889)	(459,889)
Total transactions with owners	-	(1,034,750)	(1,034,750)
Balance at December 31, 2012	2,554,938	1,552,462	4,107,400

The annexed notes 1 to 36 form an integral part of these financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

1. The Company and its operations

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

2. Statement of compliance

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are described in note 6.

3. New and amended standards and interpretations

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012 and not early adopted:

Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. Amendments to IAS 1 are effective from January 1, 2013.

Amendment to IAS 19, 'Employee benefits'. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Amendments to IAS 19 are effective from January 1, 2013.

IFRS 11, 'Joint arrangements'. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. IFRS 11 is effective from January 1, 2013.

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

IFRS 13, 'Fair value measurement'. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. IFRS 13 is effective from January 1, 2013.

Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. Amendment to IAS 32 is effective from January 1, 2014.

IFRS 9, 'Financial instruments'. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 is effective from January 1, 2015.

4. Summary of significant accounting policies

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

4.1 Basis of measurement

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

4.2 Segment reporting

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

4.3 Functional and presentation currency

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

4.4 Foreign currency transactions and translation

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

4.5 Revenue recognition

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

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

(a) Sale of goods

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

(b) Income on bank deposits

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

(c) Others

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

4.6 Current and deferred income tax

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

(a) Current

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

(b) Deferred

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

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

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

4.7 Provisions

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

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

4.8 Contingent assets

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

4.9 Contingent liabilities

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

4.10 Employee benefits

(a) Retirement benefit plans

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

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

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

The Company operates:

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

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

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

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

(b) Termination benefits

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

(c) Medical benefits

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

(d) Bonus plans

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

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

4.11 Leases

(a) Finance Leases

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets on finance lease are capitalized at the commencement of the lease term at the lower of fair value of leased assets and the present value of minimum lease payments, each determined at the inception of the lease. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the finance balance outstanding. The finance cost is charged to profit and loss account and is included under finance costs. The assets acquired under finance lease are depreciated over the shorter of the useful life of the asset or the lease term.

(b) Operating Leases

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

4.12 Property, plant and equipment

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

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

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

Buildings on free-hold land, buildings on leasehold land and private railway sidings	3%
Plant and machinery	7%
Air conditioners included in plant and machinery	25%
Office and household equipment	20% to 25%
Furniture and fittings	10% to 20%
Vehicles - Owned and leased	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 assets carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

4.13 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount for which assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversals of the impairment losses are restricted to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no new impairment losses had been recognised. An impairment loss or reversal of impairment loss is recognised in the profit and loss account.

4.14 Long term investment in subsidiary company

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

4.15 Stock-in-trade

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

4.16 Stores and spares

Stores and spares are stated at cost less allowance for obsolete and slow moving items. Cost is determined using weighted average method. Items in transit are valued at cost comprising invoice value and other related charges incurred upto the balance sheet date.

4.17 Financial assets

4.17.1 Classification

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

(i) **Held to maturity**

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

(ii) **Loans and receivables**

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

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

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

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

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

4.17.2 Recognition and measurement

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

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

4.17.3 Impairment

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

4.18 Trade debts

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

4.19 Trade and other payables

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

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

4.20 Borrowings

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

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

4.21 Dividend distribution

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

4.22 Cash and cash equivalents

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

4.23 Offsetting financial instruments

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

5. Financial risk management

5.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar, Great Britain Pound Sterling, Australian Dollar and the Euro. Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/payable from/to the foreign entities and outstanding letters of credit. The company enters into forward exchange contracts with banks to hedge the currency risk on letters of credit related to import of goods and equipment.

Financial assets include Rs 130,668 thousand (2011: 187,601 thousand) and financial liabilities include Rs 606,860 thousand (2011: 460,393 thousand) which were subject to foreign exchange risk.

At December 31 2012, if the functional currency had weakened/strengthened by 10% against foreign currencies, with all other variables held constant, the profit after taxation for the year would have been lower/higher by Rs 30.95 million (2011: Rs 17.73 million).

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

Financial liabilities include balances of Rs 1,382,310 thousand (2011: Rs 1,783,623 thousand) which are subject to interest rate risk. Applicable interest rates for financial liabilities have been indicated in respective notes.

At balance sheet date, if interest rates had been 1% higher/lower, with all other variables held constant, profit after taxation for the year would have been Rs 8.99 million (2011: Rs 11.59 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

	Rating		Rating	Rs (million)	
Counterparty	**Short term**	**Long term**	**Agency**	**2012**	**2011**
MCB Bank Limited	A1+	AA+	PACRA	23.66	25.08
Citibank N.A.	P-1	A1	Moody's	2.14	35.94
Deutsche Bank AG	P-1	Aa3	Moody's	112.28	45.97
Barclays Bank p.l.c	P-1	A2	Moody's	-	0.48
				138.08	107.47

Trade debts, loans and advances and other receivables amounting to Rs 375.40 million (2011: Rs 280.02 million) do not include any amounts which are past due or impaired.

(c) Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2012, the Company had Rs 4,112 million unutilised borrowing facilities from financial institutions and Rs 139 million cash and bank balances. Further, the Company also has strong financial support from its holding company. Based on the above, in spite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low.

The table below summarizes the maturity profile of the Company's financial liabilities as at reporting date. The amounts disclosed are undiscounted cashflows.

	December 31, 2012		
	Amount	Within one Year	Upto Five Years
	Rs '000	Rs '000	Rs '000
Finance lease obligation	179,828	67,075	112,753
Trade and other payables	6,974,274	6,974,274	-
Short term running finance	1,237,772	1,237,772	-
Accrued interest / mark-up	40,880	40,880	-
	8,432,754	8,320,001	112,753

	December 31, 2011		
	Amount	Within one Year	Upto Five Years
	Rs '000	Rs '000	Rs '000
Trade and other payables	7,064,969	7,064,969	-
Short term running finance	1,783,623	1,783,623	-
Accrued interest / mark-up	51,187	51,187	-
	8,899,779	8,899,779	-

5.2 Capital management

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

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

5.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

6. Critical accounting estimates and judgements

(a) Income taxes

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

(b) Employee benefits

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

(c) Property, plant and equipment

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

Notes to and forming part of the Financial Statements

for the year ended December 31, 2012

	2012 Rs '000	2011 Rs '000
7. Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	5,376,669	5,318,558
Raw material purchases and expenses - note 7.1	13,821,617	13,121,930
Closing stock of raw materials and work in process	(6,177,047)	(5,376,669)
	13,021,239	13,063,819
Government taxes and levies		
Customs duty and surcharges	476,101	458,482
Provincial and municipal taxes and other duties	143,354	137,349
Excise duty on royalty	39,660	35,842
	659,115	631,673
	13,680,354	13,695,492
Royalty	396,582	358,468
Production overheads		
Salaries, wages and benefits	1,426,585	1,366,513
Stores, spares and machine repairs	444,425	443,334
Fuel and power	439,175	362,813
Insurance	43,727	32,498
Repairs and maintenance	165,750	127,490
Postage, telephone and stationery	8,375	10,753
Information technology	75,409	74,156
Depreciation	546,180	525,199
Stocks written off	50,359	6,960
Stores and spares written off	20,599	24,953
Sundries	99,863	82,040
	3,320,447	3,056,709
Cost of goods manufactured	17,397,383	17,110,669
Cost of finished goods		
Opening stock	1,085,661	684,265
Closing stock	(1,048,254)	(1,085,661)
	37,407	(401,396)
Cost of sales	17,434,790	16,709,273

7.1 Raw material purchases and expenses

	2012 Rs '000	2011 Rs '000
Materials	12,617,381	12,059,600
Salaries, wages and benefits	573,459	490,922
Stores, spares and machine repairs	206,366	206,531
Fuel and power	157,561	136,222
Property rentals	61,612	44,607
Insurance	2,906	5,714
Repairs and maintenance	22,904	17,898
Postage, telephone and stationery	12,468	6,328
Depreciation	105,337	100,627
Sundries	61,623	53,481
	13,821,617	13,121,930

		2012 Rs '000	2011 Rs '000
8.	**Selling and distribution expenses**		
	Salaries, wages and benefits	506,384	460,357
	Selling expenses	2,523,848	2,151,830
	Freight	310,821	282,209
	Repairs and maintenance	65,773	103,323
	Postage, telephone and stationery	6,130	7,044
	Travelling	38,882	46,770
	Property rentals	9,631	8,445
	Insurance	8,577	7,549
	Stocks written off	-	4,413
	Depreciation	46,555	57,998
		3,516,601	3,129,938
9.	**Administrative expenses**		
	Salaries, wages and benefits	705,733	703,725
	Fuel and power	31,470	30,722
	Property rentals	52,231	84,409
	Insurance	6,041	4,514
	Repairs and maintenance	46,085	44,075
	Postage, telephone and stationery	17,603	15,359
	Legal and professional charges	39,439	26,776
	Donations - note 9.1	500	1,770
	Information technology	280,519	220,200
	Travelling	77,856	63,313
	Depreciation	87,196	90,319
	Auditor's remuneration and expenses - note 9.2	8,046	7,490
	Sundries	29,199	29,041
		1,381,918	1,321,713

9.1 This includes an amount of nil (2011: 1,600 thousand) paid to Gottfried Thoma - PTC Employees Benevolent Trust. A director of the Company is also trustee of this Trust.

		2012 Rs '000	2011 Rs '000
9.2	Auditor's remuneration and expenses include:		
	– Statutory audit fee	1,425	1,295
	– Group reporting, review of half yearly accounts, audit of consolidated accounts, special certifications and staff retirement benefit funds	3,038	2,831
	– Tax services	3,195	2,969
	– Out-of-pocket expenses	388	395
		8,046	7,490

	2012 Rs '000	2011 Rs '000
10. Other operating expenses		
Employees' termination benefits	637,397	994,630
Workers' Profit Participation Fund	142,533	30,126
Workers' Welfare Fund	53,101	13,127
Bank charges and fees	40,131	32,037
Operating fixed assets written off	-	104,208
Other receivables and advances written off	2,343	8,235
Loss on disposal of property, plant and equipment	14,713	-
Foreign exchange loss	18,670	-
	908,888	1,182,363
11. Other operating income		
Income from an associated company		
- BAT SAA Services (Private) Limited, for services rendered	29,719	28,144
Insurance claim received	28,000	-
Vehicle rental from marketing agencies	16,803	-
Income recognised on sale and leaseback of vehicles - note 26.5	5,830	-
Gain on disposal of property, plant and equipment	-	19,361
Foreign exchange gain	-	1,895
Miscellaneous	10,048	4,567
	90,400	53,967
12. Finance cost		
Interest expense on:		
Bank borrowings	129,479	140,539
Finance lease	9,054	-
	138,533	140,539
13. Income tax expense		
Current	917,466	235,348
Deferred	9,112	(39,858)
	926,578	195,490

13.1 Effective tax rate reconciliation:

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

	2012 (%)	2011 (%)
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.24	0.12
Income taxed at different rate	(0.12)	(0.09)
Others	(0.22)	(0.08)
Average effective tax rate	34.90	34.95

	2012 Rs '000	2011 Rs '000
13.2 Tax on items directly credited to statement of comprehensive income		
Current tax charge / (credit) on defined benefit plans	67,335	(35,685)
Deferred tax credit on defined benefit plans	(258)	(15,685)
	67,077	(51,370)

	2012	2011
14. Earnings per share		
Profit after tax (Rs '000)	1,728,458	363,785
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share - Basic (Rs)	6.77	1.42

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

15. Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Executive Directors		Executives				Total	
					Key management personnel		Other executives			
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Managerial remuneration	72,955	56,315	49,601	47,673	191,427	188,608	576,130	456,932	890,113	749,528
Corporate bonus	14,655	19,983	86,151	91,079	124,424	148,839	204,951	167,811	430,181	427,712
Leave fare assistance	5,750	2,355	2,569	3,044	7,642	5,578	5,430	3,376	21,391	14,353
Housing and utilities	10,770	9,584	18,653	15,002	44,617	46,274	233,897	194,382	307,937	265,242
Medical expenses	-	42	2,418	2,080	5,503	5,806	39,998	31,268	47,919	39,196
Post employment benefits	11,416	11,247	10,915	8,206	20,712	27,811	130,349	103,973	173,392	151,237
	115,546	99,526	170,307	167,084	394,325	422,916	1,190,755	957,742	1,870,933	1,647,268
Number of persons	1	1	4	4	30	28	387	333	422	366

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

15.2 The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to four (2011: four) non-executive directors of the Company amounted to Rs 4,428 thousand (2011: Rs 3,916 thousand).

Notes to and forming part of the Financial Statements

for the year ended December 31, 2012

		2012 Rs '000	2011 Rs '000
16.	**Property, plant and equipment**		
	Operating assets - note 16.1	5,518,995	5,423,123
	Capital work in progress - note 16.2	175,966	669,161
		5,694,961	6,092,284

16.1 Operating assets

	Free-hold land Rs '000	Buildings free-hold land Rs '000	Buildings on leasehold land Rs '000	Private railway sidings Rs '000	Plant and machinery Rs '000	Office and household equipment Rs '000	Furniture and fittings Rs '000	Vehicles Owned Rs '000	Vehicles under finance lease Rs '000	Total Rs '000
At January 1, 2011										
Cost	6,834	560,627	25,712	349	8,283,622	523,704	95,224	724,401	-	10,220,473
Accumulated depreciation	-	(159,449)	(14,909)	(323)	(3,756,581)	(255,504)	(22,176)	(389,616)	-	(4,598,558)
Net book amount at January 1, 2011	6,834	401,178	10,803	26	4,527,041	268,200	73,048	334,785	-	5,621,915
Year ended December 31, 2011										
Net book amount at January 1, 2011	6,834	401,178	10,803	26	4,527,041	268,200	73,048	334,785	-	5,621,915
Additions	-	17,479	-	-	502,206	86,716	9,280	76,589	-	692,270
Disposals	-	-	-	-	(80,963)	(19,797)	(3,832)	(12,327)	-	(116,919)
Depreciation charge	-	(16,185)	(432)	-	(547,204)	(73,056)	(13,827)	(123,439)	-	(774,143)
Net book amount at December 31, 2011	6,834	402,472	10,371	26	4,401,080	262,063	64,669	275,608	-	5,423,123
At January 1, 2012										
Cost	6,834	578,105	25,712	349	8,643,056	568,501	99,661	738,128	-	10,660,346
Accumulated Depreciation	-	(175,633)	(15,341)	(323)	(4,241,976)	(306,438)	(34,992)	(462,520)	-	(5,237,223)
Net book amount January 1, 2012	6,834	402,472	10,371	26	4,401,080	262,063	64,669	275,608	-	5,423,123
Year ended December 31, 2012										
Net book amount at January 1, 2012	6,834	402,472	10,371	26	4,401,080	262,063	64,669	275,608	-	5,423,123
Additions	23,736	176,412	-	-	617,365	70,232	2,473	40,999	179,216	1,110,433
Disposals	-	(469)	-	-	(102,320)	(3,433)	(573)	(117,435)	(5,063)	(229,293)
Depreciation charge	-	(17,657)	(427)	(1)	(566,131)	(79,299)	(14,627)	(89,334)	(17,792)	(785,268)
Net book amount at December 31, 2012	30,570	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,518,995
At December 31, 2012										
Cost	30,570	753,653	25,712	349	8,755,842	609,223	99,350	534,297	173,838	10,982,834
Accumulated depreciation	-	(192,895)	(15,768)	(324)	(4,405,848)	(359,660)	(47,408)	(424,459)	(17,477)	(5,463,839)
Net book amount at December 31, 2012	30,570	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,518,995

	2012 Rs '000	2011 Rs '000
16.2 Capital work in progress		
Plant and machinery	144,968	573,558
Advances to suppliers	30,998	95,603
	175,966	669,161
16.3 Depreciation charge has been allocated as follows:		
Cost of sales	546,180	525,199
Raw material purchases and expenses	105,337	100,627
Selling and distribution expenses	46,555	57,998
Administrative expenses	87,196	90,319
	785,268	774,143

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

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds less selling expenses Rs '000	Particulars of Buyers
Computer Equipment				
- by insurance claim	95	67	88	EFU General Insurance Company
	95	71	88	-do-
	122	79	88	-do-
Machinery				
- by Export	224,922	41,576	67,502	British American Tobacco Bangladesh
Vehicles				
- as per Company's policy	969	97	97	Farooq Ayub - Ex Employee
	980	98	98	Hamid Usman - Employee
	980	98	98	Javaid Khan - Employee
	980	98	899	Mian Burhanuddin - Employee
	981	98	198	Hammad Zafar - Employee
	1,005	101	148	Ihsan Ahmed - Employee
	1,193	1,143	1,087	Yasir Maqsood - Ex Employee
	1,305	1,251	1,201	Khan Muhammad - Employee
	1,335	134	1,008	Amin Piracha - Ex Employee
	1,354	480	792	Kamran Abbassi - Employee
	1,389	203	617	Mazhar Shaheen - Ex Employee
	1,395	1,308	1,260	Syed Qaiser Imam - Ex Employee
	1,724	539	1,297	Syed Omer - Ex Employee
	1,809	181	653	Shafqat Ali - Ex Employee
- by auction	835	83	952	M.Faisal Qureshi - Islamabad
	845	84	598	M.Rashid Nawaz - Rawalpindi
	845	84	797	Muhammad Saleem - Rawalpindi
	845	84	1,011	M.Mushtaq Abbassi - Islamabad
	845	84	875	Rizwan Mazhar - Rawalpindi
	845	84	923	M.Rashid Nawaz - Rawalpindi
	849	85	1,011	M.Mushtaq Abbassi - Islamabad
	875	88	964	Aziz Khan - Rawalpindi
	881	88	825	Shaukat Ali - Karachi
	969	97	1,080	M.Touseef Kahout - Rawalpindi
	980	98	905	Nasir Mehmood - Rawalpindi
	1,056	106	1,000	Orangzaib Khan - Islamabad

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds less selling expenses Rs '000	Particulars of Buyers
	1,056	106	966	M.Touseef Kahout - Rawalpindi
	1,309	131	1,210	Rashid Masood - Islamabad
	1,335	134	1,282	Munir Sohail - Rawalpindi
	1,335	134	1,295	Habib Ur Rehman - Rawalpindi
	1,354	282	1,260	Nasir Mehmood - Rawalpindi
	4,444	444	2,425	Tajamal Shah - Employee
- by insurance claim	575	311	550	New Hampshire Insurance Company
	575	311	625	-do-
	575	311	625	-do-
- by sale and leaseback arrangement	163,287	103,146	125,035	MCB Bank Ltd.

17. Long term investment in subsidiary company - at cost

This represents 500,001 (2011: 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 (2011: Rs 10 per share) based on audited accounts for the year ended December 31, 2012.

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

	2012 Rs '000	2011 Rs '000
18. Long term loans - unsecured, considered good		
Related parties		
Key management personnel	105	164
Others		
Other executives	1,270	2,856
	1,375	3,020
Less: Receivable within one year	918	1,760
	457	1,260

18.1 Reconciliation of loans:

	Executives				Other employees		Total	
	Key management personnel		Other executives					
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Balance as at January 1	164	452	2,856	3,817	-	1,698	3,020	5,967
Repayments	(59)	(288)	(1,586)	(961)	-	(1,698)	(1,645)	(2,947)
Balance as at December 31	105	164	1,270	2,856	-	-	1,375	3,020

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.

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

	2012 Rs '000	2011 Rs '000
Key management personnel	186	382
Other executives	2,608	5,073
	2,794	5,455

19. Long term deposits and prepayments

	2012 Rs '000	2011 Rs '000
Security deposits	17,540	17,000
Prepayments	2,746	5,640
	20,286	22,640

20. Stock-in-trade

	2012 Rs '000	2011 Rs '000
Raw materials	5,925,625	5,119,241
Raw materials in transit	222,510	207,493
Work in process	28,912	49,935
Finished goods	1,048,254	1,085,661
	7,225,301	6,462,330

21. Stores and spares

	2012 Rs '000	2011 Rs '000
Stores	2,832	2,210
Machine spares	339,023	187,900
	341,855	190,110

22. Trade debts

	2012 Rs '000	2011 Rs '000
Considered good	1,073	1,202
Considered doubtful	-	2,322
	1,073	3,524
Provision for doubtful debts	-	(2,322)
	1,073	1,202

23. Loans and advances - unsecured, considered good

	2012 Rs '000	2011 Rs '000
Related parties		
Loans to key management personnel	45	67
Advances due from key management personnel	4,019	-
Others		
Loans to executives and other employees	873	1,693
Advances due from executives and other employees - note 23.1	36,557	32,370
Advances due from others	27,138	30,180
	68,632	64,310

23.1 Includes Rs 36,557 thousand (2011: Rs 19,828 thousand) due from executives of the Company.

	2012 Rs '000	2011 Rs '000
24. Other receivables		
Related parties - unsecured		
Due from holding company / associated companies - note 24.1	34,692	134,426
Due from subsidiary company	20,021	20,021
Unbilled receivable from related parties	13,930	-
Staff Pension Fund	182,804	-
Employees' Provident Fund	5,920	-
Management's Provident Fund	-	1,354
Others		
Claims against suppliers	27,858	7,494
Workers' Profit Participation Fund	-	5,874
Margin against guarantees	-	24,868
Others	2,471	2,212
	287,696	196,249
24.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	4,434	5,055
Associated Companies		
BAT SAA Services (Private) Limited - Pakistan	14,688	28,738
PT Bentoel Prima - Indonesia	5,970	93,610
BAT Marketing (Singapore) Pte Ltd	1,709	2,044
BAT ASPAC Service Center Sdn Bhd - Malaysia	1,772	528
BAT Kazakhistan	1,340	-
Commercial Marketers - Malaysia	1,121	-
BAT Switzerland SA	1,040	779
BAT (Singapore) Pte Ltd	770	710
BAT SWE Ltd. - UK	684	-
BAT Cambodia	480	-
BAT Korea Manufacturing - South Korea	424	-
BAT PNG - Papua New Guinea	260	278
BAT Asia-Pacific Region Ltd - Hong Kong	-	1,681
Rothmans Far East B.V - South Korea	-	1,003
	34,692	134,426
25. Cash and bank balances		
Deposit accounts	21,240	16,883
Current accounts		
Local currency	6,179	1,845
Foreign currency	110,664	81,913
	138,083	100,641
Cash in transit	-	6,828
Cash in hand	947	2,162
	139,030	109,631

	2012 Rs '000	2011 Rs '000
26. Trade and other payables		
Related parties - unsecured		
Due to holding company / associated companies - note 26.1	634,053	451,905
Others		
Creditors	921,876	1,095,606
Federal excise duty - note 26.2	3,542,618	2,781,825
Sales tax	814,765	613,880
Tobacco excise duty / Tobacco development cess - note 26.3	78,566	70,770
Employees' termination benefits	-	985,908
Other employee benefits - note 26.4	566,896	565,749
Staff pension fund	-	158,626
Employees gratuity fund	91,720	47,078
Staff pension fund - defined contribution	933	127
Management Provident Fund	4,255	-
Employees' Provident Fund	-	741
Workers' Profit Participation Fund	2,534	-
Workers' Welfare Fund	53,101	26,661
Other accrued liabilities	206,214	217,893
Advances from customers	1,578	2,737
Security deposits	21,240	16,883
Dividend payable / Unclaimed dividend	35,503	31,315
Deferred income on sale and leaseback of vehicles - note 26.5	16,059	-
	6,991,911	7,067,704

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

	2012 Rs '000	2011 Rs '000
Holding Company		
British American Tobacco p.l.c. - UK	115,510	149,671
Associated Companies		
BAT Marketing (Singapore) Pte Ltd	180,569	70,939
BAT ASPAC Service Center Sdn Bhd - Malaysia	132,576	43,731
BAT GLP Ltd - UK	86,210	107,858
BAT GSD Ltd. - UK	61,783	-
BAT Asia-Pacific Region Ltd - Hong Kong	30,627	73,786
BAT Bangladesh Co. Ltd	10,913	-
BAT Australia	10,464	-
Ceylon Tobacco Company Plc - Sri Lanka	3,205	4,016
BAT (Malaysia) Berhad	1,510	836
BAT SWE Ltd. - UK	462	-
BAT New Zealand	224	-
BAT SA Ltd - South Africa	-	1,068
	634,053	451,905

26.2 Federal excise duty

	2012 Rs '000	2011 Rs '000
Balance as at January 1	2,781,825	2,779,617
Charge for the year	38,854,830	34,719,661
Payment to the Government during the year	(38,094,037)	(34,717,453)
Balance as at December 31	3,542,618	2,781,825

		2012 Rs '000	2011 Rs '000
26.3	**Tobacco excise duty / Tobacco development cess:**		
	Balance as at January 1	70,770	76,292
	Charge for the year	92,625	89,536
	Payment to the Government during the year	(84,829)	(95,058)
	Balance as at December 31	78,566	70,770
26.4	**Other employee benefits**		
	Balance as at January 1	565,749	274,238
	Charge for the year	498,648	526,518
	Payment to employees during the year	(497,501)	(235,007)
	Balance as at December 31	566,896	565,749

Other employee benefits represent bonus to eligible employees.

		2012 Rs '000	2011 Rs '000
26.5	**Deferred income on sale and leaseback of vehicles**		
	Deferred income	21,889	-
	Income recognised during the year	(5,830)	-
		16,059	-

During the year, the Company entered in a transaction of sale and lease back of vehicles resulting in finance lease. Profit on this transaction has been deferred and will be recognised as income over the lease term of 2 to 4 years.

27. Short term running finance - secured

(a) Short term running finance

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 5,350 million (2011: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 4,112 million (2011: Rs 3,566 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 5,940 million (2011: Rs 5,940 million). The mark-up ranges between 9.88% and 13.14% (2011: 12.42% and 14.79%) per annum and is payable quarterly. The facilities are renewable on annual basis.

(b) Non-funded finance facilities

The Company also has non-funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 2,500 million (2011: Rs 2,500 million) and Rs 355 million (2011: Rs 355 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 687 million (2011: Rs 588 million) and Rs 149 million (2011: Rs 109 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2011: Rs 355 million).

	2012 Rs '000	2011 Rs '000
28. Retirement benefits		
Staff pension fund - (Asset)/Liability	(182,804)	158,626
Employees gratuity fund - Liability	91,720	47,078
	(91,084)	205,704

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2012 using the projected unit credit method. Details of the defined benefit plans are:

		Defined benefit pension plan 2012 Rs '000	Defined benefit pension plan 2011 Rs '000	Defined benefit gratuity plan 2012 Rs '000	Defined benefit gratuity plan 2011 Rs '000
(a)	**The amounts recognised in the balance sheet:**				
	Present value of defined benefit obligations	3,358,267	2,841,970	870,406	792,745
	Fair value of plan assets	(3,541,071)	(2,683,344)	(778,686)	(745,667)
	Net (Assets) / liability	(182,804)	158,626	91,720	47,078
(b)	**Movement in the liability recognized in the balance sheet is as follow:**				
	Balance as at January 1	158,626	51,640	47,078	33,981
	Charge for the year - profit & loss	76,804	70,544	39,691	33,742
	Employer's contribution during the year	(193,446)	(70,871)	(73,003)	(60,102)
	Charge for the year - statement of comprehensive income	(224,788)	107,313	77,954	39,457
	Balance as at December 31	(182,804)	158,626	91,720	47,078
(c)	**The amounts recognised in the profit and loss account:**				
	Current service cost	99,786	95,271	38,796	32,674
	Interest cost	354,224	354,861	97,043	96,129
	Expected return on plan assets	(332,959)	(337,442)	(91,273)	(91,279)
	Members' own contribution	(28,017)	(26,341)	-	-
	Prior service cost - unionized staff	-	-	(936)	-
	Secondees' own contribution	(5,902)	(5,246)	-	-
	Contribution by employer in respect of secondees	(10,328)	(10,559)	(3,939)	(3,782)
		76,804	70,544	39,691	33,742
(d)	**The aggregate amounts recognised in the statement of comprehensive income:**				
	Actuarial losses as at January 1	(563,733)	(456,420)	(305,004)	(265,547)
	Actuarial losses on defined benefit obligations	(188,278)	(121,344)	(168,890)	(69,571)
	Actuarial gains on plan assets	413,066	14,031	90,936	30,114
		224,788	(107,313)	(77,954)	(39,457)
	Actuarial losses as at December 31	(338,945)	(563,733)	(382,958)	(305,004)
(e)	**Movement in the present value of defined benefit obligation:**				
	Present value of defined benefit obligation as at January 1	2,841,970	2,399,679	792,745	683,533
	Current service cost	99,786	95,271	38,796	32,674
	Interest cost	354,224	354,861	97,043	96,129
	Actual benefits paid during the year	(125,991)	(129,185)	(226,132)	(89,162)
	Prior service cost - unionized staff	-	-	(936)	-
	Actuarial losses	188,278	121,344	168,890	69,571
	Present value of defined benefit obligation as at December 31	3,358,267	2,841,970	870,406	792,745

		Defined benefit pension plan		Defined benefit gratuity plan	
		2012	2011	2012	2011
		Rs '000	Rs '000	Rs '000	Rs '000
(f)	**Movement in the fair value of plan assets:**				
	Fair value of plan assets as at January 1	2,683,344	2,348,039	745,667	649,552
	Expected return on plan assets	332,959	337,442	91,273	91,279
	Contribution by employer in respect of members	193,446	70,871	73,003	60,102
	Members' own contribution	28,017	26,341	-	-
	Secondees' own contribution	5,902	5,246	-	-
	Contribution by employer in respect of secondees	10,328	10,559	3,939	3,782
	Actual benefits paid during the year	(125,991)	(129,185)	(226,132)	(89,162)
	Actuarial gains	413,066	14,031	90,936	30,114
	Fair value of plan assets as at December 31	3,541,071	2,683,344	778,686	745,667
	Actual return on plan assets	667,390	341,127	163,254	116,913

The Company expects to charge Rs 69.333 million for pension plan and Rs 50.862 million for gratuity plan for the year ending December 31, 2013.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2012	2011	2012	2011
		Rs '000	Rs '000	Rs '000	Rs '000
(g)	**The major categories of plan assets:**				
	Investment in equities	527,593	348,386	123,129	-
	Investment in bonds	3,000,742	2,328,743	653,500	745,142
	Cash and other assets	12,736	6,215	2,057	525
		3,541,071	2,683,344	778,686	745,667
(h)	**Significant actuarial assumptions at the balance sheet date:**				
	Discount rate	12.00%	12.50%	12.00%	12.50%
	Expected rate of return on plan assets	12.00%	12.50%	12.00%	12.50%
	Pension increase rate	8.00%	8.50%	-	-
	Expected rate of increase in salary				
	First year	13.50%	14.00%	13.50%	14.00%
	Second year onwards	11.50%	11.50%	11.50%	11.50%

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

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

	2012 Rs '000	2011 Rs '000	2010 Rs '000	2009 Rs '000	2008 Rs '000
(i) **Amounts for the current and previous four years:**					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	3,358,267	2,841,970	2,399,679	2,100,232	1,769,557
Fair value of plan assets	(3,541,071)	(2,683,344)	(2,348,039)	(2,086,026)	(1,232,749)
(Surplus) / deficit	(182,804)	158,626	51,640	14,206	536,808
Experience (gain)/loss on obligation	117,539	28,146	37,773	83,719	63,120
Experience (gain)/loss on plan assets	(334,431)	(3,685)	10,136	(166,211)	333,376
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	870,406	792,745	683,533	586,297	460,720
Fair value of plan assets	(778,686)	(745,667)	(649,551)	(541,096)	(258,395)
Deficit	91,720	47,078	33,982	45,201	202,325
Experience (gain)/loss on obligation	62,873	25,977	28,101	63,208	73,527
Experience (gain)/loss on plan assets	(71,981)	(26,008)	2,816	(40,000)	64,891

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

	2012 Rs '000	2011 Rs '000
Provident Fund	65,258	59,340
Pension Fund	76,804	70,544
Gratuity Fund	39,691	33,742
	181,753	163,626

29. Deferred income tax liability

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

	2012 Rs '000	2011 Rs '000
The offset amounts are as follows:		
Deferred tax assets	(26,174)	(25,916)
Deferred tax liabilities	1,117,066	1,107,954
Deferred tax liability (net)	1,090,892	1,082,038
The gross movement on deferred income tax account is as follows:		
At January 1	1,082,038	1,137,581
Charge/(Credit) for the year - profit and loss account (note 13)	9,112	(39,858)
Credit for the year - statement of comprehensive income (note 13.2)	(258)	(15,685)
At December 31	1,090,892	1,082,038

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

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

	2012 Rs '000	2011 Rs '000
Balance as at January 1	(25,916)	(10,231)
Credit for the year - statement of comprehensive income (note 13.2)	(258)	(15,685)
Balance as at December 31	(26,174)	(25,916)

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

	2012 Rs '000	2011 Rs '000
Balance as at January 1	1,107,954	1,147,812
Charge/(Credit) for the year - profit and loss account	9,112	(39,858)
Balance as at December 31	1,117,066	1,107,954
Operating fixed assets	1,109,875	1,107,954
Leased assets	7,191	-
Balance as at December 31	1,117,066	1,107,954

30. Liability against assets subject to finance lease

This represents finance lease agreements entered into with a leasing company for vehicles. Total lease rentals due under various lease agreements aggregate to Rs 179,828 (2011: nil) million and are payable in equal monthly installments latest by December 2017. Taxes, repairs, replacement and insurance costs are to be borne by the Company. Financing rates of 10.99% to 13.63% per annum have been used as discounting factor.

The amount of future minimum lease payments together with the present value of the minimum lease payments and the periods during which they fall due are as follows:

	2012 Rs '000	2011 Rs '000
Present value of minimum lease payments	146,033	-
Current maturity shown under current liabilities	(50,009)	-
	96,024	-
Minimum lease payments		
Not later than one year	67,075	-
Later than one year and not later than five years	112,753	-
	179,828	-
Future finance charges on finance leases	(33,795)	-
Present value of finance lease liabilities	146,033	-
Present value of finance lease liabilities		
Not later than one year	50,009	-
Later than one year and not later than five years	96,024	-
	146,033	-

31. Share capital

31.1 Authorized share capital

2012 (Number of Shares)	2011 (Number of Shares)		2012 Rs '000	2011 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

31.2 Issued, subscribed and paid-up capital

2012 (Number of Shares)	2011 (Number of Shares)		2012 Rs '000	2011 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 (2011: 241,045,141) ordinary shares at the year end.

	2012 Rs '000	2011 Rs '000
32. Contingencies and commitments		
32.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Company not acknowledged as debt	131,800	131,800
(ii) Guarantees issued by banks on behalf of the Company	149,447	108,747

(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.

32.2 Commitments

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

	2012 Rs '000	2011 Rs '000
No later than one year	35,879	32,801
Later than one year and no later than five years	235,180	285,430
Later than five years	19,415	26,739

(b) Letters of credit outstanding at December 31, 2012 were Rs 686,815 thousand (2011: Rs 587,861 thousand).

33. Financial instruments

33.1 Financial assets and liabilities

	Loans and receivables	
	2012 Rs '000	2011 Rs '000
Financial assets		
Maturity up to one year:		
Trade debts	1,073	1,202
Loans and advances	68,632	64,310
Other receivables		
Local Currency	267,692	90,561
Foreign Currency	20,004	105,688
	287,696	196,249
Cash and bank balances		
Local Currency	28,366	27,718
Foreign Currency	110,664	81,913
	139,030	109,631
Maturity after one year:		
Loans	457	1,260
Security deposits	17,540	17,000
	514,428	389,652

	Other financial liabilities	
	2012 Rs '000	2011 Rs '000
Financial liabilities		
Maturity up to one year:		
Trade and other payables		
Excise duty and sales tax payable	4,357,383	3,395,705
Others		
Local Currency	2,010,031	3,208,871
Foreign Currency	606,860	460,393
	6,974,274	7,064,969
Short term running finance	1,237,772	1,783,623
Finance lease obligation	50,009	-
Accrued interest / mark-up	40,880	51,187
Maturity after one year:		
Finance lease obligation	96,024	-
	8,398,959	8,899,779

33.2 Forward foreign exchange contracts

The principal amounts of the outstanding forward foreign exchange contracts at December 31, 2012 were Rs 622,547 thousand (2011: Rs 565,254 thousand).

34. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2011: 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. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is given in note 15 to the financial statements.

	2012 Rs '000	2011 Rs '000
Purchase of goods and services from		
Holding company	308,011	267,846
Associated companies	1,586,123	1,702,866
Sale of goods and services to		
Holding company	16,638	7,373
Associated companies	236,080	651,715
Royalty charge from		
Holding company	396,581	358,468
Expenses reimbursed to		
Holding company	3,166	-
Associated companies	307	854
Expenses reimbursed by		
Holding company	589	2,119
Associated companies	716	2,966

35. Post balance sheet event

Final dividend in respect of the year ended December 31, 2012 of Rs 3.25 (2011: Rs 1.00) per share amounting to a total dividend of Rs 830,355 thousand (2011: 255,494 thousand) has been proposed at the Board of Directors meeting held on February 20, 2013. These financial statements do not reflect this proposed dividend.

Notes to and forming part of the Financial Statements

for the year ended December 31, 2012

36. General

36.1 Capacity and production

Against an estimated manufacturing capacity of 45,550 million cigarettes (2011: 45,184 million cigarettes) actual production was 40,514 million cigarettes (2011: 40,537 million cigarettes). Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

36.2 Number of employees

Total number of employees as at December 31, 2012 was 1,136 (2011: 1,543).

36.3 Date of authorization for issue

These financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on February 20, 2013.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Pakistan Tobacco Company Limited

Consolidated Financial Statements

for the year ended December 31, 2012

Auditor’s 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, 2012 and the related consolidated Profit and Loss Account, consolidated Statement of Comprehensive Income, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of the Company and its subsidiary company. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of the Company and its subsidiary company as at December 31, 2012 and the results of their operations for the year then ended.

Chartered Accountants
Islamabad
Date: February 20, 2013

Engagement partner: Sohail M Khan

Consolidated Profit & Loss Account

for the year ended December 31, 2012

	Note	2012 Rs '000	2011 Rs '000
Gross turnover		75,531,228	67,491,816
Excise duties		(38,854,830)	(34,719,661)
Sales tax		(10,796,089)	(9,822,181)
Net turnover		25,880,309	22,949,974
Cost of sales	7	(17,434,790)	(16,709,273)
Gross profit		8,445,519	6,240,701
Selling and distribution expenses	8	(3,516,601)	(3,129,938)
Administrative expenses	9	(1,381,918)	(1,321,713)
Other operating expenses	10	(908,888)	(1,182,363)
Other operating income	11	90,400	53,967
		(5,717,007)	(5,580,047)
Operating profit		2,728,512	660,654
Finance income		65,057	39,160
Finance cost	12	(138,533)	(140,539)
Net finance cost		(73,476)	(101,379)
Profit before income tax		2,655,036	559,275
Income tax expense	13	(926,578)	(195,490)
Profit for the year		1,728,458	363,785
Earnings per share - (Rupees)	14	6.77	1.42

The annexed notes 1 to 35 form an integral part of these consolidated financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2012

	Note	2012 Rs '000	2011 Rs '000
Profit for the year		1,728,458	363,785
Other comprehensive gain/(loss) for the year:			
Actuarial gain/(loss) on defined benefit pension and gratuity plans	27	146,834	(146,770)
Tax charge/(credit) related to actuarial gain/(loss) on defined benefit pension and gratuity plans	13	(67,077)	51,370
Other comprehensive gain/(loss) for the year - net of tax		79,757	(95,400)
Total comprehensive income for the year		1,808,215	268,385

The annexed notes 1 to 35 form an integral part of these consolidated financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Consolidated Balance Sheet

as at December 31, 2012

	Note	2012 Rs '000	2011 Rs '000
Non current assets			
Property, plant and equipment	16	5,720,009	6,117,332
Long term loans	17	457	1,260
Long term deposits and prepayments	18	20,286	22,640
Current assets			
Stock-in-trade	19	7,225,301	6,462,330
Stores and spares	20	341,855	190,110
Trade debts	21	1,073	1,202
Loans and advances	22	68,632	64,310
Short term prepayments		99,509	94,052
Other receivables	23	267,675	176,228
Income tax paid in advance		-	79,419
Cash and bank balances	24	139,030	109,631
		8,143,075	7,177,282
Current liabilities			
Trade and other payables	25	6,991,938	7,067,731
Short term running finance	26	1,237,772	1,783,623
Finance lease obligation	29	50,009	-
Accrued interest / mark-up		40,880	51,187
Current income tax liability		268,912	-
		8,589,511	8,902,541
Net current liabilities		(446,436)	(1,725,259)
Non current liabilities			
Deferred income tax liability	28	(1,090,892)	(1,082,038)
Finance lease obligation	29	(96,024)	-
		(1,186,916)	(1,082,038)
Net assets		4,107,400	3,333,935
Share capital and reserves			
Share capital	30	2,554,938	2,554,938
Revenue reserves		1,552,462	778,997
		4,107,400	3,333,935
Contingencies and commitments	31		

The annexed notes 1 to 35 form an integral part of these consolidated financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Consolidated Cash Flow Statement

for the year ended December 31, 2012

	2012 Rs '000	2011 Rs '000
Cash flows from operating activities		
Cash receipts from customers	75,532,896	67,422,034
Cash paid to Government for Federal excise duty, Sales tax and other levies	(49,340,561)	(45,211,155)
Cash paid to suppliers	(18,198,476)	(16,525,288)
Finance cost paid	(148,840)	(136,141)
Cash paid as royalty	(374,057)	(352,169)
Cash paid to employees and retirement funds	(4,901,928)	(2,711,246)
Income tax paid	(636,470)	(263,876)
Other cash payments	(157,072)	(64,245)
	1,775,492	2,157,914
Cash flows from investing activities		
Additions in property, plant and equipment	(420,835)	(1,167,254)
Proceeds from disposal of property, plant and equipment	236,469	32,073
Finance income received	65,057	39,160
	(119,309)	(1,096,021)
Cash flows from financing activities		
Dividends paid	(1,030,562)	(535,612)
Finance lease payments	(50,371)	-
	(1,080,933)	(535,612)
Increase in cash and cash equivalents	575,250	526,281
Cash and cash equivalents at beginning of year	(1,673,992)	(2,200,273)
Cash and cash equivalents at end of year	(1,098,742)	(1,673,992)
Cash and cash equivalents comprise:		
Cash and bank balances	139,030	109,631
Short term running finance	(1,237,772)	(1,783,623)
	(1,098,742)	(1,673,992)

The annexed notes 1 to 35 form an integral part of these consolidated financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Consolidated Statement of Changes in Equity

for the year ended December 31, 2012

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2011	2,554,938	1,047,149	3,602,087
Comprehensive income:			
Profit for the year	-	363,785	363,785
Other comprehensive loss for the year	-	(95,400)	(95,400)
Total Comprehensive income for the year	-	268,385	268,385
Transactions with owners:			
Final dividend of Rs 2.10 per share relating to the year ended December 31, 2010	-	(536,537)	(536,537)
Total transactions with owners	-	(536,537)	(536,537)
Balance at December 31, 2011	2,554,938	778,997	3,333,935
Balance at January 1, 2012	2,554,938	778,997	3,333,935
Comprehensive income:			
Profit for the year	-	1,728,458	1,728,458
Other comprehensive gain for the year	-	79,757	79,757
Total Comprehensive income for the year	-	1,808,215	1,808,215
Transactions with owners:			
Final dividend of Rs 1.00 per share relating to the year ended December 31, 2011	-	(255,494)	(255,494)
1st interim dividend of Rs 1.25 per share relating to the year ended December 31, 2012	-	(319,367)	(319,367)
2nd interim dividend of Rs 1.80 per share relating to the year ended December 31, 2012	-	(459,889)	(459,889)
Total transactions with owners	-	(1,034,750)	(1,034,750)
Balance at December 31, 2012	2,554,938	1,552,462	4,107,400

The annexed notes 1 to 35 form an integral part of these consolidated financial statements.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

1. The Group and its operations

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

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

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

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

2. Statement of compliance

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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are described in note 6.

3. New and amended standards and interpretations

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012 and not early adopted:

Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. Amendments to IAS 1 are effective from January 01, 2013.

Amendment to IAS 19, 'Employee benefits'. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Amendments to IAS 19 are effective from January 1, 2013.

IFRS 11, 'Joint arrangements'. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. IFRS 11 is effective from January 1, 2013.

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

IFRS 13, 'Fair value measurement'. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. IFRS 13 is effective from January 1, 2013.

Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. Amendment to IAS 32 is effective from January 1, 2014.

IFRS 9, 'Financial instruments'. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 is effective from January 1, 2015.

4. 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.

4.1 Basis of measurement

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

4.2 Consolidation - Subsidiaries

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

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

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

4.3 Segment reporting

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

4.4 Functional and presentation currency

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

4.5 Foreign currency transactions and translation

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

4.6 Revenue recognition

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

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

(a) Sale of goods

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

(b) Income on bank deposits

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

(c) Others

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

4.7 Current and deferred income tax

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

(a) Current

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

(b) Deferred

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

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

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

4.8 Provisions

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

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

4.9 Contingent assets

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

4.10 Contingent liabilities

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

4.11 Employee benefits

(a) Retirement benefit plans

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

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

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

The Group operates:

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

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

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

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

(b) Termination benefits

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

(c) Medical benefits

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

(d) Bonus plans

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

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

4.12 Leases

(a) Finance Leases

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets on finance lease are capitalized at the commencement of the lease term at the lower of fair value of leased assets and the present value of minimum lease payments, each determined at the inception of the lease. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the finance balance outstanding. The finance cost is charged to consolidated profit and loss account and is included under finance costs. The assets acquired under finance lease are depreciated over the shorter of the useful life of the asset or the lease term.

(b) Operating Leases

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

4.13 Property, plant and equipment

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

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

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 - Owned and leased	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 assets carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

4.14 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount for which assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversals of the impairment losses are restricted to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no new impairment losses had been recognised. An impairment loss or reversal of impairment loss is recognised in the consolidated profit and loss account.

4.15 Stock-in-trade

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

4.16 Stores and spares

Stores and spares are stated at cost less allowance for obsolete and slow moving items. Cost is determined using weighted average method. Items in transit are valued at cost comprising invoice value and other related charges incurred upto the balance sheet date.

4.17 Financial assets

4.17.1 Classification

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

i) Held to maturity

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

(ii) Loans and receivables

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

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

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

(iv) Available-for-sale financial assets

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

4.17.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the 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 recognized in the consolidated profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated profit and loss account as part of other income when the Group's right to receive payment is established.

4.17.3 Impairment

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

4.18 Trade debts

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

4.19 Trade and other payables

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

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

4.20 Borrowings

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

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

4.21 Dividend distribution

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

4.22 Cash and cash equivalents

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

4.23 Offsetting financial instruments

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

5. Financial risk management

5.1 Financial risk factors

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

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

(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, Great Britain Pound Sterling, Australian Dollar and the Euro. Currently, the Group's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/payable from/to the foreign entities and outstanding letters of credit. The Group enters into forward exchange contracts with banks to hedge the currency risk on letters of credit related to import of goods and equipment.

Financial assets include Rs 130,668 thousand (2011: 187,601 thousand) and financial liabilities include Rs 606,860 thousand (2011: 460,393 thousand) which were subject to foreign exchange risk.

At December 31 2012, if the functional currency had weakened/strengthened by 10% against foreign currencies, with all other variables held constant, the profit after taxation for the year would have been lower/higher by Rs 30.95 million (2011: Rs 17.73 million).

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

Financial liabilities include balances of Rs 1,382,310 thousand (2011: Rs 1,783,623 thousand) which are subject to interest rate risk. Applicable interest rates for financial liabilities have been indicated in respective notes.
At balance sheet date, if interest rates had been 1% higher/lower, with all other variables held constant, profit after taxation for the year would have been Rs 8.99 million (2011: Rs 11.59 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

	Rating		Rating	Rs (million)	
Counterparty	Short term	Long term	Agency	2012	2011
MCB Bank Limited	A1+	AA+	PACRA	23.66	25.08
Citibank N.A.	P-1	A1	Moody's	2.14	35.94
Deutsche Bank AG	P-1	Aa3	Moody's	112.28	45.97
Barclays Bank p.l.c	P-1	A2	Moody's	-	0.48
				138.08	107.47

Trade debts, loans and advances and other receivables amounting to Rs 375.40 million (2011: Rs 280.02 million) do not include any amounts which are past due or impaired.

(c) Liquidity risk

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

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2012, the Group had Rs 4,112 million unutilised borrowing facilities from financial institutions and Rs 139 million cash and bank balances. Further, the Group also has strong financial support from its holding Group. Based on the above, in spite the fact that the Group is in a negative working capital position at the year end, management believes the liquidity risk to be low.

The table below summarizes the maturity profile of the Group's financial liabilities as at reporting date. The amounts disclosed are undiscounted cashflows.

	December 31, 2012		
	Amount	Within one Year	Upto Five Years
	Rs '000	Rs '000	Rs '000
Finance lease obligation	179,828	67,075	112,753
Trade and other payables	6,974,301	6,974,301	-
Short term running finance	1,237,772	1,237,772	-
Accrued interest / mark-up	40,880	40,880	-
	8,432,781	8,320,028	112,753

	December 31, 2011		
	Amount	Within one Year	Upto Five Years
	Rs '000	Rs '000	Rs '000
Trade and other payables	7,064,996	7,064,996	-
Short term running finance	1,783,623	1,783,623	-
Accrued interest / mark-up	51,187	51,187	-
	8,899,806	8,899,806	-

5.2 Capital management

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

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

5.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

6. Critical accounting estimates and judgements

(a) Income taxes

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

(b) Employee benefits

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

(c) Property, plant and equipment

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

	2012 Rs '000	2011 Rs '000
7. Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	5,376,669	5,318,558
Raw material purchases and expenses - note 7.1	13,821,617	13,121,930
Closing stock of raw materials and work in process	(6,177,047)	(5,376,669)
	13,021,239	13,063,819
Government taxes and levies		
Customs duty and surcharges	476,101	458,482
Provincial and municipal taxes and other duties	143,354	137,349
Excise duty on royalty	39,660	35,842
	659,115	631,673
	13,680,354	13,695,492
Royalty	396,582	358,468
Production overheads		
Salaries, wages and benefits	1,426,585	1,366,513
Stores, spares and machine repairs	444,425	443,334
Fuel and power	439,175	362,813
Insurance	43,727	32,498
Repairs and maintenance	165,750	127,490
Postage, telephone and stationery	8,375	10,753
Information technology	75,409	74,156
Depreciation	546,180	525,199
Stocks written off	50,359	6,960
Stores and spares written off	20,599	24,953
Sundries	99,863	82,040
	3,320,447	3,056,709
Cost of goods manufactured	17,397,383	17,110,669
Cost of finished goods		
Opening stock	1,085,661	684,265
Closing stock	(1,048,254)	(1,085,661)
	37,407	(401,396)
Cost of sales	17,434,790	16,709,273

7.1 Raw material purchases and expenses

	2012 Rs '000	2011 Rs '000
Materials	12,617,381	12,059,600
Salaries, wages and benefits	573,459	490,922
Stores, spares and machine repairs	206,366	206,531
Fuel and power	157,561	136,222
Property rentals	61,612	44,607
Insurance	2,906	5,714
Repairs and maintenance	22,904	17,898
Postage, telephone and stationery	12,468	6,328
Depreciation	105,337	100,627
Sundries	61,623	53,481
	13,821,617	13,121,930

		2012 Rs '000	2011 Rs '000
8.	**Selling and distribution expenses**		
	Salaries, wages and benefits	506,384	460,357
	Selling expenses	2,523,848	2,151,830
	Freight	310,821	282,209
	Repairs and maintenance	65,773	103,323
	Postage, telephone and stationery	6,130	7,044
	Travelling	38,882	46,770
	Property rentals	9,631	8,445
	Insurance	8,577	7,549
	Stock written off	-	4,413
	Depreciation	46,555	57,998
		3,516,601	3,129,938
9.	**Administrative expenses**		
	Salaries, wages and benefits	705,733	703,725
	Fuel and power	31,470	30,722
	Property rentals	52,231	84,409
	Insurance	6,041	4,514
	Repairs and maintenance	46,085	44,075
	Postage, telephone and stationery	17,603	15,359
	Legal and professional charges	39,439	26,776
	Donations - note 9.1	500	1,770
	Information technology	280,519	220,200
	Travelling	77,856	63,313
	Depreciation	87,196	90,319
	Auditor's remuneration and expenses - note 9.2	8,046	7,490
	Sundries	29,199	29,041
		1,381,918	1,321,713

9.1 This includes an amount of nil (2011: 1,600 thousand) paid to Gottfried Thoma - PTC Employees Benevolent Trust. A director of the Company is also trustee of this Trust.

		2012 Rs '000	2011 Rs '000
9.2	Auditor's remuneration and expenses include:		
	– Statutory audit fee	1,425	1,295
	– Group reporting, review of half yearly accounts, audit of consolidated accounts, special certifications and staff retirement benefit funds	3,038	2,831
	– Tax services	3,195	2,969
	– Out-of-pocket expenses	388	395
		8,046	7,490

	2012 Rs '000	2011 Rs '000
10. Other operating expenses		
Employees' termination benefits	637,397	994,630
Workers' Profit Participation Fund	142,533	30,126
Workers' Welfare Fund	53,101	13,127
Bank charges and fees	40,131	32,037
Operating fixed assets written off	-	104,208
Other receivables and advances written off	2,343	8,235
Loss on disposal of property, plant and equipment	14,713	-
Foreign exchange loss	18,670	-
	908,888	1,182,363
11. Other operating income		
Income from an associated company		
- BAT SAA Services (Private) Limited, for services rendered	29,719	28,144
Insurance claim received	28,000	-
Vehicle rental from marketing agencies	16,803	-
Income recognised on sale and lease back of vehicles - note 25.5	5,830	-
Gain on disposal of property, plant and equipment	-	19,361
Foreign exchange gain	-	1,895
Miscellaneous	10,048	4,567
	90,400	53,967
12. Finance cost		
Interest expense on:		
Bank borrowings	129,479	140,539
Finance lease	9,054	-
	138,533	140,539
13. Income tax expense		
Current	917,466	235,348
Deferred	9,112	(39,858)
	926,578	195,490

13.1 Effective tax rate reconciliation:

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

	2012 (%)	2011 (%)
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.24	0.12
Income taxed at different rate	(0.12)	(0.09)
Others	(0.22)	(0.08)
Average effective tax rate	34.90	34.95

	2012 Rs '000	2011 Rs '000
13.2 Tax on items directly credited to statement of comprehensive income		
Current tax charge / (credit) on defined benefit plans	67,335	(35,685)
Deferred tax credit on defined benefit plans	(258)	(15,685)
	67,077	(51,370)

14. Earnings per share

	2012	2011
Profit after tax (Rs '000)	1,728,458	363,785
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share - Basic (Rs)	6.77	1.42

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

15. Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Executive Directors		Executives				Total	
					Key management personnel		Other executives			
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Managerial remuneration	72,955	56,315	49,601	47,673	191,427	188,608	576,130	456,932	890,113	749,528
Corporate bonus	14,655	19,983	86,151	91,079	124,424	148,839	204,951	167,811	430,181	427,712
Leave fare assistance	5,750	2,355	2,569	3,044	7,642	5,578	5,430	3,376	21,391	14,353
Housing and utilities	10,770	9,584	18,653	15,002	44,617	46,274	233,897	194,382	307,937	265,242
Medical expenses	-	42	2,418	2,080	5,503	5,806	39,998	31,268	47,919	39,196
Post employment benefits	11,416	11,247	10,915	8,206	20,712	27,811	130,349	103,973	173,392	151,237
	115,546	99,526	170,307	167,084	394,325	422,916	1,190,755	957,742	1,870,933	1,647,268
Number of persons	1	1	4	4	30	28	387	333	422	366

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

15.2 The aggregate amounts charged in the consolidated financial statements of the year for remuneration including all benefits to four (2011: four) non-executive directors of the Group amounted to Rs 4,428 thousand (2011: Rs 3,916 thousand).

	2012 Rs '000	2011 Rs '000
16. Property, plant and equipment		
Operating assets - note 16.1	5,522,359	5,426,487
Capital work in progress - note 16.2	197,650	690,845
	5,720,009	6,117,332

16.1 Operating assets

	Free-hold land Rs '000	Buildings free-hold land Rs '000	Buildings on leasehold land Rs '000	Private railway sidings Rs '000	Plant and machinery Rs '000	Office and household equipment Rs '000	Furniture and fittings Rs '000	Vehicles Owned Rs '000	Vehicles under finance lease Rs '000	Total Rs '000
At January 1, 2011										
Cost	10,198	560,627	25,712	349	8,283,622	523,704	95,224	724,401	-	10,223,837
Accumulated depreciation	-	(159,449)	(14,909)	(323)	(3,756,581)	(255,504)	(22,176)	(389,616)	-	(4,598,558)
Net book amount at January 1, 2011	10,198	401,178	10,803	26	4,527,041	268,200	73,048	334,785	-	5,625,279
Year ended December 31, 2011										
Net book amount at January 1, 2011	10,198	401,178	10,803	26	4,527,041	268,200	73,048	334,785	-	5,625,279
Additions	-	17,479	-	-	502,206	86,716	9,280	76,589	-	692,270
Disposals	-	-	-	-	(80,963)	(19,797)	(3,832)	(12,327)	-	(116,919)
Depreciation charge	-	(16,185)	(432)	-	(547,204)	(73,056)	(13,827)	(123,439)	-	(774,143)
Net book amount at December 31, 2011	10,198	402,472	10,371	26	4,401,080	262,063	64,669	275,608	-	5,426,487
At January 1, 2012										
Cost	10,198	578,105	25,712	349	8,643,056	568,501	99,661	738,128	-	10,663,710
Accumulated Depreciation	-	(175,633)	(15,341)	(323)	(4,241,976)	(306,438)	(34,992)	(462,520)	-	(5,237,223)
Net book amount January 1, 2012	10,198	402,472	10,371	26	4,401,080	262,063	64,669	275,608	-	5,426,487
Year ended December 31, 2012										
Net book amount at January 1, 2012	10,198	402,472	10,371	26	4,401,080	262,063	64,669	275,608	-	5,426,487
Additions	23,736	176,412	-	-	617,365	70,232	2,473	40,999	179,216	1,110,433
Disposals	-	(469)	-	-	(102,320)	(3,433)	(573)	(117,435)	(5,063)	(229,293)
Depreciation charge	-	(17,657)	(427)	(1)	(566,131)	(79,299)	(14,627)	(89,334)	(17,792)	(785,268)
Net book amount at December 31, 2012	33,934	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,522,359
At December 31, 2012										
Cost	33,934	753,653	25,712	349	8,755,842	609,223	99,350	534,297	173,838	10,986,198
Accumulated depreciation	-	(192,895)	(15,768)	(324)	(4,405,848)	(359,660)	(47,408)	(424,459)	(17,477)	(5,463,839)
Net book amount at December 31, 2012	33,934	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,522,359

	2012 Rs '000	2011 Rs '000
16.2 Capital work in progress		
Civil and electrical works	12,563	12,563
Plant and machinery	154,089	582,679
Advances to suppliers	30,998	95,603
	197,650	690,845
16.3 Depreciation charge has been allocated as follows:		
Cost of sales	546,180	525,199
Raw material purchases and expenses	105,337	100,627
Selling and distribution expenses	46,555	57,998
Administrative expenses	87,196	90,319
	785,268	774,143

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

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds less selling expenses Rs '000	Particulars of Buyers
Computer Equipment				
- by insurance claim	95	67	88	EFU General Insurance Company
	95	71	88	-do-
	122	79	88	-do-
Machinery				
- by Export	224,922	41,576	67,502	British American Tobacco Bangladesh
Vehicles				
- as per Company's policy	969	97	97	Farooq Ayub - Ex Employee
	980	98	98	Hamid Usman - Employee
	980	98	98	Javaid Khan - Employee
	980	98	899	Mian Burhanuddin - Employee
	981	98	198	Hammad Zafar - Employee
	1,005	101	148	Ihsan Ahmed - Employee
	1,193	1,143	1,087	Yasir Maqsood - Ex Employee
	1,305	1,251	1,201	Khan Muhammad - Employee
	1,335	134	1,008	Amin Piracha - Ex Employee
	1,354	480	792	Kamran Abbassi - Employee
	1,389	203	617	Mazhar Shaheen - Ex Employee
	1,395	1,308	1,260	Syed Qaiser Imam - Ex Employee
	1,724	539	1,297	Syed Omer - Ex Employee
	1,809	181	653	Shafqat Ali - Ex Employee
- by auction	835	83	952	M.Faisal Qureshi - Islamabad
	845	84	598	M.Rashid Nawaz - Rawalpindi
	845	84	797	Muhammad Saleem - Rawalpindi
	845	84	1,011	M.Mushtaq Abbassi - Islamabad
	845	84	875	Rizwan Mazhar - Rawalpindi
	845	84	923	M.Rashid Nawaz - Rawalpindi
	849	85	1,011	M.Mushtaq Abbassi - Islamabad
	875	88	964	Aziz Khan - Rawalpindi
	881	88	825	Shaukat Ali - Karachi
	969	97	1,080	M.Touseef Kahout - Rawalpindi

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds less selling expenses Rs '000	Particulars of Buyers
	980	98	905	Nasir Mehmood - Rawalpindi
	1,056	106	1,000	Orangzaib Khan - Islamabad
	1,056	106	966	M.Touseef Kahout - Rawalpindi
	1,309	131	1,210	Rashid Masood - Islamabad
	1,335	134	1,282	Munir Sohail - Rawalpindi
	1,335	134	1,295	Habib Ur Rehman - Rawalpindi
	1,354	282	1,260	Nasir Mehmood - Rawalpindi
	4,444	444	2,425	Tajamal Shah - Employee
- by insurance claim	575	311	550	New Hampshire Insurance Company
	575	311	625	-do-
	575	311	625	-do-
- by sale and leaseback arrangement	163,287	103,146	125,035	MCB Bank Ltd.

	2012 Rs '000	2011 Rs '000
17. Long term loans - unsecured, considered good		
Related parties		
Key management personnel	105	164
Others		
Other executives	1,270	2,856
	1,375	3,020
Less: Receivable within one year	918	1,760
	457	1,260

17.1 Reconciliation of loans:

	Executives				Other employees		Total	
	Key management personnel		Other executives					
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Balance as at January 1	164	452	2,856	3,817	-	1,698	3,020	5,967
Repayments	(59)	(288)	(1,586)	(961)	-	(1,698)	(1,645)	(2,947)
Balance as at December 31	105	164	1,270	2,856	-	-	1,375	3,020

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.

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

	2012 Rs '000	2011 Rs '000
Key management personnel	186	382
Other executives	2,608	5,073
	2,794	5,455

18. Long term deposits and prepayments

	2012 Rs '000	2011 Rs '000
Security deposits	17,540	17,000
Prepayments	2,746	5,640
	20,286	22,640

19. Stock-in-trade

	2012 Rs '000	2011 Rs '000
Raw materials	5,925,625	5,119,241
Raw materials in transit	222,510	207,493
Work in process	28,912	49,935
Finished goods	1,048,254	1,085,661
	7,225,301	6,462,330

20. Stores and spares

	2012 Rs '000	2011 Rs '000
Stores	2,832	2,210
Machine spares	339,023	187,900
	341,855	190,110

21. Trade debts

	2012 Rs '000	2011 Rs '000
Considered good	1,073	1,202
Considered doubtful	-	2,322
	1,073	3,524
Provision for doubtful debts	-	(2,322)
	1,073	1,202

22. Loans and advances - unsecured, considered good

	2012 Rs '000	2011 Rs '000
Related parties		
Loans to key management personnel	45	67
Advances due from key management personnel	4,019	-
Others		
Loans to executives and other employees	873	1,693
Advances due from executives and other employees - note 22.1	36,557	32,370
Advances due from others	27,138	30,180
	68,632	64,310

22.1 Includes Rs 36,557 thousand (2011: Rs 19,828 thousand) due from executives of the Group.

	2012 Rs '000	2011 Rs '000
23. Other receivables		
Related parties - unsecured		
Due from holding company / associated companies - note 23.1	34,692	134,426
Unbilled receivable from related parties	13,930	-
Staff Pension Fund	182,804	-
Employees' Provident Fund	5,920	-
Management's Provident Fund	-	1,354
Others		
Claims against supplier for damaged raw material	27,858	7,494
Workers' Profit Participation Fund	-	5,874
Margin against guarantees	-	24,868
Others	2,471	2,212
	267,675	176,228
23.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	4,434	5,055
Associated Companies		
BAT SAA Services (Private) Limited - Pakistan	14,688	28,738
PT Bentoel Prima - Indonesia	5,970	93,610
BAT Marketing (Singapore) Pte Ltd	1,709	2,044
BAT ASPAC Service Center Sdn Bhd - Malaysia	1,772	528
BAT Kazakhistan	1,340	-
Commercial Marketers - Malaysia	1,121	-
BAT Switzerland SA	1,040	779
BAT (Singapore) Pte Ltd	770	710
BAT SWE Ltd. - UK	684	-
BAT Cambodia	480	-
BAT Korea Manufacturing - South Korea	424	-
BAT PNG - Papua New Guinea	260	278
BAT Asia-Pacific Region Ltd - Hong Kong	-	1,681
Rothmans Far East B.V - South Korea	-	1,003
	34,692	134,426
24. Cash and bank balances		
Deposit accounts	21,240	16,883
Current accounts		
Local currency	6,179	1,845
Foreign currency	110,664	81,913
	138,083	100,641
Cash in transit	-	6,828
Cash in hand	947	2,162
	139,030	109,631

25. Trade and other payables

	2012 Rs '000	2011 Rs '000
Related parties - unsecured		
Due to holding company / associated companies - note 25.1	634,053	451,905
Others		
Creditors	921,903	1,095,633
Federal excise duty - note 25.2	3,542,618	2,781,825
Sales tax	814,765	613,880
Tobacco excise duty / Tobacco development cess - note 25.3	78,566	70,770
Employees' termination benefits	-	985,908
Other employee benefits - note 25.4	566,896	565,749
Staff pension fund	-	158,626
Employees gratuity fund	91,720	47,078
Staff pension fund - defined contribution	933	127
Management Provident Fund	4,255	-
Employees' Provident Fund	-	741
Workers' Profit Participation Fund	2,534	-
Workers' Welfare Fund	53,101	26,661
Other accrued liabilities	206,214	217,893
Advances from customers	1,578	2,737
Security deposits	21,240	16,883
Dividend payable / Unclaimed dividend	35,503	31,315
Deferred income on sale and leaseback of vehicles - note 25.5	16,059	-
	6,991,938	7,067,731

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

	2012 Rs '000	2011 Rs '000
Holding Company		
British American Tobacco p.l.c. - UK	115,510	149,671
Associated Companies		
BAT Marketing (Singapore) Pte Ltd	180,569	70,939
BAT ASPAC Service Center Sdn Bhd - Malaysia	132,576	43,731
BAT GLP Ltd - UK	86,210	107,858
BAT GSD Ltd. - UK	61,783	-
BAT Asia-Pacific Region Ltd - Hong Kong	30,627	73,786
BAT Bangladesh Co. Ltd	10,913	-
BAT Australia	10,464	-
Ceylon Tobacco Company Plc - Sri Lanka	3,205	4,016
BAT (Malaysia) Berhad	1,510	836
BAT SWE Ltd. - UK	462	-
BAT New Zealand	224	-
BAT SA Ltd - South Africa	-	1,068
	634,053	451,905

25.2 Federal excise duty

	2012 Rs '000	2011 Rs '000
Balance as at January 1	2,781,825	2,779,617
Charge for the year	38,854,830	34,719,661
Payment to the Government during the year	(38,094,037)	(34,717,453)
Balance as at December 31	3,542,618	2,781,825

		2012 Rs '000	2011 Rs '000
25.3	**Tobacco excise duty / Tobacco development cess:**		
	Balance as at January 1	70,770	76,292
	Charge for the year	92,625	89,536
	Payment to the Government during the year	(84,829)	(95,058)
	Balance as at December 31	78,566	70,770
25.4	**Other employee benefits**		
	Balance as at January 1	565,749	274,238
	Charge for the year	498,648	526,518
	Payment to employees during the year	(497,501)	(235,007)
	Balance as at December 31	566,896	565,749

Other employee benefits represent bonus to eligible employees.

25.5	**Deferred income on sale and leaseback of vehicles**		
	Deferred income	21,889	-
	Income recognised during the year	(5,830)	-
		16,059	-

During the year, the Group entered in a transaction of sale and lease back of vehicles resulting in finance lease. Profit on this transaction has been deferred and will be recognised as income over the lease term of 2 to 4 years.

26. Short term running finance - secured

(a) Short term running finance

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 5,350 million (2011: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 4,112 million (2011: Rs 3,566 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 5,940 million (2011: Rs 5,940 million). The mark-up ranges between 9.88% and 13.14% (2011: 12.42% and 14.79%) per annum and is payable quarterly. The facilities are renewable on annual basis.

(b) Non-funded finance facilities

The Group also has non-funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 2,500 million (2011: Rs 2,500 million) and Rs 355 million (2011: Rs 355 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 687 million (2011: Rs 588 million) and Rs 149 million (2011: Rs 109 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2011: Rs 355 million).

	2012 Rs '000	2011 Rs '000
27. Retirement benefits		
Staff pension fund - (Asset)/Liability	(182,804)	158,626
Employees gratuity fund - Liability	91,720	47,078
	(91,084)	205,704

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2012 using the projected unit credit method. Details of the defined benefit plans are:

Notes to and forming part of the Consolidated Financial Statements

for the year ended December 31, 2012

		Defined benefit pension plan 2012 Rs '000	Defined benefit pension plan 2011 Rs '000	Defined benefit gratuity plan 2012 Rs '000	Defined benefit gratuity plan 2011 Rs '000
(a)	**The amounts recognised in the consolidated balance sheet:**				
	Present value of defined benefit obligations	3,358,267	2,841,970	870,406	792,745
	Fair value of plan assets	(3,541,071)	(2,683,344)	(778,686)	(745,667)
	Net (Assets) / liability	(182,804)	158,626	91,720	47,078
(b)	**Movement in the liability recognized in the consolidated balance sheet is as follow:**				
	Balance as at January 1	158,626	51,640	47,078	33,981
	Charge for the year - profit & loss	76,804	70,544	39,691	33,742
	Employer's contribution during the year	(193,446)	(70,871)	(73,003)	(60,102)
	Charge for the year - consolidated statement of comprehensive income	(224,788)	107,313	77,954	39,457
	Balance as at December 31	(182,804)	158,626	91,720	47,078
(c)	**The amounts recognised in the consolidated profit and loss account:**				
	Current service cost	99,786	95,271	38,796	32,674
	Interest cost	354,224	354,861	97,043	96,129
	Expected return on plan assets	(332,959)	(337,442)	(91,273)	(91,279)
	Members' own contribution	(28,017)	(26,341)	-	-
	Prior service cost - unionized staff	-	-	(936)	-
	Secondees' own contribution	(5,902)	(5,246)	-	-
	Contribution by employer in respect of secondees	(10,328)	(10,559)	(3,939)	(3,782)
		76,804	70,544	39,691	33,742
(d)	**The aggregate amounts recognised in the consolidated statement of comprehensive income:**				
	Actuarial losses as at January 1	(563,733)	(456,420)	(305,004)	(265,547)
	Actuarial losses on defined benefit obligations	(188,278)	(121,344)	(168,890)	(69,571)
	Actuarial gains on plan assets	413,066	14,031	90,936	30,114
		224,788	(107,313)	(77,954)	(39,457)
	Actuarial losses as at December 31	(338,945)	(563,733)	(382,958)	(305,004)
(e)	**Movement in the present value of defined benefit obligation:**				
	Present value of defined benefit obligation as at January 1	2,841,970	2,399,679	792,745	683,533
	Current service cost	99,786	95,271	38,796	32,674
	Interest cost	354,224	354,861	97,043	96,129
	Actual benefits paid during the year	(125,991)	(129,185)	(226,132)	(89,162)
	Prior service cost - unionized staff	-	-	(936)	-
	Actuarial losses	188,278	121,344	168,890	69,571
	Present value of defined benefit obligation as at December 31	3,358,267	2,841,970	870,406	792,745

		Defined benefit pension plan		Defined benefit gratuity plan	
		2012	2011	2012	2011
		Rs '000	Rs '000	Rs '000	Rs '000
(f)	**Movement in the fair value of plan assets:**				
	Fair value of plan assets as at January 1	2,683,344	2,348,039	745,667	649,552
	Expected return on plan assets	332,959	337,442	91,273	91,279
	Contribution by employer in respect of members	193,446	70,871	73,003	60,102
	Members' own contribution	28,017	26,341	-	-
	Secondees' own contribution	5,902	5,246	-	-
	Contribution by employer in respect of secondees	10,328	10,559	3,939	3,782
	Actual benefits paid during the year	(125,991)	(129,185)	(226,132)	(89,162)
	Actuarial gains	413,066	14,031	90,936	30,114
	Fair value of plan assets as at December 31	3,541,071	2,683,344	778,686	745,667
	Actual return on plan assets	667,390	341,127	163,254	116,913

The Group expects to charge Rs 69.333 million for pension plan and Rs 50.862 million for gratuity plan for the year ending December 31, 2013.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2012	2011	2012	2011
		Rs '000	Rs '000	Rs '000	Rs '000
(g)	**The major categories of plan assets:**				
	Investment in equities	527,593	348,386	123,129	-
	Investment in bonds	3,000,742	2,328,743	653,500	745,142
	Cash and other assets	12,736	6,215	2,057	525
		3,541,071	2,683,344	778,686	745,667
(h)	**Significant actuarial assumptions at the balance sheet date:**				
	Discount rate	12.00%	12.50%	12.00%	12.50%
	Expected rate of return on plan assets	12.00%	12.50%	12.00%	12.50%
	Pension increase rate	8.00%	8.50%	-	-
	Expected rate of increase in salary				
	First year	13.50%	14.00%	13.50%	14.00%
	Second year onwards	11.50%	11.50%	11.50%	11.50%

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

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

	2012 Rs '000	2011 Rs '000	2010 Rs '000	2009 Rs '000	2008 Rs '000
(i) **Amounts for the current and previous four years:**					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	3,358,267	2,841,970	2,399,679	2,100,232	1,769,557
Fair value of plan assets	(3,541,071)	(2,683,344)	(2,348,039)	(2,086,026)	(1,232,749)
(Surplus) / deficit	(182,804)	158,626	51,640	14,206	536,808
Experience (gain)/loss on obligation	117,539	28,146	37,773	83,719	63,120
Experience (gain)/loss on plan assets	(334,431)	(3,685)	10,136	(166,211)	333,376
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	870,406	792,745	683,533	586,297	460,720
Fair value of plan assets	(778,686)	(745,667)	(649,551)	(541,096)	(258,395)
Deficit	91,720	47,078	33,982	45,201	202,325
Experience (gain)/loss on obligation	62,873	25,977	28,101	63,208	73,527
Experience (gain)/loss on plan assets	(71,981)	(26,008)	2,816	(40,000)	64,891

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

	2012 Rs '000	2011 Rs '000
Provident Fund	65,258	59,340
Pension Fund	76,804	70,544
Gratuity Fund	39,691	33,742
	181,753	163,626

28. Deferred income tax liability

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

	2012 Rs '000	2011 Rs '000
The offset amounts are as follows:		
Deferred tax assets	(26,174)	(25,916)
Deferred tax liabilities	1,117,066	1,107,954
Deferred tax liability (net)	1,090,892	1,082,038
The gross movement on deferred income tax account is as follows:		
At January 1	1,082,038	1,137,581
Charge/(Credit) for the year - profit and loss account (note 13)	9,112	(39,858)
Credit for the year - statement of comprehensive income (note 13.2)	(258)	(15,685)
At December 31	1,090,892	1,082,038

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

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

	2012 Rs '000	2011 Rs '000
Balance as at January 1	(25,916)	(10,231)
Credit for the year - statement of comprehensive income (note 13.2)	(258)	(15,685)
Balance as at December 31	(26,174)	(25,916)

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

	2012 Rs '000	2011 Rs '000
Balance as at January 1	1,107,954	1,147,812
Charge/(Credit) for the year - profit and loss account	9,112	(39,858)
Balance as at December 31	1,117,066	1,107,954
Operating fixed assets	1,109,875	1,107,954
Leased assets	7,191	-
Balance as at December 31	1,117,066	1,107,954

29. Liability against assets subject to finance lease

This represents finance lease agreements entered into with a leasing company for vehicles. Total lease rentals due under various lease agreements aggregate to Rs 179,828 (2011: nil) million and are payable in equal monthly installments latest by December 2017. Taxes, repairs, replacement and insurance costs are to be borne by the Group. Financing rates of 10.99% to 13.63% per annum have been used as discounting factor.

The amount of future minimum lease payments together with the present value of the minimum lease payments and the periods during which they fall due are as follows:

	2012 Rs '000	2011 Rs '000
Present value of minimum lease payments	146,033	-
Current maturity shown under current liabilities	(50,009)	-
	96,024	-
Minimum lease payments		
Not later than one year	67,075	-
Later than one year and not later than five years	112,753	-
	179,828	-
Future finance charges on finance leases	(33,795)	-
Present value of finance lease liabilities	146,033	-
Present value of finance lease liabilities		
Not later than one year	50,009	-
Later than one year and not later than five years	96,024	-
	146,033	-

30. Share capital

30.1 Authorized share capital

2012 (Number of Shares)	2011 (Number of Shares)		2012 Rs '000	2011 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

30.2 Issued, subscribed and paid-up capital

2012 (Number of Shares)	2011 (Number of Shares)		2012 Rs '000	2011 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 (2011: 241,045,141) ordinary shares at the year end.

	2012 Rs '000	2011 Rs '000
31. Contingencies and commitments		
31.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Group not acknowledged as debt	131,800	131,800
(ii) Guarantees issued by banks on behalf of the Group	149,447	108,747

(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.

31.2 Commitments

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

	2012 Rs '000	2011 Rs '000
No later than one year	35,879	32,801
Later than one year and no later than five years	235,180	285,430
Later than five years	19,415	26,739

(b) Letters of credit outstanding at December 31, 2012 were Rs 686,815 thousand (2011: Rs 587,861 thousand).

32. Financial instruments

32.1 Financial assets and liabilities

	Loans and receivables	
	2012 Rs '000	2011 Rs '000
Financial assets		
Maturity up to one year:		
Trade debts	1,073	1,202
Loans and advances	68,632	64,310
Other receivables		
Local Currency	247,671	70,540
Foreign Currency	20,004	105,688
	267,675	176,228
Cash and bank balances		
Local Currency	28,366	27,718
Foreign Currency	110,664	81,913
	139,030	109,631
Maturity after one year:		
Loans	457	1,260
Security deposits	17,540	17,000
	494,407	369,631

	Other financial liabilities	
	2012 Rs '000	2011 Rs '000
Financial liabilities		
Maturity up to one year:		
Trade and other payables		
Excise duty and sales tax payable	4,357,383	3,395,705
Others		
Local Currency	2,010,058	3,208,898
Foreign Currency	606,860	460,393
	6,974,301	7,064,996
Short term running finance	1,237,772	1,783,623
Finance lease obligation	50,009	-
Accrued interest / mark-up	40,880	51,187
Maturity after one year:		
Finance lease obligation	96,024	-
	8,398,986	8,899,806

32.2 Forward foreign exchange contracts

The principal amounts of the outstanding forward foreign exchange contracts at December 31, 2012 were Rs 622,547 thousand (2011: Rs 565,254 thousand).

33. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2011: 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. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is given in note 15 to the consolidated financial statements.

	2012 Rs '000	2011 Rs '000
Purchase of goods and services from		
Holding company	308,011	267,846
Associated companies	1,586,123	1,702,866
Sale of goods and services to		
Holding company	16,638	7,373
Associated companies	236,080	651,715
Royalty charge from		
Holding company	396,581	358,468
Expenses reimbursed to		
Holding company	3,166	-
Associated companies	307	854
Expenses reimbursed by		
Holding company	589	2,119
Associated companies	716	2,966

34. Post balance sheet event

Final dividend in respect of the year ended December 31, 2012 of Rs 3.25 (2011: Rs 1.00) per share amounting to a total dividend of Rs 830,355 thousand (2011: 255,494 thousand) has been proposed at the Board of Directors meeting held on February 20, 2013. These consolidated financial statements do not reflect this proposed dividend.

35. General

35.1 Capacity and production

Against an estimated manufacturing capacity of 45,550 million cigarettes (2011: 45,184 million cigarettes) actual production was 40,514 million cigarettes (2011: 40,537 million cigarettes). Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

35.2 Number of employees

Total number of employees as at December 31, 2012 was 1,136 (2011: 1,543).

35.3 Date of authorization for issue

These consolidated financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on February 20, 2013.

Graeme Amey
Managing Director & CEO

Mobasher Raza
Finance Director

Form of Proxy

Pakistan Tobacco Company Limited

I, ____

of ____

a member of Pakistan Tobacco Company Limited, hereby appoint ______________________

______________________________ of ______________________

or failing him ______________________ of ______________________

or failing him either of them, may in writing appoint any other person to act as my proxy at the **66th** Annual General Meeting of the Company to be held on the **19th April, 2013** and at any and every adjournment thereof.

As witness my hand this ____________ day of __________ 2013.

Revenue Stamp
Rs 5/=

Signed ______________________________

Shareholder's folio No. ______________________

Note:

1. The signature should agree with the specimen signature registered with the Company.

2. A proxy need not be a member of the Company.

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

For Beneficial Owners as per CDC List

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

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

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

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

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

Witness as per (ii) above:

1. ______________________

____

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2. ______________________

____

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www.ptc.com.pk

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Islamabad 44000