COMMITMENT TO

value creation

ANNUAL REPORT 2014

of Pakistan Tobacco Company Limited for the year ended

December 31, 2014

PAKISTAN TOBACCO COMPANY

COMMITMENT TO value creation

From generating income and employment opportunities to continuous investment and being one of the biggest tax generators in Pakistan, Pakistan Tobacco Company (PTC) has been contributing immensely to the economic, social and human resource development of the country since 1947.

Over the years PTC's operations have directly employed thousands of people and supported the livelihood of millions. In 2014 alone, PTC operations generated employment for more than 40,000 farmers, besides 40,000 or more people associated with its manufacturing operations and more than 110,000 people at the retail level.

Today, PTC takes pride in the fact that more than 600,000 people across Pakistan are economically associated with our operations. These include farmers, factory workers, managers, printers, suppliers, transporters, distributors, wholesalers, retailers etc. There are very few examples of one company playing such a vital economic role in a country.

“Despite many challenges, 2014 was a year where we managed to surpass all previous achievements and targets, and hence attained the best results to date. We learned the importance of perseverance and delivered consistent performance in all aspects despite a challenging economic, security and political environment. This was all due to the unwavering resolve and commendable tenacity of our people, who are the most important asset of the company.”

Graeme Amey
Managing Director & CEO

Pakistan Tobacco Company

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CORPORATE INFORMATION

Registered Office

PAKISTAN TOBACCO COMPANY LIMITED

Serena Business Complex
Khayaban-e-Suhrwardy
P.O. Box 2549
Islamabad-44000

+92 (51) 2083200, 2083201
+92 (51) 2604516
www.ptc.com.pk

Company Secretary

AYESHA RAFIQUE

ayesha_rafique@bat.com

Bankers

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

Auditors

A.F. FERGUSON & CO. CHARTERED ACCOUNTANTS

3rd Floor, PIA Building
49 Blue Area, P.O. Box 3021
Islamabad-44000
+92 (51) 2273457-60
+92 (51) 2277924

Share Registrar

FAMCO ASSOCIATES (PVT.) LTD.

8-F, Next To Hotel Faran,
Nursery, Block-6, P.E.C.H.S.,
Shahrah-e-Faisal,
Karachi Pakistan.
+92 (21) 34380101-2

Factories

AKORA KHATTAK FACTORY

P.O. Akora Khattak
Tehsil and District Nowshera,
Khyber Pakhtunkhwa

+92 (923) 630901-11
+92 (923) 510792

JELUM FACTORY

G.T. Road, Kala Gujran,
Jhelum

+92 (544) 646500-7
+92 (544) 646524

Regional Sales Offices

NORTH PUNJAB & KHYBER PAKHTUNKHWA

House # 57-A/6,
Satellite Town, Rawalpindi

+92 (51) 4932028-30
+92(51) 4932131

CENTRAL PUNJAB

128/129-G,
Commercial Area, Phase-1,
Defence Housing Authority, Lahore

+92 (42) 5899351-5
+92 (42) 5899356

SOUTHERN PUNJAB

Office No. 602, 6th Floor
The United Mall,
Main Abdali Road, Multan

+92(61) 4512553, 4585992
+92 (61) 4542291

SIND & BALUCHISTAN

Office # 903, 9th Floor
Emerald Tower (Plot # G-19)
Main Clifton Road Block - 5,
Karachi.

+92 (21) 35147690-4
+92 (21) 35147700

CORPORATE OBJECTIVES

Vision

World's best at satisfying consumer moments in tobacco and beyond

Mission

Champion informed consumer choice and deliver our commitments to society

Strategic OBJECTIVES

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

BUSINESS PRINCIPLES

Business Principles

Our Company follows three fundamental Business Principles:

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. We endeavor to ensure that 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 nonsmokers

Good Corporate Conduct

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

Core Beliefs

- Our business upholds high standards of behaviour and integrity
- High standards of corporate social responsibility should be promoted within the tobacco industry
- Universally recognized 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

The Board of Directors

Mueen Afzal
Chairman & Non Executive Director

Mueen Afzal graduated with first class honours from Government College, Lahore , before getting his M.A. from Corpus Christi College, Oxford, in philosophy, political science and economics in 1963.

He served in various prominent positions in Finance and Health Ministries with the Provincial and Central Governments. He has also served as Secretary General, Finance and Economic Affairs. He is also on the board of various reputed organizations / institutions, which include ICI (Pakistan), and Pakistan Philanthropy Centre. He joined the PTC Board in 2003 and became the Chairman in 2007. He was awarded the Hilal-e-Imtiaz (HI) in 2002 for distinguished public service

Graeme Amey
Managing Director & CEO

Graeme started his journey with British American Tobacco Group, 36 years ago in the Leaf department in BAT Australia. Over the years he has worked in different BAT markets and in positions such as the Marketing Manager, South Pacific, General Manager, Papua New Guinea and Manufacturing Manager for Australasia.

Graeme led New Zealand and South Pacific as General Manager before being appointed as the Area Director, South Asia and CEO of PTC in 2012.

In 2014, Graeme also became the Chairman of the Board for BAT Australasia.

Syed Javed Iqbal
Director Finance & IT

Javed Iqbal has been with the Company for the last 19 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 British American Tobacco Group first in BAT South Korea as Finance Controller and later in Global Headquarters in London as Finance Manager for Global Marketing. In 2011, Javed was appointed as Finance Director for Swiss Business Unit looking after 5 European markets based in Switzerland. He came back to Pakistan in 2014 as Director Finance & IT for PTC. Javed has an MBA with majors in Finance & MIS. He joined the PTC Board in July 2014.

Tajamal Shah
Legal Director

Tajamal qualified as a UK Barrister in 1989 and then in 1999 re-qualified as a Solicitor of England and Wales. He started his professional career with a UK private company as Assistant Company Secretary, and then joined the British Civil Service, where he became a Legal Advisor to the Department of Trade and Industry. In 1992 he moved to ECGD, where he specialized in project and aircraft financing. In 1996 he decided to move to private practice when he joined a leading law firm DLA as a Senior Associate.

He joined PTC in 1999 as Head of Legal/Company Secretary and moved to Pakistan. He joined the PTC Board in 2009.

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

Lt. General (Retd.) Ali Kuli Khan hails from KPK Province and belongs to a renowned industrial family. He was commissioned in the Pakistan Army in 1964. General Ali and his late father are the only examples in the Pakistan Army where father and son have risen to the rank of Lieutenant Generals and held the post of Chief Of General Staff (CGS). Other important assignments during his Army career were, Commandant Staff College Quetta, Director General Military Intelligence, Commander 10 Corps and CGS. Since retirement he sits on the Boards of numerous Family Industrial Concerns which include Textiles, Automobile Assembly and Tire Manufacturing. He joined the PTC Board in 2001.

Abid Niaz Hasan
Non Executive Director

Abid has over 31 years of global experience in Economic Development, having worked for the World Bank from 1975-2006. Abid has worked extensively with countries in South and West Asia and the Asian Tiger economies. He has advised numerous Governments on economic management and structural reforms and managed various World Bank supported development programmes in several sectors. During his career with the Bank, he also represented International Finance Corporation (IFC) on the boards of several companies that were financed by it. He joined the PTC Board in 2007. He is a member of the Government of Pakistan's Economic Advisory Council.

The Board of Directors

Syed Asif Shah
Chairman & Non Executive Director

Asif Shah graduated with honours from London School of Economics in 1971 and joined the Pakistan Civil Services in 1973 as an Officer of the District Management Group. During his career as a government servant he has served on numerous key provincial and federal positions in Education and Health, including as federal secretary of commerce. After retiring from the Civil Services in 2008, he was appointed as Member of the Federal Public Service Commission, Pakistan. He is also on the Board of Bestway Cement Limited and Al Shifa Trust Eye Hospital. He joined the PTC Board in 2009.

Felicio Ferraz
Non Executive Director

Felicio Ferraz is the Managing Director & Chief Executive Officer of Ceylon Tobacco Company Plc, (CTC) since March 2013. Felicio holds a Bachelor's Degrees in Business Administration, Mechanical Engineering, and a Bachelor's Degree with Honours in Industrial/Production Engineering and a Post Degree in Marketing.

He has been working for British American Tobacco since 1995 in various roles across Brazil, the USA, Cuba, Europe, The Caribbean and Central America, in the following areas: General Management, Key Accounts, Brand Marketing, Trade-Marketing, Export, Sponsorship, Sales and Logistics. Felicio has a proven track record in delivering great results, defining and implementing effective business strategies based on strong Leadership capabilities. Felicio was the Country Manager for Costa Rica, Guatemala and the Dominican Republic prior to joining CTC. Felicio has been appointed to the Board of Directors of the American Chamber of Commerce in Sri Lanka for the year 2013/14. He also joined the Executive Committee of the Council of Business with Britain for the year 2013/14. He joined the PTC Board in October 2013.

Brendan Brady
Non Executive Director

Brendan is Scottish, has a BA in Business Economics and an MBA. Brendan started his career in tobacco in 1988 at the Tobacco Institute of Australia in Sydney, he is currently based in Hong Kong and is Area Director for China Area.

He joined British American Tobacco Company in 1991 working in government, industry and public affairs in what is now the current Corporate and Regulatory Affairs function. From 1991 to 1995 Brendan was regional CORA manager for Europe, Africa and Latin America eventually relocating to Hong Kong in 1995 as Regional CORA Manager, Asia Pacific.

After a secondment to Brown and Williamson in Louisville, Brendan returned to Australia in 1999 as CORA Director, BAT Australasia.

In 2003 he moved into General Management, first as Regional Manager, Asia Pacific and then to his current role in 2006. He joined the PTC Board in October 2013

CHAIRMAN'S
M E S S A G E

Business Performance

For PTC, 2014 was a year of unrelenting perseverance in the face of adversity despite dismal security situation and un-level playing field for the business. The company showed unwavering resolve in all aspects of business operations by not only delivering a remarkable performance and enhancing contingency capacity but also by giving due attention to long-term sustainability of the business.

The year saw a stellar performance and a display of unprecedented steadfastness in all aspects of the business. These included efficient crop procurement, creative brand developments, robust sales, increasing market share, improving manufacturing footprint, ensuring environment health and safety, governance and process adherence, regulatory compliance, Corporate Social Responsibility (CSR) as well as talent development. Consequently, 2014 was the year where the company exhibited a notable performance and outstanding results.

Governance

PTC is committed to good corporate governance and aims to achieve its business objectives in a manner which is responsible and consistent with its belief of honesty, transparency and accountability. Corporate governance for PTC is not simply an exercise in compliance but a key element underpinning the sustainability of our business.

Accordingly, in 2014, the Company continued to conduct its operations with integrity and responsibility. PTC's meticulous compliance credentials, be they in the field of taxes, laws, regulations or industrial relations, are considered to be of the highest level by all, including regulators.

The transparency of PTC's operations, systems and its processes has been a consistent objective over the years. All efforts have regularly been put in place to guarantee not only adherence to internal standards of conduct but also to ensure strict compliance to prescribed regulations. That is why PTC has continued to be certified as one of the best managed companies in Pakistan by different entities.

Corporate Social Responsibility

For PTC, CSR means caring for and working with communities where it operates, going beyond commercial relations and legal requirements. The Company has been one of the pioneers of CSR programs in Pakistan, with its flagship afforestation program being one of the largest private sector CSR initiatives in the country. In the wake of devastating floods of 2014, PTC launched its emergency relief response affirming its commitment to society. An emergency Medical Camp initiative was launched through deploying PTC's Mobile Doctor Units to the affected areas providing free medical assistance to over 5000 people in less than 10 days.

The Challenge

A good business performance in 2014 was achieved despite numerous external challenges, which included an incredibly strained security situation, currency devaluation, unstable law and order situation, energy shortages, and above all the increasing illicit trade in cigarettes in the country. The menace of the illicit trade in cigarettes has been growing every year and 2014 was no different despite Government's efforts to control it. Not only has it caused loss to the Government revenues but has also contributed to creating an un-level playing field for the tax compliant industry. Illicit cigarette trade has other far-reaching economic consequences also especially the creation of fiscal constraints which leads to higher dependence on foreign aid. It also has a negative effect on foreign investment. Government and tax compliant players have a common interest to reduce the high incidence of illicit cigarette trade in the country.

Sustainability

Going forward, PTC remains committed to the pursuit of excellence and to being a responsible and sustainable business that will continue to create value for its shareholders. The key strengths of PTC's business remain its people, brands, standards and processes. The management and I have full confidence in the Company's long term sustainability.

Mueen Afzal
Chairman

MANAGING DIRECTOR'S REVIEW

2014 was one of our strongest years, with strong business results which enhanced shareholder value despite numerous external challenges. Some of the key challenges included complex security as well as law and order situation, severe energy shortages and down-trading of consumers to cheaper tax-evaded cigarettes.

This solid performance was driven by clear and aligned strategy that was underpinned by passionate commitment of our people to excellence in execution and delivery. Throughout the year, we kept a consistent focus on critical areas of business, such as, strengthening our brand portfolio, modernizing technology footprint, enhancing manufacturing capacity, managing our cost base by launching multiple productivity enhancement initiatives and making distribution network more agile and robust.

During 2014, our total tax contribution to Government revenue amounted to more than Rs. 74 billion (Excise Duty, Sales Tax, Income Tax and Custom duties). It is, however, unfortunate that cigarette sector is suffering immensely from lack of a level playing field, owing to wide scale tax evasion. In 2014, this caused a staggering annual loss of more than Rs. 20 billion to Government revenues.

People

British American Tobacco (BAT P.l.c) is frequently rated as one of the best employers in countries around the world. Engaging with and investing in our people is a value shared and lived at PTC. We equip our people with dynamic abilities and skills to meet future challenges. We provide numerous growth and learning opportunities including Factory Training Centre, International Assignments, Management Trainee Programmes and Leadership Programmes. PTC is a net exporter of talent within the BAT Group, with a number of our people sent out for international assignments in BAT companies across the world, providing global mobility to our talent.

PTC works with universities through Battle of Minds (BOM), one of the most coveted and highly anticipated event in the university calendars across Pakistan. BOM is a platform run annually across diverse universities providing students with the opportunity to showcase their skills through a series of rigorous evaluations. Their prize is a chance to work alongside the best talent in Pakistan, enabling them to bring their difference and create their own legacies.

Governance

PTC is committed to good corporate governance and to achieving its business objectives in a manner which is responsible and consistent with its belief in honesty, transparency and accountability. Corporate governance for PTC is not simply an exercise in compliance, but is considered as a key element underpinning the sustainable, long-term growth of its business.

Environment, Health and Safety

PTC has a proactive approach towards Environment, Health and Safety (EHS). The Company endeavours to ensure that the environment it operates in is conducive for the health and safety of those involved in the production process and sustains the environment. Proper mechanisms ensuring safety and health are in place. Periodic awareness and training programmes are also conducted to embed this culture of safety. PTC aims to continually reduce the environmental impact of our operations in the form of carbon footprint reduction and optimal energy utilisation. These projects have enabled the emissions to be lower than the national standards.

Illicit Cigarette Sector: Challenge Remains

One of the major challenges faced by the tobacco industry in Pakistan is easy and open sale of cheap duty-non-paid cigarettes.

Managing Director's Review

These duty evaded cigarettes are widely available throughout the country. Every year the Government of Pakistan suffers a huge loss in taxes as a result of this illicit trade. In addition to this tax evasion, many of these illicit cigarette packs do not even carry the mandatory health warning. This results in a huge grey market and creates a non-level playing field.

Corporate Social Responsibility

In the summer of 2014 devastating floods hit the country. PTC launched its emergency relief response affirming our commitment to society.

An emergency Medical Camp initiative was launched through deploying our Mobile Doctor Units. We were able to provide free medical assistance to over 5000 people in the flood hit areas in less than 10 days. With the aid of Akhuwat and other non-profits working in the flood hit areas, we delivered food packages and tents to more than 40,000 flood affected people.

Business Outlook

Macroeconomic and political instability continues to create adverse impact on business and remains the key issue to be managed.

However, the continuous focus and drive for the optimum fit of people and processes in our business well equips us to face the challenges enabling us to keep delivering shareholder value.

Amidst rising prices in the cigarette industry, the potential growth of illicit sector in future remains the key challenge for the cigarette industry. Low GDP growth rate, high inflation, high fuel and energy prices have been putting pressure on consumer wallet resulting in consumers looking for cheaper option further fuelling the growth of duty not paid segment. Law enforcement authorities would need specific focus to curtail local duty not paid segment's volume to sustain growth in both Government revenues and legitimate industry.

Graeme Amey
Managing Director & CEO

DIRECTORS' REVIEW

The Directors present the 68th Annual Report along with the audited financial statements of the Company for the year ended December 31, 2014.

Directors' Review

Despite multiple challenges like consumers down trading to cheap duty evaded cigarettes, socio political instability, security volatility, power shortages and above all one of the worst floods in Pakistan's history; the Company has shown resilience in 2014 by improving business results in all operational areas. As a consequence, the Company was able to deliver higher volumes and market share during 2014 vs. SPLY.

Provided below are the key financial indicators for the year 2014

Rs. (million)	2014	2013
Gross Turnover	107,218	89,929
Net Turnover	36,619	30,623
Cost of Sales	22,772	20,013
Gross Profit	13,847	10,610
Operating Profit	7,087	4,602
Profit Before Tax – PBT	7,188	4,667
Profit After Tax – PAT	4,850	3,124
Earnings Per Share – EPS (Rs.)	18.98	12.23

Industry Outlook

During 2014, the legitimate industry declined by 1.6%, as a result of the alarming growth in duty evaded segment leading to further widening of the price gap between the products of the legitimate and the non duty paid sectors. As per regulations, the minimum excise duty on a pack of 20 cigarettes is Rs.21.7 whereas the duty evaded segments are freely selling products at prices which are even lower than the minimum excise duty per pack. This is widening the price gap between the legitimate and duty evaded segments, thereby promoting down trading and causing significant losses to Government revenues. Economic pressures and lower disposable incomes also continue to impact purchasing power, thus encouraging down trading to low priced brands.

PTC was able to sustain market share growth during 2014 primarily attributed to its strong brand portfolio. Significant investments behind our brands in the form of innovative products both in Premium & Value for Money (VFM) segments contributed towards a marginal improvement in overall volumes.

The Company was able to take price increase, across the brand portfolio, in line with excise increase and consumer inflation in June 2014. Portfolio wide price increase along with the marginal improvement in sales contributed to the growth in Gross Turnover for the business in a tough operating environment where consumer affordability remains stretched.

Brands Performance

Our Brands continued to perform well in 2014 and showed improvement in both Premium and VFM segments. Our flagship brand in the premium segment, John Player Gold Leaf (JPGL), sustained its market share due to strengthened brand availability across different territories and our investment to enhance consumer value. JPGL offered an innovative product to the consumer in the shape of JPGL Click to further strengthen its brand equity.

In the VFM segment Capstan by Pall Mall Original (CbPMO) not only sustained its position as the number one cigarette brand of Pakistan but also had better sales than last year. Brand equity was further enhanced through a reinforcement campaign that included launch of a Limited Edition Pack.

Contribution to the National Exchequer

PTC is one of the largest tax contributors in the private sector in Pakistan. Our contribution to the National Exchequer (Excise Duty, Sales Tax, Income Tax & Custom duties) grew by 20% with Rs. 74 bn contributed to Government revenues.

PTC has always highlighted the revenue loss to the National Exchequer due to the presence of a large duty-evaded sector. According to reliable research it is estimated that currently every fourth cigarette sold in Pakistan market is duty evaded. We strongly recommend the Government to further increase law enforcement activities in this domain, as the illicit tobacco sector continues to become a bigger threat to the sustainability of the legitimate industry & Government Revenues.

Cost of Sales

Our input costs were under pressure due to high inflation coupled with currency devaluation and energy crisis. Cost of utilities increased vs. SPLY as we had to deploy alternative sources of energy during severe electricity shortages that continued throughout the year. Due to the volatile security situation in the Country, we continued to incur high security expenses to safeguard our people and our assets. Furthermore, we also invested behind product improvements including blend improvements and packaging to add value to our brands. All these cost escalations were managed through strict cost controls and productivity improvements throughout our operations. PTC continues to focus on cost optimisation and process efficiencies to ensure business sustainability.

Operating on Other Costs

Selling and distribution expenses were focused on enhancing availability of our brands and building competency of the trade team and business partners through focused training programmes. We also actively work with our retail partners, carrying out capability building exercises to embed modern retail sales practices.

There was continuous focus on providing a conducive and efficient organizational culture and safe environment. Resultantly PTC shifted its Head Office in June 2014 and also its various trade marketing offices in the same year.

PTC also remained committed to people development and recruitment of high calibre talent. People, being our core pillar of strength in the business, have been attracted and retained through competitive remuneration packages and fast paced career growth coupled with training and development opportunities.

Cash Flows

Our Gross Turnover was better than last year driven by marginally better sales volume coupled with price increases on all our brands. The positive impact of a higher Gross Turnover and efficient stock and debtor management has resulted in an increase of cash and cash equivalents by Rs. 1,963 mn despite interim dividends being declared during 2014.

Manufacturing Excellence

In 2014, PTC continued to upgrade its manufacturing footprint to improve product quality and productivity. Our aim is to constantly modernise our operations by introducing innovative concepts, optimal processes and latest technology. We are focused on providing learning and development opportunities to our shop-floor employees in order to enhance their capability and capacity and thus improve the productivity.

Dividend

In the light of the Company financials and ground realities we have decided to declare a final dividend of Rs. 12.00 per share for the year ended December 31, 2014 (2013: Rs. 6.00 per share), bringing the full year 2014 dividend to Rs. 15.00 (2013: Rs. 10.00).

This shall be subject to the approval during the shareholders in their meeting scheduled for April 20, 2015.

Good Corporate Governance

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

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

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

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

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

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

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

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

h. All major Government levies in the normal course of business, payable as at December 31, 2014 have been cleared subsequent to the year-end.

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

j. Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2013 are as follows:

(Rs. in million)	
Staff Pension Funds	3,603
Employees' Gratuity Fund	1,086
Management Provident Fund	724
Provident Fund	601
Staff Defined Contribution Pension Fund	92

The Board

The Board comprises of 6 non-executive directors and 3 executive directors. The positions of Chairman and CEO are kept separate in line with good governance practice.

Changes in the Board

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

Mobasher Raza has resigned from the Board of the Company effective 30th June, 2014. The casual vacancy created by his resignation was filled in by Syed Javed Iqbal w.e.f 1st July, 2014.

Board of Directors Meetings

During the year 2014, five meetings of the Board of Directors were held on 18th February, 21st April, 19th August, 21st October and 3rd December. Attendances are detailed below:

Name of Directos	No, of meetings attended
1. **Mueen Afzal** Chairman and Non-Executive Director	**05**
2. **Graeme Amey** Managing Director & CEO	**04**
3. **Mobasher Raza** Deputy Managing Director and Finance Director *	**02**
4. **Syed Javed Iqbal** Director Finance & IT *	**03**
5. **Tajamal Shah** Legal Director	**05**
6. **Lt. Gen. (Retd.) Ali Kuli Khan Khattak** Non-Executive Director	**04**
7. **Abid Niaz Hasan** Non-Executive Director	**04**
8. **Syed Asif Shah** Non-Executive Director	**04**
9. **Felicio Ferraz** Non-Executive Director	**02**
10. **Brendan Brady** Non-Executive Director	**None**

*** Mid year resignation of Mobasher Raza and recruitment of Syed Javed Iqbal**

Board Committees

The Board has a number of committees, which assist the Board in the performance of its functions. A list of committees is provided in section: Board Committees.

Audit Committee

The Audit Committee assists the Board in carrying out their responsibilities relating to the management of business risks, internal controls and the conduct of business in accordance with Code of Corporate Governance.
Our Audit Committee 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 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:

- Seeking assurance on the measures taken by the management in identification, evaluation and mitigation of relevant business risks;

- 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 its approval by the Board;

- Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

- 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;

- Reviewing and approving the scope and extent of internal audit, including the annual Internal Audit Plan and regularly monitoring 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, 2014 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 and 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 CharteredAccountants 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, 2015 on the recommendation of the Audit Committee.

Shareholding

The pattern of shareholding as at December 31, 2014 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.

Directors' Review

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

As a responsible corporate citizen, PTC recognises the importance of EHS, not only for its own employees but also for non-Company personnel, in the successful conduct of our business. We are therefore, committed to prevent injury at workplace and strive for continuous improvement in our EHS management and performance. We are always cognizant of the environmental impact of our operations in the form of reduced carbon footprint and optimal energy utilisation. We also regularly monitor our waste streams to ensure compliance with all National regulations & environmental standards.

Corporate Social Responsibility

An integral part of our sustainability agenda is our firm belief in demonstrating responsibility in everything we do. Under our CSR ambit, we endeavour to support, in whatever capacity we can, the communities we work in. The Company has been one of the pioneers of CSR programmes in Pakistan, with its afforestation programme being one of the largest private sector programmes in the Country.

In the summer of 2014 devastating floods hit the Country. PTC contributed Rs. 10 million for flood relief activities and launched its emergency relief response affirming our commitment to society. An emergency Medical Camp initiative was launched through deploying our Mobile Doctor Units. We were able to provide free medical assistance to over 5000 people in the flood hit areas in less than 10 days. With the aid of *Akhuwat* and other non-profits working in the flood hit areas, we delivered food packages and tents to more than 40,000 flood affected people. Similar relief activities to support communities where we operate in were undertaken by PTC after the floods of 2010 and after the earthquake of

Business Challenges and Future Outlook

PTC has performed well in 2014 primarily attributed to our highly committed employees, well-balanced brand portfolio, right investments in machinery footprint, relentless support by our business partners and strong trade marketing capabilities. All these have provided us with a firm and sustainable foundation for years to come.

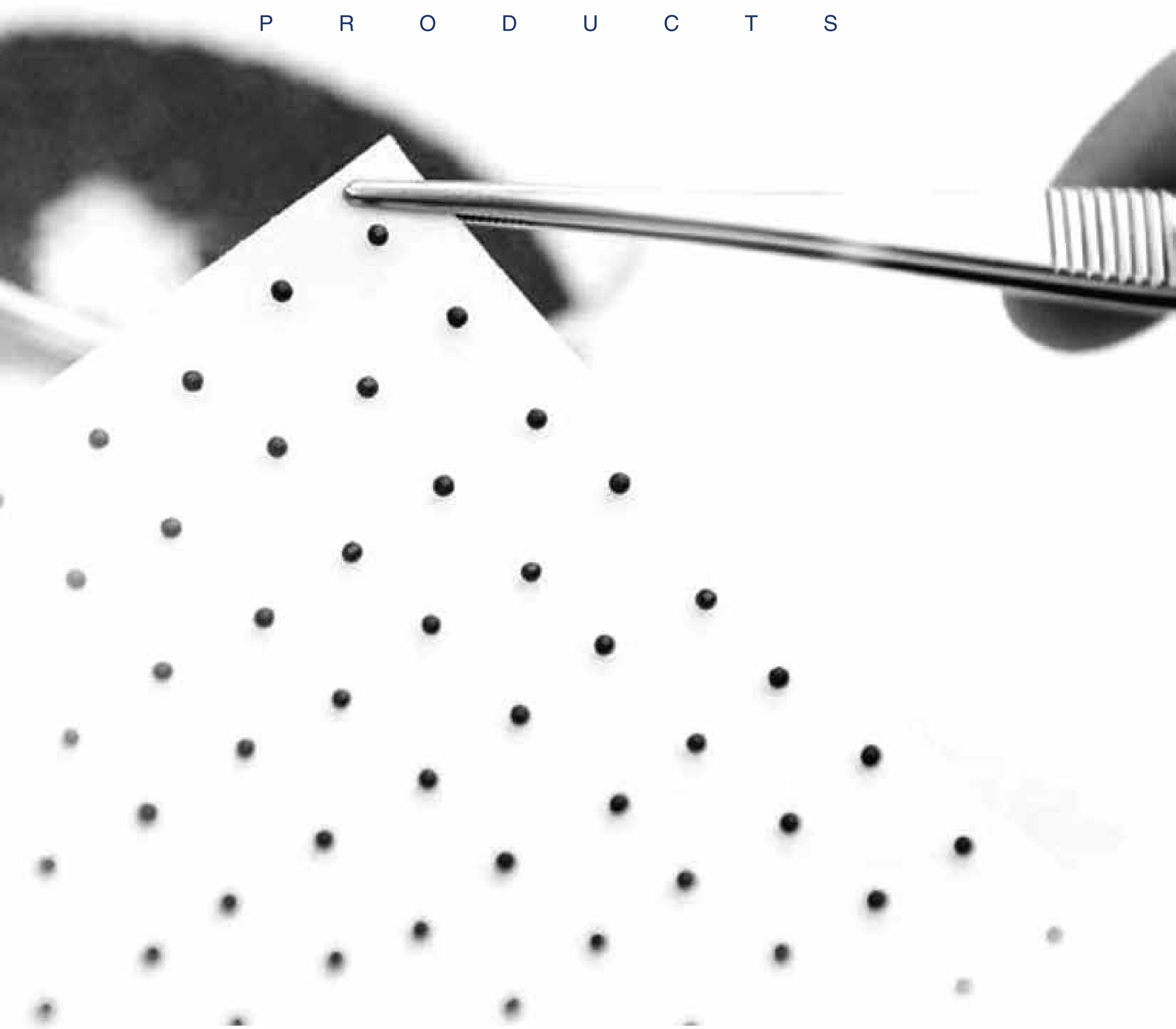
One of the major challenges faced by the tobacco industry in Pakistan is easy and open sale of cheap, duty evaded cigarettes. Every year the Government of Pakistan suffers a huge loss in taxes as a result of this illicit trade. Cheap, duty evaded cigarettes are widely available throughout the country. In addition to this tax evasion, many of these illicit cigarette packs do not even carry the mandatory health warning. This results in a huge grey market and creates a non-level playing field. We urge the Government to intensify its enforcement drive to reign in the activities of the duty evaded sector and curb its growth.

PTC remains committed to driving the business forward amidst numerous challenges. We are confident that through continued productivity initiatives, state of the art technology, strong brand portfolio and dedication of our employees we will continue to mitigate the impact of these challenges and deliver shareholder value.

Mueen Afzal
Chairman

Graeme Amey
Managing Director
& CEO

NEXT GENERATION
P R O D U C T S



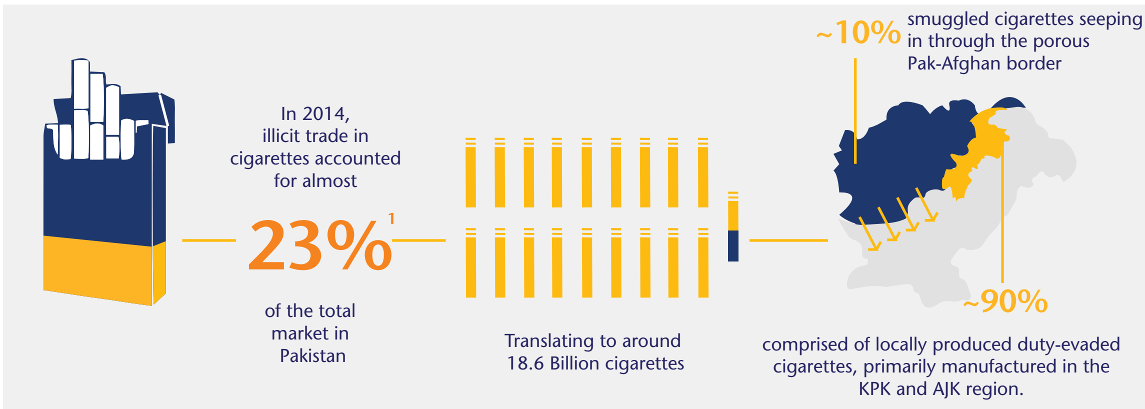
To develop and test next generation products , BAT's R&D investment has trebled over the past five years. In the past three years alone, BAT spent GBP 498 million[1] on R&D focusing on innovative tobacco and nicotine products. BAT has also published over 100 peer reviewed research papers over the past five years, which is more than the combined publications of the competing companies. As part of our responsibility agenda, BAT is committed to developing a range of next generation tobacco and nicotine products across the risk spectrum. These innovations could make harm reduction a reality for smokers.

[1] BAT P.l.c UK harm reduction report, 2014

ILLICIT TRADE

IN CIGARETTES

23% Illicit Market Share



High Taxation and Lax Enforcement

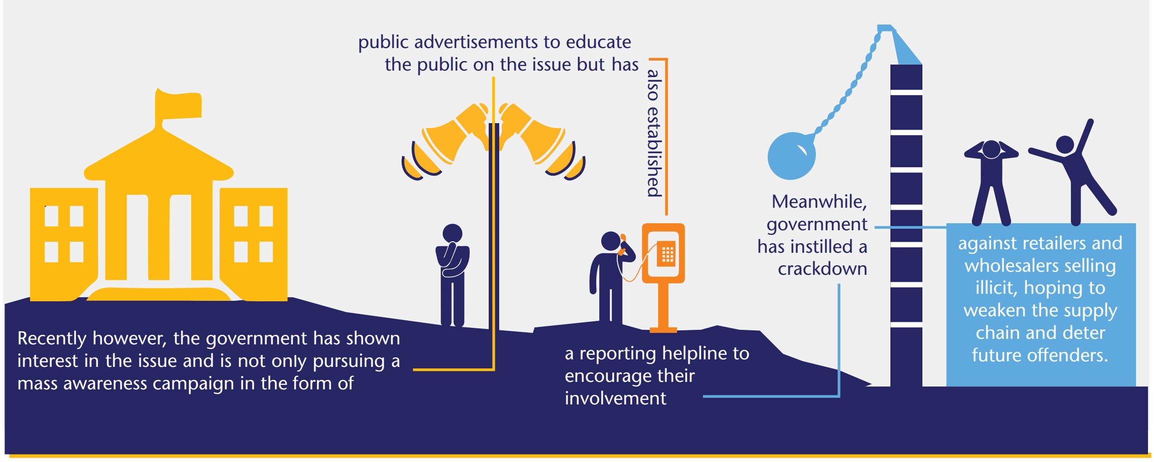
High taxation coupled with lax enforcement has fueled the growth of the illicit sector over the last decade. Since these cigarettes have not been paid taxes on, they are sold at negligible prices; often at even lower than the minimum tax payable. This has led to a widening price differential between legitimate and illicit cigarettes, leading the price sensitive consumer to down-trade to the latter. Moreover, smuggled cigarettes in particular are sold openly without the mandatory graphic health warning, thus pointing to the gaps in the enforcement regime. Without any fear of repercussions, illicit cigarettes are and will continue to be sold blatantly in the market at the cost of the legitimate tax compliant industry.

Rs. 21 billion - Loss to Government in 2014

Tax evasion in the cigarette industry has amounted to considerable losses to the government and these losses have kept piling up year on year. If in 2014 alone, there had been due enforcement against illicit, an additional tax revenue of Rs. 21 billion could have been collected[2]. This loss is estimated to increase to approximately Rs. 100 billion in the next 5 years[3]. This puts the economy under stress as it leads to more dependence on foreign aid and adds to the growing opportunity cost to the national exchequer.

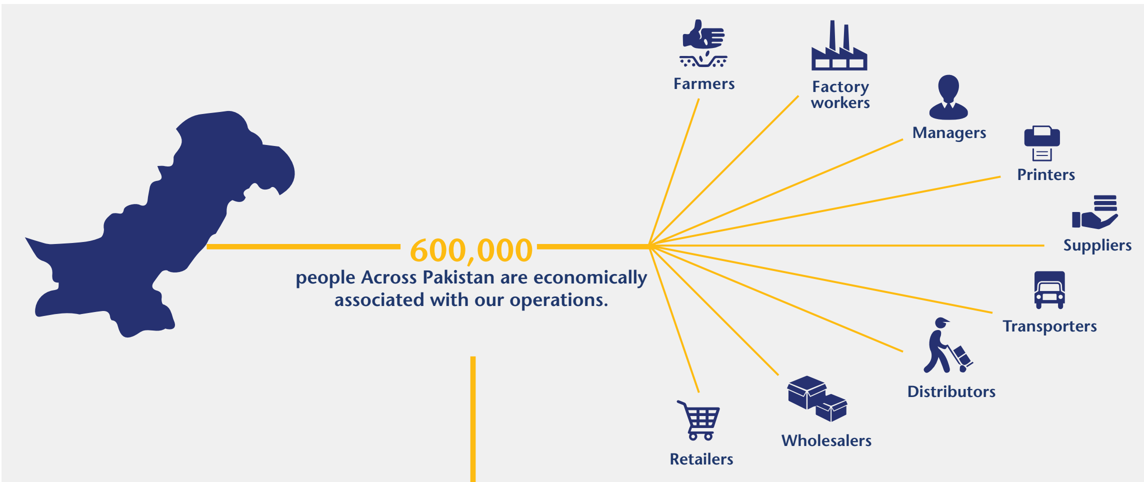
Enforcement and Awareness

While a comprehensive regulatory regime exists, effective enforcement remains a cause of concern.



[1] Nielsen estimates using Retail Audit data
[2] A Review of Cigarette taxation in Pakistan by KPMG, 2015
[3] Euromonitor International Estimates

VALUE
C R E A T I O N



Creating Employment

Livelihood of millions of people in Pakistan

Nurturing Industry

V A L U E

CREATION

Crop and Farming

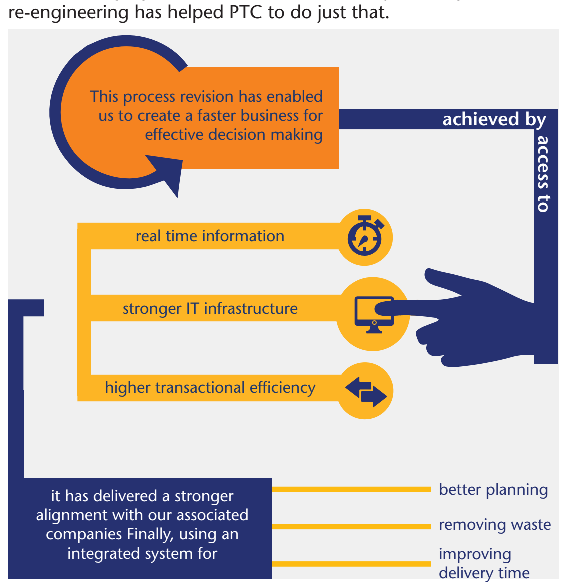
Our program of Social Responsibility in Tobacco Production (SRTP) aims at encouraging greener environment practices. BAT's worldwide operations allow PTC to transfer and implement the best agricultural practices from around the world.

Modernising Trade

According to the Customer Voice Survey, PTC is recognised as a benchmark supplier for our distributors and wholesalers because of our continuous focus on innovation and technology.

Increasing Productivity

An intensely competitive and rapidly changing business environment demands simple processes and efficient supply chains. Bringing a new and modern way through business re-engineering has helped PTC to do just that.



Generating Taxes

NOTICE
OF ANNUAL GENERAL MEETING

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty Eighth Annual General Meeting ("the Meeting") of Pakistan Tobacco Company Limited ("the Company") will be held at the Serena Hotel, Khayaban–e-Suhrwardy, Islamabad on Monday 20th April, 2015 at 10.00 a.m. to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Accounts for the year ended 31st December, 2014, 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.

BY ORDER OF THE BOARD

AYESHA RAFIQUE
Company Secretary
Islamabad
March 25, 2015

Notes

1. The Share Transfer Books of the Company will be closed from 14th April, 2015 to 20th April, 2015 both days inclusive. Transfers received in order at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, 8-F, Next To Hotel Faran, Nursery,Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi at the close of business on 13th April, 2015, 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.
5. Revision of with-holding tax on dividend income- Please note that under Section 150 of the Income Tax Ordinance, 2001 and pursuant to Finance Act, 2014 with-holding tax on dividend income will be deducted for 'Filer' and 'Non-Filer' shareholders @ 10% and 15% respectively. According to clarification received from Federal Board of Revenue (FBR), with-holding tax will be determined separately on 'Filer/Non-Filer' status of Principal shareholder as well as joint-holder (s) based on their shareholding proportions, in case of joint accounts.

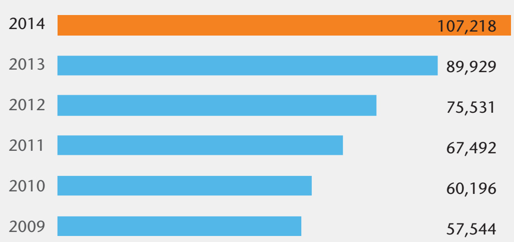
FINANCIAL HIGHLIGHTS

		2014	2013	2012	2011	2010	2009
PROFIT & LOSS							
Volume	Million Sticks	44,006	42,872	40,615	39,795	36,831	41,183
Gross Turnover	Rs million	107,218	89,929	75,531	67,492	60,196	57,544
Excise & Sales Tax	Rs million	70,599	59,306	49,651	44,542	39,243	35,878
Net Turnover	Rs million	36,619	30,623	25,880	22,950	20,953	21,667
Gross Profit	Rs million	13,847	10,610	8,446	6,241	6,205	8,224
Operating Profit	Rs million	7,087	4,602	2,729	661	1,531	4,589
Profit Before Tax	Rs million	7,188	4,667	2,655	559	1,418	4,648
Profit After Tax	Rs million	4,850	3,124	1,728	364	925	3,022
EBITDA	Rs million	7,921	5,415	3,514	1,435	2,276	5,246
Dividends	Rs million	2,299	1,852	1,035	537	1,533	2,440
BALANCE SHEET							
Paid up capital	Rs million	2,555	2,555	2,555	2,555	2,555	2,555
Shareholders' Funds	Rs million	8,011	5,412	4,107	3,334	3,602	4,260
Reserves	Rs million	5,456	2,857	1,552	779	1,047	1,705
Property, Plant & Equipment	Rs million	8,713	7,085	5,695	6,100	5,824	5,952
Net Current Assets / (Liabilities)	Rs million	761	(392)	(426)	(1,713)	(1,108)	(614)
Capital Employed	Rs million	9,512	6,719	5,294	4,416	4,740	5,370
Capital Expenditure during the year	Rs million	2,249	1,887	421	1,167	646	1,045
Long Term / Deferred Liabilities	Rs million	1,501	1,307	1,187	1,082	1,138	1,110
INVESTOR INFORMATION							
Return on Assets	%	24.64	19.95	12.74	2.84	7.52	26.72
Return on Equity	%	60.54	57.73	42.08	10.91	25.68	70.94
Return on Capital Employed	%	50.99	46.50	32.65	8.24	19.52	56.28
Earnings per share After Tax	Rs	18.98	12.23	6.77	1.42	3.62	11.83
Price-Earning Ratio	Rs	55.82	46.02	9.99	38.98	30.44	8.88
Dividend yield ratio	%	0.85	1.29	6.00	3.79	5.44	9.10
Dividend payout ratio	%	47.40	59.28	59.88	147.61	165.71	80.73
Break-up value per share	Rs	31.36	21.18	16.08	13.05	14.10	16.67
Market value per share at year end	Rs	1,059.7	562.7	67.6	55.5	110.23	105
Highest Market value per share during the year	Rs	1,539.0	562.7	72.6	116.0	119.9	117
Lowest Market value per share during the year	Rs	567.8	55.5	46.0	55.5	100.58	52.9
Gross profit ratio	%	37.81	34.65	32.63	27.19	29.61	37.96
EBITDA Margin	%	7.39	6.02	4.65	2.13	3.78	9.12
Net Profit Margin	%	13.24	10.20	6.68	1.59	4.42	13.95
Inventory Turnover Ratio		1.91	2.18	2.41	2.59	2.46	2.33
Creditor Turnover		4.19	7.14	6.97	4.65	8.42	8.03
Operating Cycle		103	116	99	63	105	111
Total Assets Turnover Ratio		4.89	5.16	5.44	5.10	4.87	4.71
Fixed Assets Turnover Ratio		12.30	12.69	13.26	11.06	10.34	9.67
Current Ratio		1.06	0.96	0.95	0.81	0.85	0.91
Quick / Acid Test Ratio		0.10	0.11	0.11	0.07	0.07	0.07
Dividend Per Share	Rs	9.00	7.25	4.05	2.10	6.00	9.55
Dividend Cover Ratio		2.11	1.69	1.67	0.68	0.60	1.24
Debt to Equity Ratio		0.07	0.45	0.30	0.53	0.63	0.31
Interest Cover Ratio		73.56	65.80	20.17	4.98	10.47	107.13
Govt levies as a percentage of turnover	%	68.77	68.61	67.91	67.23	66.79	65.80
GOVERNMENT LEVIES							
Customs, Excise Duties & Sales Tax	Rs million	71,273	59,930	50,167	45,036	39,652	36,367
Local Taxes and Other Duties	Rs million	226	175	143	137	116	105
Income Tax	Rs million	2,239	1,594	984	199	438	1,391

GRAPHS

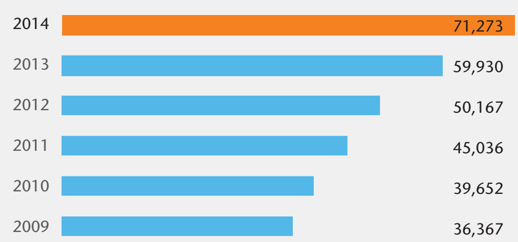
Gross Turnover

Rs (million)



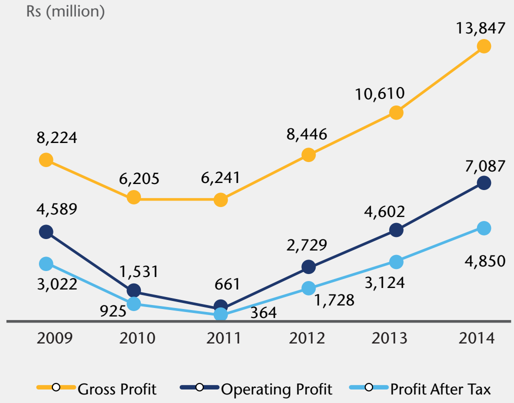
Government Levies

Rs (million)

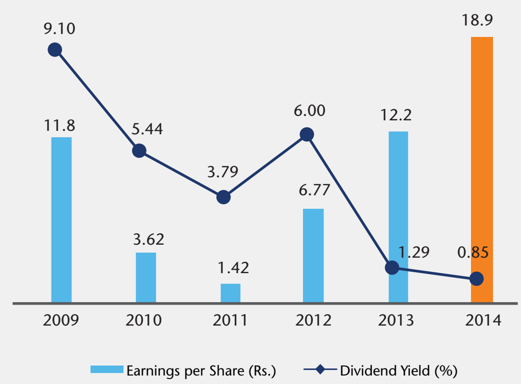


Gross, Operating And After Tax Profit

Rs (million)

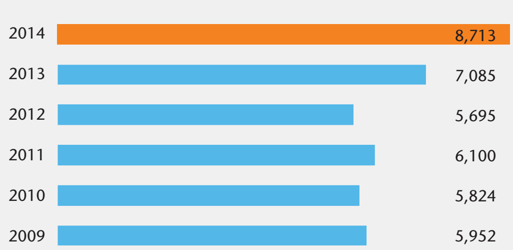


Earning per Share and Dividend Yield



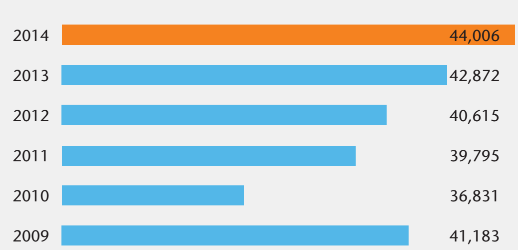
Property, Plant and Equipment

Rs (million)



Volume

Sticks (million)



HORIZONTAL & VERTICAL
A N A L Y S I S

	Source Data					
	2009	2010	2011	2012	2013	2014
		(Rs. '000)				
Balance Sheet						
Non Current Assets						
Property Plant And Equipment	5,952,108	5,823,688	6,099,879	5,694,961	7,084,521	8,713,477
Investment in Subsidiary Company at Cost	5,000	5,000	5,000	5,000	5,000	5,000
Long Term Loans	7,310	3,417	1,260	457	75	19
Long Term Deposits and Prepayments	19,915	15,375	22,640	20,286	21,478	32,453
	5,984,333	5,847,480	6,128,779	5,720,704	7,111,074	8,750,949
Current Assets						
Stocks in trade	5,765,367	6,002,824	6,462,330	7,225,301	9,166,367	11,894,508
Stores and spares	218,375	199,208	190,110	341,855	488,213	472,029
Trade debts	1,684	1,597	1,202	1,073	764	3,225
Loans and advances	48,598	48,267	64,310	68,632	89,579	66,692
Short term prepayments	72,483	118,329	94,052	99,509	78,889	183,145
Other receivables	88,147	93,546	196,249	287,696	435,055	425,467
Cash and bank balances	47,874	51,945	109,631	139,030	60,128	149,573
	6,242,528	6,515,716	7,117,884	8,163,096	10,318,995	13,194,639
	12,226,861	12,363,196	13,246,663	13,883,800	17,430,069	21,945,588
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	1,705,296	1,047,151	778,997	1,552,462	2,857,270	5,456,425
	4,260,234	3,602,089	3,333,935	4,107,400	5,412,208	8,011,363
Non Current Liabilities						
Deferred Taxation	1,109,847	1,137,581	1,082,038	1,090,892	1,014,118	1,100,229
Deferred liabilities	-	-	-	96,024	293,044	400,354
	1,109,847	1,137,581	1,082,038	1,186,916	1,307,162	1,500,583
Current Liabilities						
Trade and other payables	5,037,469	5,339,725	7,075,299	6,991,911	7,724,746	11,266,499
Accrued interest / mark-up accrued	27,659	46,789	51,187	40,880	27,048	24,166
Short term finances	1,300,837	2,252,218	1,783,623	1,237,772	2,436,445	562,870
Lease liability	-	-	-	50,009	92,559	119,375
Income tax payable	490,815	(15,206)	(79,419)	268,912	429,901	460,732
	6,856,780	7,623,526	8,830,690	8,589,484	10,710,699	12,433,642
	12,226,861	12,363,196	13,246,663	13,883,800	17,430,069	21,945,588
Profit & Loss Account						
Gross turnover	57,544,309	60,195,535	67,491,816	75,531,228	89,928,975	107,217,617
Excise duties	27,654,345	30,476,421	34,719,661	38,854,830	46,110,971	54,447,161
Sales tax	8,223,439	8,766,485	9,822,181	10,796,089	13,195,201	16,151,379
Net turnover	21,666,525	20,952,629	22,949,974	25,880,309	30,622,803	36,619,077
Cost of sales	13,442,066	14,747,717	16,709,273	17,434,790	20,012,587	22,771,684
Gross Profit	8,224,459	6,204,912	6,240,701	8,445,519	10,610,216	13,847,393
Selling and distribution expenses	2,246,014	3,279,390	3,129,938	3,516,601	4,022,635	3,877,112
Administration expenses	1,100,814	1,233,165	1,321,713	1,381,918	1,716,314	2,398,881
Other operating income	226,499	46,610	53,967	90,400	129,129	166,415
Other operating expenses	514,665	208,211	1,182,363	908,888	397,959	650,753
Operating profit	4,589,465	1,530,756	660,654	2,728,512	4,602,437	7,087,062
Finance income	102,826	36,933	39,160	65,057	136,487	199,795
Finance cost	43,802	149,680	140,539	138,533	72,019	99,056
Profit before taxation	4,648,489	1,418,009	559,275	2,655,036	4,666,905	7,187,801
Taxation	1,626,083	492,909	195,490	926,578	1,542,596	2,337,656
Profit for the year	3,022,406	925,100	363,785	1,728,458	3,124,309	4,850,145
Earnings per Share - basic and diluted (Rupees)	11.83	3.62	1.42	6.77	12.23	18.98

HORIZONTAL & VERTICAL
A N A L Y S I S

	Horizontal Analysis						Vertical Analysis				
2009	10 Vs 09	11 Vs 10	12 Vs 11	13 Vs 12	14 Vs 13	2009	2010	2011	2012	2013	2014
	Variance (%)						Percentage				
100.00	(2.16)	4.74	(6.64)	24.40	22.99	48.68	47.11	46.05	41.02	40.65	39.70
100.00	-	-	-	-	-	0.04	0.04	0.04	0.04	0.03	0.02
100.00	(53.26)	(63.13)	(63.73)	(83.59)	(74.67)	0.06	0.03	0.01	-	-	-
100.00	(22.80)	47.25	(10.40)	5.88	51.10	0.16	0.12	0.17	0.15	0.12	0.15
100.00	(2.29)	4.81	(6.66)	24.30	23.06	48.94	47.30	46.27	41.20	40.80	39.88
100.00	4.12	7.65	11.81	26.86	29.76	47.15	48.55	48.78	52.04	52.59	54.20
100.00	(8.78)	(4.57)	79.82	42.81	(3.31)	1.79	1.61	1.44	2.46	2.80	2.15
100.00	(5.17)	(24.73)	(10.73)	(28.80)	322.12	0.01	0.01	0.01	0.01	-	0.01
100.00	(0.68)	33.24	6.72	30.52	(25.55)	0.40	0.39	0.49	0.49	0.51	0.30
100.00	63.25	(20.52)	5.80	(20.72)	132.16	0.59	0.96	0.71	0.72	0.45	0.83
100.00	6.12	109.79	46.60	51.22	(2.20)	0.72	0.76	1.48	2.07	2.50	1.94
100.00	8.50	111.05	26.82	(56.75)	148.76	0.39	0.42	0.83	1.00	0.34	0.68
100.00	4.38	9.24	14.68	26.41	27.87	51.06	52.70	53.73	58.80	59.20	60.12
100.00	1.12	7.15	4.81	25.54	25.91	100.00	100.00	100.00	100.00	100.00	100.00
100.00	-	-	-	-	-	20.90	20.67	19.29	18.40	14.66	11.64
100.00	(38.59)	(25.61)	99.29	84.05	90.97	13.95	8.47	5.88	11.18	16.39	24.86
100.00	(15.45)	(7.44)	23.20	31.77	48.02	34.84	29.14	25.17	29.58	31.05	36.51
100.00	2.50	(4.88)	0.82	(7.04)	8.49	9.08	9.20	8.17	7.86	5.82	5.01
100.00	-	-	-	205.18	36.62	1.68	-	-	0.69	1.68	1.82
100.00	2.50	(4.88)	9.69	10.13	14.80	9.08	9.20	8.17	8.55	7.50	6.84
100.00	6.00	32.50	(1.18)	10.48	45.85	41.20	43.19	53.41	50.36	44.32	51.34
100.00	69.16	9.40	(20.14)	(33.84)	(10.66)	0.23	0.38	0.39	0.29	0.16	0.11
100.00	73.14	(20.81)	(30.60)	96.84	(76.90)	10.64	18.22	13.46	8.92	13.98	2.56
100.00	-	-	-	85.08	28.97	-	-	-	0.36	0.53	0.54
100.00	(103.10)	422.29	(438.60)	59.87	7.17	4.01	(0.12)	(0.60)	1.94	2.47	2.10
100.00	11.18	15.83	(2.73)	24.70	16.09	56.08	61.66	66.66	61.87	61.45	56.66
100.00	1.12	7.15	4.81	25.54	25.91	100.00	100.00	100.00	100.00	100.00	100.00
100.00	4.61	12.12	11.91	19.06	19.22						
100.00	10.20	13.92	11.91	18.68	18.08						
100.00	6.60	12.04	9.92	22.22	22.40						
100.00	(3.29)	9.53	12.77	18.32	19.58	100.00	100.00	100.00	100.00	100.00	100.00
100.00	9.71	13.30	4.34	14.79	13.79	62.04	70.39	72.81	67.37	65.35	62.10
100.00	(24.56)	0.58	35.33	25.63	30.51	37.96	29.61	27.19	32.63	34.65	37.81
100.00	46.01	(4.56)	12.35	14.39	(3.62)	10.37	15.65	13.64	13.59	13.14	10.59
100.00	12.02	7.18	4.56	24.20	39.77	5.08	5.89	5.76	5.34	5.60	6.55
100.00	(79.42)	15.78	67.51	42.84	28.88	1.05	0.22	0.24	0.35	0.42	0.45
100.00	(59.54)	467.87	(23.13)	(56.21)	63.52	2.38	0.99	5.15	3.51	1.30	1.78
100.00	(66.65)	(56.84)	313.00	68.68	53.98	21.18	7.31	2.88	10.54	15.03	19.35
100.00	(64.08)	6.03	66.13	109.80	46.38	0.47	0.18	0.17	0.25	0.45	0.55
100.00	241.72	(6.11)	(1.43)	(48.01)	37.54	0.20	0.71	0.61	0.54	0.24	0.27
100.00	(69.50)	(60.56)	374.73	75.78	54.02	21.45	6.77	2.44	10.26	15.24	19.63
100.00	(69.69)	(60.34)	373.98	66.48	51.54	7.51	2.35	0.85	3.58	5.04	6.38
100.00	(69.39)	(60.68)	375.13	80.76	55.24	13.95	4.42	1.59	6.68	10.20	13.24
100.00	(69.39)	(60.78)	376.76	80.65	55.19						

SUMMARY OF CASH FLOWS

(Rs in million)	2014	2013	2012	2011	2010	2009
Cash flow from Operating Activities	6,375	2,373	1,775	2,151	1,149	2,545
Cash flow from Investing Activities	(1,982)	(1,665)	(119)	(1,089)	(565)	(860)
Cash flow from Financing Activities	(2,430)	(1,985)	(1,081)	(536)	(1,531)	(2,435)
Net Change in Cash and Cash Equivalents	1,963	(1,278)	575	526	(947)	(750)
Beginning Cash and Cash Equivalents	(2,376)	(1,099)	(1,674)	(2,200)	(1,253)	(503)
Ending Cash and Cash Equivalents	(413)	(2,376)	(1,099)	(1,674)	(2,200)	(1,253)
Cash and Cash Equivalents comprise						
Cash and Bank Balances	150	60	139	110	52	48
Short Term Borrowings	(563)	(2,436)	(1,238)	(1,784)	(2,252)	(1,301)
	(413)	(2,376)	(1,099)	(1,674)	(2,200)	(1,253)

FINANCIAL CALENDAR

2014

1st Quarter Results issued on	April 21, 2014
2nd Quarter Results issued on	August 19, 2014
3rd Quarter Results issued on	October 22, 2014
Recommendation of Annual Results by the BOD	February 23, 2015
68th Annual General Meeting scheduled for	April 20, 2015

2013

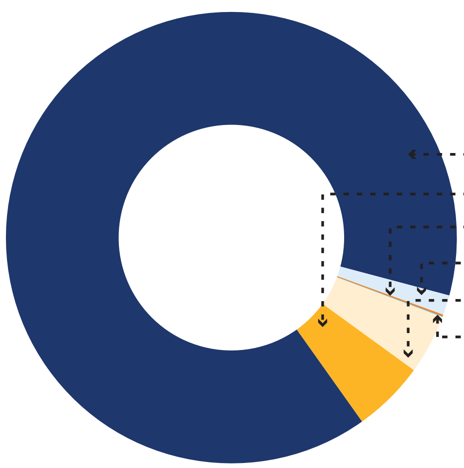
1st Quarter Results issued on	April 19, 2013
2nd Quarter Results issued on	August 15, 2013
3rd Quarter Results issued on	October 23, 2013
Recommendation of Annual Results by the BOD	February 18, 2014
67th Annual General Meeting was held on	April 22, 2014

ANALYSIS OF QUARTERLY RESULTS

	2014				2013			
(Rs in million)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Balance Sheet								
Non Current Assets								
Property Plant And Equipment	7,020	7,649	7,678	8,713	5,541	5,666	5,892	7,085
Investment in Subsidiary Company at Cost	5	5	5	5	5	5	5	5
Long Term Loans	-	-	-	-	-	-	-	-
Long Term Deposits and Prepayments	33	34	36	20	20	20	19	21
Current Assets								
Stocks in trade	7,893	5,221	11,643	11,895	6,183	4,240	9,989	9,166
Stores and spares	555	581	578	472	416	498	507	488
Trade debts	1	1	5	3	1	1	1	1
Loans,advances, short term prepayments and other receivables	676	797	1,069	675	493	444	416	604
Short Term Deposits	-	-	-	-	-	776	-	-
Cash and bank balances	3,257	53	1,791	150	1,229	152	144	60
	12,382	6,653	15,086	13,195	8,321	6,111	11,057	10,319
CURRENT LIABILITIES								
Trade and other payables	10,698	4,091	12,346	11,266	7,053	4,834	9,734	7,725
Accrued interest / mark-up	20	6	26	24	10	6	8	27
Liability against assets subject to finance lease	93	89	94	119	53	62	89	93
Short term finances	-	1,167	-	563	-	84	305	2,436
Income tax payable	664	1,016	1,155	461	414	791	625	430
	11,475	6,369	13,620	12,434	7,531	5,777	10,761	10,711
Net Current Assets / (Liabilites)	907	283	1,465	761	791	335	296	(392)
Non Current Liabilites								
Liability against assets subject to finance lease	299	273	255	400	100	150	241	293
Deferred Taxation	1,011	971	944	1,100	1,062	1,019	1,015	1,014
	1,310	1,244	1,199	1,501	1,162	1,169	1,256	1,307
Net Assets	6,656	6,727	7,975	8,011	5,195	4,857	4,957	5,412
Share Capital & Reserves								
Share Capital	2,555	2,555	2,555	2,555	2,555	2,555	2,555	2,555
Revenue Reserves	4,101	4,172	5,420	5,456	2,640	2,302	2,402	2,857
	6,656	6,727	7,975	8,011	5,195	4,857	4,957	5,412
Profit & Loss Account								
Gross Turnover	26,883	31,592	22,427	26,316	22,424	24,543	19,446	23,516
Excise Duties	13,643	16,083	11,331	13,390	11,471	12,556	9,991	12,093
Sales tax	4,050	4,759	3,372	3,970	3,206	3,508	2,931	3,550
Net Turnover	9,190	10,750	7,723	8,956	7,746	8,479	6,524	7,873
Cost of sales	6,045	6,798	4,554	5,375	5,027	5,695	4,155	5,136
Gross Profit	3,145	3,952	3,169	3,581	2,719	2,785	2,369	2,737
Selling and distribution expenses	686	802	699	1,691	597	977	890	1,558
Administration expenses	449	320	359	1,271	332	418	476	490
Other operating expenses	150	696	245	(440)	137	118	101	43
Other operating income	37	65	2	63	21	85	13	10
	1,248	1,753	1,301	2,459	1,045	1,429	1,453	2,081
Operating profit	1,897	2,199	1,868	1,122	1,675	1,356	916	655
Finance income	18	140	23	20	13	91	23	10
Finance cost	31	14	35	19	15	9	15	33
Finance (cost)/income - net	(13)	126	(13)	1	(2)	82	7	(24)
Profit before taxation	1,884	2,326	1,855	1,123	1,673	1,439	924	632
Taxation	640	722	607	369	585	435	313	209
Profit for the year	1,243	1,604	1,249	754	1,088	1,003	611	423

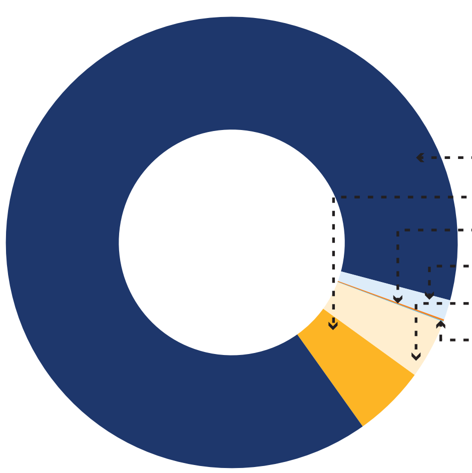
STATEMENT OF VALUE
GENERATED & DISTRIBUTED

	(Rs. in million) 2014	%	(Rs. in million) 2013	%
Value Addition (Rs. mn)				
Gross Revenues	107,584		90,195	
Material, Services and Other Costs	(23,581)		(20,847)	
Value added	84,003		69,348	
Value Distribution (Rs. mn)				
Government Levies	73,738	87.78	61,699	88.97
Employee Renumeration	4,290	5.11	3,656	5.27
Dividends	2,229	2.74	1,852	2.67
Finance Cost	99	0.12	72	0.10
Corporate Social Responsibility	44	0.05	28	0.04
Retained within Business	3,533	4.21	2,041	2.94
	84,003	100.00	69,348	100.00



Value Distribution 2014

- Government Levies - 87.78 %
- Employee Remuneration - 5.11 %
- Dividends - 2.74 %
- Finance Cost - 0.12 %
- Corporate Social Responsibility - 0.05 %
- Retained within Business - 4.21 %



Value Distribution 2013

- Government Levies - 88.97 %
- Employee Remuneration - 5.27 %
- Dividends - 2.67 %
- Finance Cost - 0.10 %
- Corporate Social Responsibility - 0.04 %
- Retained within Business - 2.94 %

BOARD COMMITTEES

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

Executive Committee of the Board (ExCo)

1	Graeme Amey	(Member & Chairman)
2	Syed Javed Iqbal	(Member)
3	Mustanser Ali Khan	(Member)
4	Asim Imdad	(Member)
5	Tajamal Shah	(Member)
6	Sanzid Ahmed Alvi	(Member)
7	Sacha Cotting	(Member)
8	Ayesha Rafique	(Secretary)

Audit Committee

1	Mr. Abid Niaz Hasan	(Chairman)
2	Lt. Gen.(Retd) Ali Kuli Khan Khattak	(Member)
3	Syed Asif Shah	(Member)
4	Umar Mansoor	(Secretary)

Human Resources & Remuneration

1	Lt. Gen. (Retd) Ali Kuli Khan Khattak	(Member & Chairman)
2	Graeme Amey	(Member)
3	Syed Asif Shah	(Member)
4	Sanzid Ahmed Alvi	(Secretary)

Shares Transfer Committee

1	Graeme Amey	(Member & Chairman)
2	Syed Javed Iqbal	(Member)
3	Tajamal Shah	(Member)
4	Ayesha Rafique	(Secretary)

Functions of Board Committees

Executive Committee of the Board

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

Audit Committee

The Audit 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.

Human Resources & Remuneration

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 CEO;
- Recommending to the board the selection, evaluation, compensation (including retirement benefits) of 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.

Share Transfer Committee

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

PATTERN OF SHAREHOLDING

AS AT DECEMBER 31, 2014

No. of Shareholders		Categories			Total Shares
1,460	From	1	To	100	48,390
1,190	From	101	To	500	339,067
400	From	501	To	1,000	284,707
295	From	1,001	To	5,000	626,210
37	From	5,001	To	10,000	254,914
8	From	10,001	To	15,000	99,231
7	From	15,001	To	20,000	125,676
8	From	20,001	To	25,000	184,392
2	From	25,001	To	30,000	56,320
3	From	30,001	To	35,000	97,057
2	From	35,001	To	40,000	76,300
2	From	40,001	To	45,000	82,701
2	From	55,001	To	60,000	116,000
1	From	60,001	To	65,000	60,961
1	From	65,001	To	70,000	69,220
1	From	70,001	To	75,000	70,140
1	From	80,001	To	85,000	80,500
1	From	140,001	To	145,000	142,100
2	From	165,001	To	170,000	335,714
1	From	210,001	To	215,000	214,600
1	From	260,001	To	265,000	263,645
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	400,001	To	405,000	401,800
1	From	405,001	To	410,000	407,000
1	From	795,001	To	800,000	798,282
1	From	1,835,001	To	1,840,000	1,835,243
1	From	1,850,001	To	1,855,000	1,852,160
1	From	4,635,001	To	4,640,000	4,637,669
1	From	241,045,001	To	241,050,000	241,045,141
3,435					255,493,792

PATTERN OF SHAREHOLDING

	No. of Shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	515
Directors, CEO and their spouse and minor children	12,274
Executives	34
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, Modaraba and Mutual Funds	2,834,815
Others	7,856,936
Individuals	2,945,795
	255,493,792

Categories of Shareholders	Number	Shares Held	%
Directors, CEO and their spouse and minor children	9	12,274	0.0
Executives	3	34	0.0
Associated Companies, Undertakings and Related Parties	2	241,843,423	94.6
Investment Companies	1	515	0.0
Modarabas & Mutual Funds	5	1,987,903	0.8
Insurance Companies	5	840,559	0.3
Public Sector Companies and Corporations	2	370,892	0.0
Banks, development and other Financial Institutions	12	6,353	0.0
Individuals	3,336	2,945,795	1.2
Others	60	7,486,044	3.1
Total	3,435	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
Mutual Funds (name wise details)	
Trustee AKD Index Tracker Fund	2,840
Trustee National Investment (Unit) Trust	1,835,243
Trustee PICIC Growth Fund	80,500
Trustee PICIC Investment Fund	69,220
Directors, CEO and their spouse and minor children (name wise details)	
Mueen Afzal	2,124
Graeme Amey	2,500
Syed Javed Iqbal	2,500
Tajamal Shah	2,500
Brendan Brady	1,000
Felecio Ferraz	1,000
Syed Asif Shah	500
Ali Kuli Khan Khattak	100
Abid Niaz Hasan	50
Executives (name wise details)	
Awais Hussain Kazi	15
Mirza Zubair Ahmed	10
Shahid Yamin	9
Shareholders holding 5% or more voting interest	
British American Tobacco (Investments) Limited	241,045,141

STATEMENT OF COMPLIANCE
WITH THE CODE OF CORPORATE GOVERNANCE

YEAR ENDED: DECEMBER 31, 2014

This statement is being presented to comply with the Code of Corporate Governance (CCG) 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 CCG 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	
Independent Directors	Syed Asif Shah Abid Niaz Hasan
Executive Directors	Graeme Amey Syed Javed Iqbal Tajamal Shah
Non-Executive Directors	Mueen Afzal Lt Gen. (Retd.) Ali Kuli Khan Brendan Brady Felicio Ferraz

The independent directors meet the criteria of independence under clause i (b) of the CCG

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a DFI or an NBFI or, being a member of a Stock exchange, has been declared as a defaulter by that Stock exchange.

4. The casual vacancy resulting from the resignation of Mobasher Raza was filled in by Syed Javed Iqbal w.e.f July 1, 2014.

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, other executive and non-executive directors, have been taken by the Board / Shareholders.

8. All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board arranged training program for its directors. Training for all directors will be completed by June, 2016.

10. The Board has approved appointment of the Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit, including their remuneration and terms & conditions of employment.

11. The Director’s 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 the corporate and financial reporting requirements of the CCG.

15. The Board has formed an Audit Committee. It comprises of three members, two of whom are non-executive directors and the Chairman of the committee is an 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 a Human Resources and Remuneration Committee. It comprises of three members, of whom two 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 which is considered suitably qualified and experienced personnel who is conversant with the policies and procedures of the Company and is 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 program of the ICAP, 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 the 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 the directors, employees

22. Material / price sensitive information has been disseminated among all market participants at once through the Stock exchanges.

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

Graeme Amey
Managing Director & CEO

REVIEW REPORT TO THE MEMBERS

ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors (the Board) of Pakistan Tobacco Company Limited (the Company) for the year ended December 31, 2014, to comply with the requirements of 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 Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. 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.

The Code requires the Company to place before the Audit Committee, and upon the recommendation of Audit Committee, place before the Board of Directors for their review and approval its 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 and 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 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 best practices contained in the Code as applicable to the Company for the year ended December 31, 2014.

A.F. Ferguson & Co.
Chartered Accountants
Islamabad: 23rd Feb, 2015
Engagement partner : S. Haider Abbas

PAKISTAN TOBACCO COMPANY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

AUDITOR'S REPORT
TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2014 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 the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit privies 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, 2014 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 (XVII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A.F. Ferguson & Co.
Chartered Accountants
Islamabad: 23rd Feb, 2015
Engagement partner : S. Haider Abbas

Profit & Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 Rs '000	2013 Rs '000
Gross turnover		107,217,617	89,928,975
Excise duties		(54,447,161)	(46,110,971)
Sales tax		(16,151,379)	(13,195,201)
Net turnover		36,619,077	30,622,803
Cost of sales	7	(22,771,684)	(20,012,587)
Gross profit		13,847,393	10,610,216
Selling and distribution expenses	8	(3,877,112)	(4,022,635)
Administrative expenses	9	(2,398,881)	(1,716,314)
Other operating expenses	10	(650,753)	(397,959)
Other income	11	166,415	129,129
		(6,760,331)	(6,007,779)
Operating profit		7,087,062	4,602,437
Finance income		199,795	136,487
Finance cost	12	(99,056)	(72,019)
Net finance income / (cost)		100,739	64,468
Profit before income tax		7,187,801	4,666,905
Income tax expense	13	(2,337,656)	(1,542,596)
Profit for the year		4,850,145	3,124,309
Earnings per share - (Rupees)	14	18.98	12.23

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 Rs '000	2013 Rs '000
Profit for the year		4,850,145	3,124,309
Other comprehensive income for the year:			
Items that will not be reclassified to Profit or Loss			
Remeasurement gain on defined benefit pension and gratuity plans	28	75,389	50,875
Tax charge related to remeasurement gain on defined benefit pension and gratuity plans	13	(26,935)	(18,046)
		48,454	32,829
Items that may be subsequently reclassified to Profit & Loss.		-	-
Other comprehensive income for the year - net of tax		48,454	32,829
Total comprehensive income for the year - net of tax		4,898,599	3,157,138

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Balance Sheet

AS AT DECEMBER 31, 2014

	Note	2014 Rs '000	2013 Rs '000
Non current assets			
Property, plant and equipment	16	8,713,477	7,084,521
Long term investment in subsidiary company	17	5,000	5,000
Long term loans	18	19	75
Long term deposits and prepayments	19	32,453	21,478
Current assets			
Stock-in-trade	20	11,894,508	9,166,367
Stores and spares	21	472,029	488,213
Trade debts	22	3,225	764
Loans and advances	23	66,692	89,579
Short term prepayments		183,145	78,889
Other receivables	24	425,467	435,055
Cash and bank balances	25	149,573	60,128
		13,194,639	10,318,995
Current liabilities			
Trade and other payables	26	11,266,499	7,724,746
Short term running finance	27	562,870	2,436,445
Finance lease obligation	30	119,375	92,559
Accrued interest / mark-up		24,166	27,048
Current income tax liability		460,732	429,901
		12,433,642	10,710,699
Net current assets / (liabilities)		760,997	(391,704)
Non current liabilities			
Deferred income tax liability	29	(1,100,229)	(1,014,118)
Finance lease obligation	30	(400,354)	(293,044)
		(1,500,583)	(1,307,162)
Net assets		8,011,363	5,412,208
Share capital and reserves			
Share capital	31	2,554,938	2,554,938
Revenue reserves		5,456,425	2,857,270
		8,011,363	5,412,208
Contingencies and commitments	32		

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs '000	2013 Rs '000
Cash flows from operating activities		
Cash receipts from customers	107,216,336	89,929,017
Cash paid to Government for Federal excise duty,		
Sales tax and other levies	(69,859,772)	(59,953,970)
Cash paid to suppliers	(23,557,885)	(22,101,469)
Cash paid to employees and retirement funds	(4,227,646)	(3,469,931)
Finance cost paid	(101,938)	(85,851)
Cash paid as royalty	(511,637)	(432,851)
Income tax paid	(2,284,685)	(1,476,427)
Other cash payments	(297,302)	(35,560)
	6,375,471	2,372,958
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,248,826)	(1,886,514)
Sale of property, plant and equipment	67,079	84,541
Interest received	199,795	136,487
	(1,981,952)	(1,665,486)
Cash flows from financing activities		
Dividends paid	(2,259,822)	(1,850,235)
Finance lease payments	(170,677)	(134,812)
	(2,430,499)	(1,985,047)
Increase / (decrease) in cash and cash equivalents	1,963,020	(1,277,575)
Cash and cash equivalents at beginning of year	(2,376,317)	(1,098,742)
Cash and cash equivalents at end of year	(413,297)	(2,376,317)
Cash and cash equivalents comprise:		
Cash and bank balances	149,573	60,128
Short term running finance	(562,870)	(2,436,445)
	(413,297)	(2,376,317)

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2014

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2013	2,554,938	1,552,462	4,107,400
Comprehensive income:			
Profit for the year	-	3,124,309	3,124,309
Other comprehensive income for the year	-	32,829	32,829
Total Comprehensive income for the year	-	3,157,138	3,157,138
Transactions with owners:			
Final dividend of Rs 3.25 per share relating to the year ended December 31, 2012	-	(830,354)	(830,354)
1st interim dividend of Rs 2.00 per share relating to the year ended December 31, 2013	-	(510,988)	(510,988)
2nd interim dividend of Rs 2.00 per share relating to the year ended December 31, 2013	-	(510,988)	(510,988)
Total transactions with owners	-	(1,852,330)	(1,852,330)
Balance at December 31, 2013	2,554,938	2,857,270	5,412,208
Balance at January 1, 2014	2,554,938	2,857,270	5,412,208
Comprehensive income:			
Profit for the year	-	4,850,145	4,850,145
Other comprehensive income for the year	-	48,454	48,454
Total Comprehensive income for the year	-	4,898,599	4,898,599
Transactions with owners:			
Final dividend of Rs 6.00 per share relating to the year ended December 31, 2013	-	(1,532,963)	(1,532,963)
1st interim dividend of Rs 3.00 per share relating to the year ended December 31, 2014	-	(766,481)	(766,481)
Total transactions with owners	-	(2,299,444)	(2,299,444)
Balance at December 31, 2014	2,554,938	5,456,425	8,011,363

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

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 Serena Business Complex, Khayaban-e-Suharwardy, 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

(a) The following amendments and interpretations to published accounting standards became effective during the year, however, the adoption of these amendments and interpretations did not have any material effect on the financial statements.

		Effective date (annual periods beginning on or after)
IAS 32	Financial Instruments Presentation (Amendments)	January 1, 2014
IAS 36	Impairment of Assets (Amendments)	January 1, 2014
IAS 39	Financial Instruments: Recognition and Measurement	January 1, 2014
IFRIC 21	Levies	January 1, 2014

(b) The following standards and amendments to published accounting standards were not effective during the year and have not been early adopted by the Company:

		Effective date (annual periods beginning on or after)
IFRS 2	Share-based Payment (Amendments)	July 01, 2014
IFRS 3	Business Combinations (Amendments)	July 01, 2014
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments)	January 1, 2014
IFRS 3	Business Combinations (Amendments)	July 01, 2014
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments)	January 01, 2016
IFRS 7	Financial Instruments: Disclosures (Amendments)	January 01, 2016
IFRS 8	Operating Segments (Amendments)	July 01, 2014
IFRS 9	Financial Instruments	January 01, 2018
IFRS 10	Consolidated Financial Statements (Amendments)	January 01, 2016
IFRS 11	Joint Arrangements (Amendments)	January 01, 2016
IFRS 12	Disclosure of interests in Other Entities (Amendments)	January 01, 2016
IFRS 13	Fair Value Measurement (Amendments)	July 01, 2014
IFRS 14	Regulatory Deferral Accounts	January 01, 2016
IFRS 15	Revenue from Contracts with Customers	January 01, 2017

		Effective date (annual periods beginning on or after)
IAS 1	Presentation of Financial Statements (Amendments)	January 01, 2016
IAS 16	Property, Plant and Equipment (Amendments)	July 01, 2014 & January 01, 2016
IAS 19	Employee Benefits (Amendments)	July 01, 2014 & January 01, 2016
IAS 24	Related Party Disclosures (Amendments)	July 01, 2014
IAS 27	Separate Financial Statements (Amendments)	January 01, 2016
IAS 28	Investments in Associates and Joint Ventures (Amendments)	January 01, 2016
IAS 34	Interim Financial Reporting (Amendments)	January 01, 2016
IAS 38	Intangible Assets (Amendments)	July 01, 2014 & January 01, 2016
IAS 40	Investment Property (Amendments)	July 01, 2014

The management anticipates that the adoption of the above standards and amendments in future periods, will have no material impact on the Company's financial statements other than in presentation / disclosures.

(c) Following standard has been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP), for the purpose of their applicability in Pakistan:

		Effective date (annual periods beginning on or after)
IFRS 1	First-time adoption of International Financial Reporting standards	July 01, 2009

(d) The following standards and amendments are effective, but are notified by SECP for the purpose of their applicability in Pakistan from annual periods beginning on or after January 1, 2015:

		Effective date (annual periods beginning on or after)
IFRS 10	Consolidated Financial Statements	January 01, 2013
IFRS 11	Joint Arrangements	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13	Fair Value Measurement	January 01, 2013
IAS 27	Separate Financial Statements	January 01, 2013
IAS 28	Investments in Associates and Joint Ventures	January 01, 2013
IFRS 10	Consolidated Financial Statements (Amendments)	January 01, 2014
IFRS 12	Disclosure of Interests in Other Entities (Amendments)	January 01, 2014
IAS 27	Separate Financial Statements (Amendments)	January 01, 2014

The management anticipates that the adoption of the above standards and amendments in future periods, will have no material impact on the Company's financial statements other than in presentation / disclosures.

(e) The following interpretations issued by the IASB have been waived off by SECP effective January 16, 2012:

IFRIC 4	Determining whether an arrangement contains lease
IFRIC 12	Service concession arrangements

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 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).

4.3 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. All other foreign exchange gains and losses are presented in the profit and loss account within other operating expenses.

4.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods; stated net of discounts, 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. Sale of goods is 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.

(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.

4.5 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 substantively enacted by the balance sheet date.

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

4.6 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.

4.7 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.

4.8 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.

4.9 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 obligation 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.

(ii) Approved contributory provident fund for all employees is 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. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

(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

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.

(e) Share based payments

The Company has cash-settled share-based compensation plans. Share options are granted to employees in the grades 37 and above which vest over a period of 3 years. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date.

Long Term Incentive Plan (LTIP)

Nil-cost options exercisable after three years from date of grant. Payout is subject to performance conditions based on earnings per share relative to inflation and total shareholder return, combining the share price and dividend performance of the British American Tobacco Group. Cash-settled LTIPs are granted in March each year.

Deferred Share Bonus Scheme (DSBS)

The number of deferred shares awarded is calculated by converting the portion of the incentive payment to be delivered as shares to Sterling (using an average year to date exchange rate) and by dividing this Sterling value by the British American Tobacco share price on the award date. These shares are transferable to the participant on the third anniversary (i.e. after three years), on condition that the individual is still in the employment of the Company in the British American Tobacco group. Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Cash-settled deferred shares are granted in March each year.

4.10 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 corresponding rental obligations, net of finance charges, are included in other long term payables. 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.

4.11 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 less residual value over their estimated useful lives at the following annual rates:

	2014	2013
Buildings on free-hold land, buildings on leasehold land	3%	3%
Plant and machinery	7%	7%
Air conditioners included in plant and machinery	20%	20%
Office and household equipment	20% to 33.33%	20% to 33.33%
Furniture and fittings	10% to 20%	10% to 20%
Vehicles - Owned and leased	20%	20%

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 assets' 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.

4.12 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 (cash-generating units). 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.

4.13 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.

4.14 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.

4.15 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.

4.16 Financial assets

4.16.1 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.

4.16.2 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.

4.16.3 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.

4.16.4 Impairment of financial assets

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.

4.17 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.

4.18 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.

4.19 Borrowing Costs

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.

4.20 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.

4.21 Cash and cash equivalents

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

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 cash and bank balances and the amounts receivable/payable from/to the foreign entities. 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 37,207 thousand (2013: 64,844 thousand) and financial liabilities include Rs 866,152 thousand (2013: 517,592 thousand) which were subject to foreign exchange risk.

At December 31 2014, 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 56 million (2013: Rs 30 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 1,082,599 thousand (2013: Rs 2,822,048 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 million (2013: Rs 19 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 Agency	Rs (million)	
Counterparty	**Short term**	**Long term**		**2014**	**2013**
Standard Chartered	A1+	AAA	PACRA	7	-
MCB Bank Ltd	A1+	AAA	PACRA	20	25
Citibank N.A.	P-1	A2	Moody's	57	-
Deutsche Bank AG	P-1	A3	Moody's	63	32
				147	57

Loans and advances,trade debts and other receivables amounting to Rs 515 million (2013: Rs 561 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, 2014, the Company had Rs 5,937 million (2013: Rs 2,914 million) unutilised borrowing facilities from financial institutions and Rs 150 million (2013: Rs 60 million) cash and bank balances. Further, the Company also has strong financial support from its holding company.

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, 2014		
	Amount Rs '000	Within one year Rs '000	Upto five years Rs '000
Finance lease obligation	617,308	172,948	444,360
Trade and other payables	11,263,047	11,263,047	-
Short term running finance	562,870	562,870	-
Accrued interest / mark-up	24,166	24,166	-
	12,467,391	12,023,031	444,360

	December 31, 2013		
	Amount Rs '000	Within one year Rs '000	Upto five years Rs '000
Finance lease obligation	479,785	129,337	350,448
Trade and other payables	7,716,602	7,716,602	-
Short term running finance	2,436,445	2,436,445	-
Accrued interest / mark-up	27,048	27,048	-
	10,659,880	10,309,432	350,448

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 4.9a)
Employees' termination benefits (note 4.9b)
Bonus plans (note 4.9d)

(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.

7. Cost of sales

	2014 Rs '000	2013 Rs '000
Raw material consumed		
Opening stock of raw materials and work in process	7,558,214	6,177,047
Raw material purchases and expenses - note 7.1	19,627,913	16,912,811
Closing stock of raw materials and work in process	(9,802,963)	(7,558,214)
	17,383,164	15,531,644
Government taxes and levies		
Customs duty and surcharges	623,263	577,245
Provincial and municipal taxes and other duties	226,156	175,459
Excise duty on royalty	51,610	46,370
	901,029	799,074
	18,284,193	16,330,718
Royalty	516,103	463,704
Production overheads		
Salaries, wages and benefits	1,708,308	1,476,556
Stores, spares and machine repairs	627,626	710,117
Fuel and power	614,863	495,546
Insurance	45,433	45,733
Repairs and maintenance	376,925	216,901
Postage, telephone and stationery	8,792	7,679
Information technology	65,092	103,931
Depreciation	621,312	559,432
Provision for damaged stocks/stock written off	76,048	15,152
Provision for slow moving items/stores written off	78,000	21,726
Sundries	302,381	125,291
	4,524,780	3,778,064
Cost of goods manufactured	23,325,076	20,572,486
Cost of finished goods		
Opening stock	1,608,153	1,048,254
Closing stock	(2,161,545)	(1,608,153)
	(553,392)	(559,899)
Cost of sales	22,771,684	20,012,587

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs '000	2013 Rs '000
7.1 Raw material purchases and expenses		
Materials	17,080,383	15,454,647
Salaries, wages and benefits	907,889	689,322
Stores, spares and machine repairs	232,784	289,623
Fuel and power	837,065	223,840
Property rentals	107,818	54,555
Insurance	21,470	3,642
Repairs and maintenance	68,110	22,174
Postage, telephone and stationery	10,866	7,909
Depreciation	113,099	123,174
Sundries	248,429	43,925
	19,627,913	16,912,811

8. Selling and distribution costs

	2014 Rs '000	2013 Rs '000
Salaries, wages and benefits	654,105	603,447
Selling expenses	2,958,059	2,780,674
Freight	76,319	323,584
Repairs and maintenance	80,237	85,531
Postage, telephone and stationery	13,808	5,542
Travelling	37,409	45,382
Property rentals	15,452	11,299
Insurance	11,219	11,312
Finished goods stock written off	-	111,585
Depreciation	30,504	44,279
	3,877,112	4,022,635

9. Administrative expenses

	2014 Rs '000	2013 Rs '000
Salaries, wages and benefits	1,019,552	886,509
Fuel and power	16,856	37,678
Property rentals	131,489	53,854
Insurance	6,219	5,149
Repairs and maintenance	37,716	48,538
Postage, telephone and stationery	18,221	14,432
Legal and professional charges	41,893	37,044
Donations - note 9.1	10,100	1,100
Information technology	914,205	377,242
Travelling	82,357	116,517
Depreciation	68,882	85,263
Auditor's remuneration and expenses - note 9.2	9,756	15,830
Sundries	41,635	37,158
	2,398,881	1,716,314

9.1 There were no donations in which the directors, or their spouses, had any interest.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs '000	2013 Rs '000
9.2 Auditor's remuneration and expenses include:		
- Statutory audit fee	1,628	1,507
- Group reporting, review of half yearly accounts, audit of consolidated accounts, audit of staff retirement benefit funds and special certifications	3,379	3,129
- Tax services	4,209	10,634
- Out-of-pocket expenses	540	560
	9,756	15,830

10. Other operating expenses

	2014 Rs '000	2013 Rs '000
Workers' profit participation fund	386,026	250,639
Workers' welfare fund	146,690	76,725
Bank charges and fees	32,952	38,662
Loss on disposal of property, plant and equipment	18,536	-
Interest paid to workers' profit participation fund	517	25
Foreign exchange loss	66,032	31,908
	650,753	397,959

11. Other income

	2014 Rs '000	2013 Rs '000
Income from an associated company		
- BAT SAA Services (Private) Limited, for services rendered	34,502	31,595
Recharges payable written back	94,810	-
Vehicle rental from marketing agencies	17,081	-
Adjustment for federal excise duty	11,814	-
Income recognised on sale and leaseback of vehicles - note 26.5	5,872	9,215
Insurance claim received	-	29,469
Sale of retail data	-	23,500
Gain on disposal of property, plant and equipment	-	25,353
Miscellaneous	2,336	9,997
	166,415	129,129

12. Finance cost

	2014 Rs '000	2013 Rs '000
Interest expense on:		
Bank borrowings	53,989	44,310
Finance lease	45,067	27,709
	99,056	72,019

13. Income tax expense

	2014 Rs '000	2013 Rs '000
Current	2,239,017	1,575,639
Deferred	98,639	(33,043)
	2,337,656	1,542,596

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

13.1 Effective tax rate reconciliation:

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

	2014 Rs '000	2013 Rs '000
Applicable tax rate	33.00	34.00
Tax effect of:		
Inadmissible expenses	0.35	0.44
Income taxed at different rate	(0.12)	(0.02)
Change in applicable tax rate	-	(0.69)
Others	(0.71)	(0.68)
Average effective tax rate	32.52	33.05

The applicable income tax rate was reduced from 34% to 33% during the year on account of the changes made to Income tax Ordinance, 2001 in 2014.

13.2 Tax on items directly credited to statement of comprehensive income

	2014 Rs '000	2013 Rs '000
Current tax charge on defined benefit plans	39,463	61,777
Deferred tax credit on defined benefit plans	(12,528)	(43,731)
	26,935	18,046

14. Earnings per share

	2014	2013
Profit after tax (Rs '000)	4,850,145	3,124,309
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share - Basic (Rs)	18.98	12.23

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			
	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
Managerial remuneration	74,722	72,447	44,941	47,940	257,896	211,522	747,115	681,622	1,124,674	1,013,531
Corporate bonus	19,320	30,988	47,252	122,793	224,341	163,755	225,571	245,476	516,484	563,012
Leave fare assistance	4,036	5,568	3,330	3,848	11,078	10,295	3,324	4,669	21,768	24,380
Housing and utilities	12,309	11,601	13,468	21,010	69,770	54,020	301,289	276,287	396,836	362,918
Medical expenses	-	1,103	1,667	2,527	18,597	12,075	42,697	48,194	62,961	63,899
Post employment benefits	5,604	11,544	6,029	12,027	38,572	27,156	155,981	148,086	206,186	198,813
	115,991	133,251	116,687	210,145	620,254	478,823	1,475,977	1,404,334	2,328,909	2,226,553
Number of persons	1	1	2*	4	37*	36	495	485	535	526

* Number of executive directors decreased from four to two in last quarter of the year 2013. One of them has been reported under Key Management Personnel.

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 six (2013: six) non-executive directors of the Company amounted to Rs 6,519 thousand (2013: Rs 4,653 thousand).

	2014 Rs '000	2013 Rs '000
16. Property, plant and equipment		
Operating assets - note 16.1	7,648,611	6,070,353
Capital work in progress - note 16.2	1,064,866	1,014,168
	8,713,477	7,084,521

16.1 Operating assets

	Free-hold land Rs '000	Buildings on 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, 2013										
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 January 1, 2013	30,570	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,518,995
Year ended December 31, 2103										
Net book amount at January 1, 2013	30,570	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,518,995
Additions	-	85,505	-	-	812,968	155,167	4,697	3,079	361,278	1,422,694
Disposals	-	(17,535)	(550)	(25)	(8,169)	(2,780)	(528)	(13,242)	(16,359)	(59,188)
Depreciation charge	-	(22,038)	(568)	-	(561,459)	(134,126)	(15,159)	(12,787)	(66,011)	(812,148)
Net book amount at December 31, 2013	30,570	606,690	8,826	-	4,593,334	267,824	40,952	86,888	435,269	6,070,353
At January 1, 2014										
Cost	30,570	802,628	22,149	-	9,314,801	742,444	100,760	425,229	514,442	11,953,023
Accumulated Depreciation	-	(195,938)	(13,323)	-	(4,721,467)	(474,620)	(59,808)	(338,341)	(79,173)	(5,882,670)
Net book amount January 1, 2014	30,570	606,690	8,826	-	4,593,334	267,824	40,952	86,888	435,269	6,070,353
Year ended December 31, 2014										
Net book amount at January 1, 2014	30,570	606,690	8,826	-	4,593,334	267,824	40,952	86,888	435,269	6,070,353
Additions	-	48,340	1,081	-	1,869,111	165,289	262,987	20,907	129,955	2,497,669
Disposals	-	(774)	(258)	-	(28,089)	(601)	(1,102)	(26,276)	(28,514)	(85,615)
Depreciation charge	-	(20,728)	(394)	-	(615,009)	(110,655)	(17,976)	(3,699)	(65,337)	(833,797)
Net book amount at December 31, 2014	30,570	633,528	9,255	-	5,819,347	321,857	284,861	77,820	471,373	7,648,611
At December 31, 2014										
Cost	30,570	849,171	20,011	-	11,090,485	880,031	361,319	317,526	603,886	14,152,999
Accumulated depreciation	-	(215,643)	(10,756)	-	(5,271,138)	(558,174)	(76,458)	(239,706)	(132,513)	(6,504,388)
Net book amount at December 31, 2014	30,570	633,528	9,255	-	5,819,347	321,857	284,861	77,820	471,373	7,648,611

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

		2014 Rs '000	2013 Rs '000
16.2	Capital work in progress		
	Plant and machinery	775,716	992,914
	Advances to suppliers	289,150	21,254
		1,064,866	1,014,168
16.3	Depreciation charge has been allocated as follows:		
	Cost of sales	621,312	559,432
	Raw material purchases and expenses	113,099	123,174
	Selling and distribution expenses	30,504	44,279
	Administrative expenses	68,882	85,263
		833,797	812,148

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:

	Cost Rs '000	Book value Rs '000	Sale proceeds less selling expenses Rs '000	Particulars of Buyers
Computer equipment				
- by insurance claim	102	65	108	EFU General Insurance Co.
	88	73	174	-do-
House hold furniture				
- as per Company's policy	222	117	111	Thusitha - ex employee
Office fixtures				
- by negotiation	141	66	72	Telenor (Pvt) Limited
	150	70	76	-do-
	180	107	92	-do-
	266	125	136	-do-
	432	204	220	-do-
	432	204	220	-do-
	495	206	178	-do-
- by auction	114	78	79	Karachi Auction Mart

	Cost Rs '000	Book value Rs '000	Sale Proceeds less selling expenses Rs '000	Particulars of Buyers
Vehicles				
- as per Company's policy	1,305	847	828	Nimra Athar - employee
	1,305	888	921	Zaheer Iqbal - employee
	1,350	876	850	Jibran Khursheed - ex employee
	1,350	802	666	Shabab Ali - employee
	1,354	282	135	Faisal Iqbal - employee
	1,395	902	912	Turab Ali Khan - employee
	1,691	1,317	1,354	Izza Aamer - ex employee
	1,691	1,047	1,285	Hammad Arif - employee
	1,691	1,062	1,060	Umair Luqman - employee
	1,691	1,090	1,083	Haroon Saleem - employee
	3,600	2,280	2,210	Feroze Ahmed - ex employee
	3,949	395	1,932	Ibrahim Shaikh - employee
	5,400	3,420	3,316	Mobasher Raza - ex employee
	1,354	197	135	Muhammad Ahsan - employee
	1,354	226	819	Umar Mansoor - employee
	1,395	902	912	Turab Ali Khan - employee
	1,418	853	889	Waqas Bhatti - employee
	1,691	1,298	1,409	Imran Sharif - employee
	1,720	251	991	Muhammad Asim - employee
	1,742	290	174	Muhammad Idries - employee
	2,106	1,340	1,433	Hasan Zulfiqar - employee
	2,106	1,616	1,642	Syed Asad Shah - employee
- by auction	981	98	1,041	Adil Mehmood - Rawalpindi
	1,040	104	795	Khanzada - Rawalpindi
	1,378	138	954	Haji Akbar Ali - Islamabad
	1,780	178	1,011	Mohammad Naeem - Islamabad
	2,350	235	1,270	Ajab deen - Parachinar
	2,365	236	932	Ajab deen - Parachinar
	2,650	265	1,361	Mohammad Bilal - Islamabad
	2,775	277	1,370	Tariq - Mehmood - Islamabad
	2,978	298	1,411	Tariq - Mehmood - Islamabad
- by insurance claim	101	94	101	New Hampshire Insurance Company
	1,250	817	1,500	-do-
	1,485	976	1,800	-do-
	1,691	1,333	1,691	-do-
	1,982	995	1,834	-do-
	2,007	1,768	2,007	-do-
	2,125	1,882	2,125	-do-
	2,162	1,781	2,162	-do-

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

17. Long term investment in subsidiary company

This represents 500,001 (2013: 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 (2013: Rs 10 per share) based on audited accounts for the year ended December 31, 2014.

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

	2014 Rs '000	2013 Rs '000
18. Long term loans - unsecured, considered good		
Related parties		
Key management personnel	23	45
Others		
Other executives	48	279
	71	324
Less: Receivable within one year	(52)	(249)
	19	75

18.1 Reconciliation of loans:

	Executives				Total	
	Key management personnel		Other executives			
	2014 Rs'000	2013 Rs'000	2014 Rs'000	2013 Rs'000	2014 Rs'000	2013 Rs'000
Balance as at January 1	45	105	279	1,270	324	1,375
Repayments	(22)	(60)	(231)	(991)	(253)	(1,051)
Balance as at December 31	23	45	48	279	71	324

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. The company has discontinued this facility in prior years and new loans were not disbursed to employees during the year.

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

	2014 Rs '000	2013 Rs '000
Key management personnel	43	98
Other executives	236	1,136
	279	1,234

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs'000	2013 Rs'000
19. Long term deposits and prepayments		
Security deposits	25,958	18,351
Prepayments	6,495	3,127
	32,453	21,478
20. Stock-in-trade		
Raw materials	9,469,323	7,331,209
Raw materials in transit	252,569	157,213
Work in process	81,071	69,792
Finished goods	2,161,545	1,608,153
	11,964,508	9,166,367
Provision for damaged raw material	(70,000)	-
	11,894,508	9,166,367
21. Stores and spares		
Stores and spares	542,629	488,213
Provision for slow moving items	(70,600)	-
	472,029	488,213

22. Trade debts

These are unsecured, considered good.

23. Loans and advances

	2014 Rs'000	2013 Rs'000
Related parties		
Loans to key management personnel	15	22
Advances to key management personnel for house rent and expenses	6,037	7,036
Others		
Loans to executives and other employees	37	227
Advances to executives for house rent and expenses	40,650	46,867
Advances to other parties	19,953	35,427
	66,692	89,579

These loans and advances are unsecured and considered good.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs'000	2013 Rs'000

24. Other receivables

	2014 Rs'000	2013 Rs'000
Related parties - unsecured		
Due from holding company / associated companies - note 24.1	45,979	48,209
Due from subsidiary company	20,021	20,021
Unbilled receivable from related parties	28,089	5,848
Staff pension fund - note 28	319,535	345,253
Management's provident fund	-	1,484
Others		
Claims against suppliers	7,977	11,086
Others	3,866	3,154
	425,467	435,055

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

	2014 Rs'000	2013 Rs'000
Holding Company		
British American Tobacco p.l.c. - UK	-	2,015
Associated Companies		
BAT SAA Services (Private) Limited - Pakistan	34,502	16,741
BAT Nigeria Ltd - Nigeria	7,750	-
BAT Tutun Mamulleri - Turkey	2,392	3,471
PT Bentoel Prima - Indonesia	1,335	3,744
BAT Marketing (Singapore) Pte Ltd	-	6,976
BAT GLP Ltd - UK	-	3,769
BAT Korea Manufacturing - South Korea	-	2,732
BAT ASPAC Service Center Sdn Bhd - Malaysia	-	2,706
BAT Asia-Pacific Region Ltd - Hong Kong	-	1,478
BAT SCWE Ltd. - UK	-	1,475
BAT Switzerland SA	-	1,202
BAT Cambodia	-	1,109
BAT (Singapore) Pte Ltd	-	791
	45,979	48,209

25. Cash and bank balances

	2014 Rs'000	2013 Rs'000
Deposit account	18,282	24,105
Current accounts		
Local currency	104,138	1,394
Foreign currency	24,520	31,270
	146,940	56,769
Cash in hand	2,633	3,359
	149,573	60,128

	2014 Rs'000	2013 Rs'000
26. Trade and other payables		
Related parties - unsecured		
Due to holding company / associated companies - note 26.1	1,007,494	628,305
Others		
Creditors	2,500,689	906,408
Federal excise duty - note 26.2	4,610,181	3,518,345
Sales tax	1,216,746	969,662
Tobacco excise duty / Tobacco development cess - note 26.3	122,329	99,218
Employee incentive schemes - note 26.4	98,046	163,771
Employees' gratuity fund - note 28	308,042	265,349
Staff pension fund - defined contribution	8,999	347
Management provident fund	2,998	-
Employees' provident fund	7,861	595
Workers' profit participation fund	386,026	250,639
Workers' welfare fund	146,690	95,243
Other accrued liabilities	751,444	757,017
Advances from customers	2,480	1,300
Security deposits	18,282	24,105
Dividend payable / unclaimed dividend	77,220	37,598
Deferred income on sale and leaseback of vehicles - note 26.5	972	6,844
	11,266,499	7,724,746

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

	2014 Rs'000	2013 Rs'000
Holding Company		
British American Tobacco p.l.c. - UK	185,610	152,075
Associated Companies		
BAT ASPAC Service Center Sdn Bhd - Malaysia	235,073	194,958
BAT Marketing (Singapore) Pte Ltd	168,787	114,117
BAT GLP Ltd - UK	134,368	54,364
BAT Singapore (Pte) Ltd - Singapore	92,603	-
BAT Bangladesh Co. Ltd	71,529	-
BAT Asia-Pacific Region Ltd - Hong Kong	53,523	56,349
BAT GSD Ltd. - UK	47,853	27,898
BAT Suisse - Switzerland	12,039	-
Ceylon Tobacco Company Plc - Sri Lanka	4,256	5,968
BAT Australia	1,268	21,283
BAT SCWE Ltd. - UK	585	-
BAT (Malaysia) Berhad	-	578
BAT Korea Manufacturing - South Korea	-	440
BAT Vinataba (JV) Ltd - Vietnam	-	275
	1,007,494	628,305

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs'000	2013 Rs'000
26.2 Federal excise duty		
Balance as at January 1	3,518,345	3,542,618
Charge for the year	54,447,161	46,110,971
Payment to the Government during the year	(53,355,325)	(46,135,244)
Balance as at December 31	4,610,181	3,518,345
26.3 Tobacco excise duty / Tobacco development cess:		
Balance as at January 1	99,218	78,566
Charge for the year	152,795	116,299
Payment to the Government during the year	(129,684)	(95,647)
Balance as at December 31	122,329	99,218

26.4 Employee incentive schemes

These represent liability for unvested portion of cash-settled share-based payment schemes available to certain employees. Such schemes require the Company to pay the intrinsic value of these share based payments to the employee at the vesting date.

	2014 Rs'000	2013 Rs'000
Long Term Incentive Plan (LTIP) - note 26.4.1		
Balance as at January 1	78,815	57,816
(Reversal) / charge for the year	(24,200)	41,940
Payment to employees	(20,672)	(20,941)
Balance as at December 31	33,943	78,815
Deferred Share Bonus Scheme (DSBS) - note 26.4.2		
Balance as at January 1	84,956	79,927
(Reversal) / charge for the year	59,389	52,421
Payment to employees	(80,242)	(47,392)
Balance as at December 31	64,103	84,956
	98,046	163,771

26.4.1 Long Term Incentive Plan

Details of the options movement for cash-settled LTIP scheme during the year were as follows:

	Number of options	
Outstanding as at January 1	19,788	17,415
Granted during the year	10,129	6,393
Exercised during the year	(17,561)	(4,020)
Outstanding as at December 31	12,356	19,788

There are no exercisable options at end of the year.

26.4.2 Deferred Share Bonus Scheme (DSBS)

Details of the options movement for cash-settled DSBS scheme during the year were as follows:

	2014	2013
	Number of options	
Outstanding as at January 1	24,324	22,679
Granted during the year	12,705	8,565
Exercised during the year	(14,863)	(6,920)
Outstanding as at December 31	22,166	24,324

There are no exercisable options at end of the year.

	2014 Rs '000	2013 Rs '000
26.5 Deferred income on sale and leaseback of vehicles		
Deferred income	6,844	16,059
Income recognised during the year	(5,872)	(9,215)
	972	6,844

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 is being 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 6,500 million (2013: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 5,937 million (2013: Rs 2,914 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 7,222 million (2013: Rs 5,940 million). The mark-up ranges between 10.03% and 10.69% (2013: 9.22% and 10.46%) 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 (2013: Rs 2,500 million) and Rs 420 million (2013: Rs 670 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 483 million (2013: Rs 1,537 million) and Rs 213 million (2013: Rs 179 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 670 million (2013: Rs 670 million).

	2014 Rs '000	2013 Rs '000
28. Retirement benefits		
Staff pension fund - Asset (note 24)	(319,535)	(345,253)
Employees' gratuity fund - Liability (note 26)	308,042	265,349

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2014 using the projected unit credit method. Details of the defined benefit plans are:

		Defined benefit pension plan		Defined benefit gratuity plan	
		2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
(a)	The amounts recognised in the balance sheet:				
	Present value of defined benefit obligations	4,034,421	3,582,353	1,257,137	1,082,176
	Fair value of plan assets	(4,353,956)	(3,927,606)	(949,095)	(816,827)
	Net (Assets) / liability	(319,535)	(345,253)	308,042	265,349
(b)	Movement in the liability recognized in the balance sheet is as follow:				
	Balance as at January 1	(345,253)	(182,804)	265,349	91,720
	Charge for the year - profit & loss	30,456	69,333	78,231	50,862
	Employer's contribution during the year	126,458	(22,611)	(91,345)	(35,529)
	Remeasurement (gain) / loss recognized in Other Comprehensive Income (OCI) during the year	(131,196)	(209,171)	55,807	158,296
	Balance as at December 31	(319,535)	(345,253)	308,042	265,349
(c)	The amounts recognised in the profit and loss account:				
	Current service cost	120,171	109,222	52,215	45,633
	Interest cost	461,845	409,753	139,199	102,011
	Expected return on plan assets	(504,067)	(405,129)	(106,749)	(91,318)
		(42,222)	4,624	32,450	10,693
	Members' own contribution	(28,607)	(27,868)	-	-
	Secondees' own contribution	(7,400)	(5,948)	-	-
	Contribution by employer in respect of secondees	(11,486)	(10,697)	(6,434)	(5,464)
		30,456	69,333	78,231	50,862
(d)	Re-measurements recognised in Other Comprehensive Income (OCI) during the year:				
	Actuarial (gain) / loss on obligation	39,883	(133,450)	98,892	169,163
	Net return on plan assets over interest income	(171,079)	(75,721)	(43,085)	(10,867)
	Total re-measurements recognised in OCI	(131,196)	(209,171)	55,807	158,296

FOR THE YEAR ENDED DECEMBER 31, 2014

		Defined benefit pension plan		Defined benefit gratuity plan	
		2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
(e)	Movement in the present value of defined benefit obligation:				
	Present value of defined benefit obligation as at January 1	3,582,353	3,358,267	1,082,176	870,406
	Current service cost	120,171	109,222	52,215	45,633
	Interest cost	461,845	409,753	139,199	102,011
	Actual benefits paid during the year	(169,831)	(161,439)	(115,345)	(105,037)
	Remeasurements: Actuarial (gain)/loss on obligation	39,883	(133,450)	98,892	169,163
	Present value of defined benefit obligation as at December 31	4,034,421	3,582,353	1,257,137	1,082,176
(f)	Movement in the fair value of plan assets:				
	Fair value of plan assets as at January 1	3,927,606	3,541,071	816,827	778,686
	Expected return on plan assets	504,067	405,129	106,749	91,318
	Contribution by employer in respect of members	(126,458)	22,611	91,345	35,529
	Members' own contribution	28,607	27,868	-	-
	Secondees' own contribution	7,400	5,948	-	-
	Contribution by employer in respect of secondees	11,486	10,697	6,434	5,464
	Actual benefits paid during the year	(169,831)	(161,439)	(115,345)	(105,037)
	Total remeasurement on assets acturial gain	171,079	75,721	43,085	10,867
	Fair value of plan assets as at December 31	4,353,956	3,927,606	949,095	816,827
	Actual return on plan assets	482,124	469,627	112,609	97,839

The Company expects to charge Rs 45 million for pension plan and Rs 109 million for gratuity plan for the year ending December 31, 2015.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
(g)	The major categories of plan assets:				
	Investment in equities	803,341	629,549	169,970	135,632
	Investment in bonds	3,526,215	3,287,427	747,082	679,634
	Cash and other assets	24,400	10,630	32,043	1,561
		4,353,956	3,927,606	949,095	816,827
(h)	Significant actuarial assumptions at the balance sheet date:				
	Discount rate	11.25%	13.00%	11.25%	13.00%
	Pension increase rate	7.00%	9.00%	-	-
	Expected rate of increase in salary				
	First year	13.50%	14.00%	13.50%	14.00%
	Second year onwards	10.25%	12.00%	10.25%	12.00%

The mortality table used for post retirement mortality is Standard Table Mortality The "80" Series PMA 80 (C=2015) and PFA 80(C=2015) for males and females respectively but rated up 2 years.

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.

(i) Sensitivity Analysis on significant actuarial assumptions

The calculation of the defined benefit obligation is sensitive to assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the year end of the reporting period would have increased / (decreased) as a result of a change in respective assumptions by one percent.

	Defined benefit pension plan		**Defined benefit gratuity plan**	
	1 percent increase	**1 percent decrease**	**1 percent increase**	**1 percent decrease**
Discount rate	3,478,253	(4,744,345)	(1,145,530)	1,385,878
Salary increase	4,241,225	(3,850,881)	1,376,524	(1,151,471)
Increase in post retirement pension	4,517,173	(3,639,718)	-	-

If life expectancy increases by 1 year, the obligation of the Pension Fund increases by Rs 113.585 million.

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

	2014 Rs'000	**2013 Rs'000**
Defined Contribution Provident Fund	78,184	65,663
Defined Benefit Pension Fund	30,455	69,333
Defined Contribution Pension Fund	49,098	36,078
Defined Benefit Gratuity Fund	77,214	50,862
	234,951	221,936

28.2 Defined Contribution Plan

Details of the management and employees' provident funds are as follows:

	2014 Rs'000	2013 Rs'000
(a) Net assets	1,546,833	1,327,418
Cost of investments made	1,263,629	1,119,354
Percentage of investments made	82%	84%
Fair value of investments made	1,391,122	1,196,239

		2014		2013	
		Rs '000	%age	Rs '000	%age
(b)	Breakup of investments at cost				
	Treasury bills	26,722	2%	29,031	3%
	Pakistan Investment Bonds	459,541	30%	401,713	30%
	Investment plus deposit certificates	447,100	29%	472,144	35%
	Investment in savings account with bank	14,833	1%	7,243	1%
	Investment in securities	185,243	12%	109,258	8%
	Accrued Interest	130,190	8%	99,965	7%
		1,263,629	82%	1,119,354	84%

(c) Investments out of provident fund have been made in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and the rules formulated for the purpose.

29. Deferred income tax liability

	2014 Rs'000	2013 Rs'000
Deferred tax liability is in respect of		
Accelerated tax depreciation	1,151,987	1,058,402
Leased assets	77,075	25,621
	1,229,062	1,084,023
Deferred tax asset is in respect of		
Remeasurement loss arising on employees' retirement benefit	(82,433)	(69,905)
Provision for stock and stores	(46,400)	-
	1,100,229	1,014,118
The gross movement on deferred income tax account is as follows:		
At January 1	1,014,118	1,090,892
Charge / (credit) for the year - profit and loss account	98,639	(33,043)
Credit for the year - statement of comprehensive income	(12,528)	(43,731)
At December 31	1,100,229	1,014,118

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 617,308 thousand (2013: 479,785) thousand and are payable in equal monthly installments latest by December 2018. Taxes, repairs, replacement and insurance costs are to be borne by the Company. Financing rates of 10.30% to 11.43% (2013: 10.30% to 11.37%) 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:

	2014 Rs'000	2013 Rs'000
Present value of minimum lease payments	519,728	385,603
Current maturity shown under current liabilities	(119,375)	(92,559)
	400,353	293,044
Minimun Lease Payments		
Not later than one year	172,948	129,337
Later than one year and not later than five years	444,360	350,448
	617,308	479,785
Future finance charges on finance leases	(97,580)	(94,182)
Present value of finance lease liabilities	519,728	385,603
Present value of finance lease liabilities		
Not later than one year	119,375	92,559
Later than one year and not later than five years	400,353	293,044
	519,728	385,603

31. Share capital

31.1 Authorized share capital

2014 (Number Of Shares)	2013 (Number Of Shares)		2014 Rs'000	2013 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

2014 (Number Of Shares)	2013 (Number Of Shares)		2014 Rs'000	2013 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 (2013: 241,045,141) ordinary shares at the year end.

32. Contingencies and commitments

	2014 Rs'000	2013 Rs'000
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	212,455	179,447

(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.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

32.2 Commitments

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

	2014 Rs'000	2013 Rs'000
Not later than one year	68,535	135,229
Later than one year and not later than five years	627,265	559,700
Later than five years	65,167	18,403

(b) Letters of credit outstanding at December 31, 2014 were Rs 584,891 thousand (2013: Rs 1,536,509 thousand).

33. Financial instruments

33.1 Financial assets and liabilities

	2014 Rs'000	2013 Rs'000
Financial assets		
Loans and receivables		
Maturity up to one year:		
Trade debts	3,225	764
Loans and advances	66,692	89,579
Other receivables		
Local currency	413,989	403,587
Foreign currency	11,478	31,468
	425,467	435,055
Cash and bank balances		
Local currency	123,844	26,752
Foreign currency	25,729	33,376
	149,573	60,128
	644,957	585,526
Maturity after one year:		
Loans	19	75
Security deposits	19,958	18,351
	664,934	603,952

	2014 Rs'000	2013 Rs'000
Financial liabilities		
Other financial liabilities		
Maturity up to one year:		
Trade and other payables		
Excise duty and sales tax payable	5,826,927	4,488,007
Others		
Local currency	4,560,545	2,711,003
Foreign currency	866,152	517,592
	11,253,624	7,716,602
Short term running finance	562,870	2,436,445
Finance lease obligation	119,375	92,559
Accrued interest / mark-up	24,166	27,048
	11,960,035	10,272,654
Maturity after one year:		
Finance lease obligation	400,354	293,044
	12,360,389	10,565,698

33.2 Forward foreign exchange contracts

The principal amounts of the outstanding forward foreign exchange contracts for hedging of letters of credit amounted to Rs 434,729 thousand at December 31, 2014 (2013: Rs 1,480,922 thousand).

34. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2013: 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.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs'000	2013 Rs'000
Purchase of goods and services from		
Holding company	729,250	359,552
Associated companies	1,853,760	2,083,481
Sale of goods and services to		
Holding company	8,766	32,902
Associated companies	61,938	122,114
Royalty charge from		
Holding company	516,103	463,704
Expenses reimbursed to		
Holding company	13,323	-
Associated companies	12,574	579
Expenses reimbursed by		
Holding company	8,645	-
Associated companies	20,773	4,312

35. Post balance sheet event

In respect of the year ended December 31, 2014 final dividend of Rs 12.00 (2013: Rs 6.00) per share amounting to a total dividend of Rs 3,065,925 thousand (2013: 1,532,963 thousand) has been proposed at the Board of Directors meeting held on February 23, 2015. These financial statements do not reflect this proposed dividend.

36. General

36.1 Capacity and production

Against an estimated manufacturing capacity of 53,000 million cigarettes (2013: 46,000 million cigarettes) actual production was 44,496 million cigarettes (2013: 43,984 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, 2014 were 1,269 (2013: 1,250). Average number of employees during the year were 1,234 (2013 : 1,193)

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 23, 2015.

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

PAKISTAN TOBACCO
COMPANY

PAKISTAN TOBACCO COMPANY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

AUDITOR'S REPORT TO THE MEMBERS
ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Pakistan Tobacco Company Limited (the Company) and it's subsidiary Company, Phoenix (Private) limited as at December 31, 2014 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, 2014 and the results of their operations for the year then ended.

A.F. Ferguson & Co.
Chartered Accountants
Islamabad: 23rd Feb, 2015
Engagement partner : S. Haider Abbas

Consolidated Profit & Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 Rs '000	2013 Rs '000
Gross turnover		107,217,617	89,928,975
Excise duties		(54,447,161)	(46,110,971)
Sales tax		(16,151,379)	(13,195,201)
Net turnover		36,619,077	30,622,803
Cost of sales	7	(22,771,684)	(20,012,587)
Gross profit		13,847,393	10,610,216
Selling and distribution expenses	8	(3,877,112)	(4,022,635)
Administrative expenses	9	(2,398,881)	(1,716,314)
Other operating expenses	10	(650,753)	(397,959)
Other income	11	166,415	129,129
		(6,760,331)	(6,007,779)
Operating profit		7,087,062	4,602,437
Finance income		199,795	136,487
Finance cost	12	(99,056)	(72,019)
Net finance income / (cost)		100,739	64,468
Profit before income tax		7,187,801	4,666,905
Income tax expense	13	(2,337,656)	(1,542,596)
Profit for the year		4,850,145	3,124,309
Earnings per share - (Rupees)	14	18.98	12.23

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 Rs '000	2013 Rs '000
Profit for the year		4,850,145	3,124,309
Other comprehensive income for the year:			
Items that will not be reclassified to Profit or Loss			
Remeasurement gain on defined benefit pension and gratuity plans	27	75,389	50,875
Tax charge related to remeasurement gain on defined benefit pension and gratuity plans	13	(26,935)	(18,046)
		48,454	32,829
Items that may be subsequently reclassified to Profit & Loss.		-	-
Other comprehensive income for the year - net of tax		48,454	32,829
Total comprehensive income for the year - net of tax		4,898,599	3,157,138

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Consolidated Balance Sheet

AS AT DECEMBER 31, 2014

	Note	2014 Rs '000	2013 Rs '000
Non current assets			
Property, plant and equipment	16	8,738,525	7,109,569
Long term loans	17	19	75
Long term deposits and prepayments	18	32,453	21,478
Current assets			
Stock-in-trade	19	11,894,508	9,166,367
Stores and spares	20	472,029	488,213
Trade debts	21	3,225	764
Loans and advances	22	66,692	89,579
Short term prepayments		183,145	78,889
Other receivables	23	405,446	415,034
Cash and bank balances	24	149,573	60,128
		13,174,618	10,298,974
Current liabilities			
Trade and other payables	25	11,266,526	7,724,773
Short term running finance	26	562,870	2,436,445
Finance lease obligation	29	119,375	92,559
Accrued interest / mark-up		24,166	27,048
Current income tax liability		460,732	429,901
		12,433,669	10,710,726
Net current assets / (liabilities)		740,949	(411,752)
Non current liabilities			
Deferred income tax liability	28	(1,100,229)	(1,014,118)
Finance lease obligation	29	(400,354)	(293,044)
		(1,500,583)	(1,307,162)
Net assets		8,011,363	5,412,208
Share capital and reserves			
Share capital	30	2,554,938	2,554,938
Revenue reserves		5,456,425	2,857,270
		8,011,363	5,412,208
Contingencies and commitments	31		

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Consolidated Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs '000	2013 Rs '000
Cash flows from operating activities		
Cash receipts from customers	107,216,336	89,929,017
Cash paid to Government for Federal excise duty,		
Sales tax and other levies	(69,859,772)	(59,953,970)
Cash paid to suppliers	(23,557,885)	(22,101,469)
Cash paid to employees and retirement funds	(4,227,646)	(3,469,931)
Finance cost paid	(101,938)	(85,851)
Cash paid as royalty	(511,637)	(432,851)
Income tax paid	(2,284,685)	(1,476,427)
Other cash payments	(297,302)	(35,560)
	6,375,471	2,372,958
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,248,826)	(1,886,514)
Sale of property, plant and equipment	67,079	84,541
Interest received	199,795	136,487
	(1,981,952)	(1,665,486)
Cash flows from financing activities		
Dividends paid	(2,259,822)	(1,850,235)
Finance lease payments	(170,677)	(134,812)
	(2,430,499)	(1,985,047)
Increase / (decrease) in cash and cash equivalents	1,963,020	(1,277,575)
Cash and cash equivalents at beginning of year	(2,376,317)	(1,098,742)
Cash and cash equivalents at end of year	(413,297)	(2,376,317)
Cash and cash equivalents comprise:		
Cash and bank balances	149,573	60,128
Short term running finance	(562,870)	(2,436,445)
	(413,297)	(2,376,317)

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2014

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2013	2,554,938	1,552,462	4,107,400
Comprehensive income:			
Profit for the year	-	3,124,309	3,124,309
Other comprehensive income for the year	-	32,829	32,829
Total Comprehensive income for the year	-	3,157,138	3,157,138
Transactions with owners:			
Final dividend of Rs 3.25 per share relating to the year ended December 31, 2012	-	(830,354)	(830,354)
1st interim dividend of Rs 2.00 per share relating to the year ended December 31, 2013	-	(510,988)	(510,988)
2nd interim dividend of Rs 2.00 per share relating to the year ended December 31, 2013	-	(510,988)	(510,988)
Total transactions with owners	-	(1,852,330)	(1,852,330)
Balance at December 31, 2013	2,554,938	2,857,270	5,412,208
Balance at January 1, 2014	2,554,938	2,857,270	5,412,208
Comprehensive income:			
Profit for the year	-	4,850,145	4,850,145
Other comprehensive income for the year	-	48,454	48,454
Total Comprehensive income for the year	-	4,898,599	4,898,599
Transactions with owners:			
Final dividend of Rs 6.00 per share relating to the year ended December 31, 2013	-	(1,532,963)	(1,532,963)
1st interim dividend of Rs 3.00 per share relating to the year ended December 31, 2014	-	(766,481)	(766,481)
Total transactions with owners	-	(2,299,444)	(2,299,444)
Balance at December 31, 2014	2,554,938	5,456,425	8,011,363

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

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

1. The Group 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 Serena Business Complex, Khayaban-e-Suharwardy, 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 Jamu 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 is dormant and has not commenced its commercial operations.

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

2. Statement of compliance

These are consolidated financial statements of the Group. 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 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 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

(a) The following amendments and interpretations to published accounting standards became effective during the year, however, the adoption of these amendments and interpretations did not have any material effect on the financial statements.

		Effective date (annual periods beginning on or after)
IAS 32	Financial Instruments Presentation (Amendments)	January 1, 2014
IAS 36	Impairment of Assets (Amendments)	January 1, 2014
IAS 39	Financial Instruments: Recognition and Measurement	January 1, 2014
IFRIC 21	Levies	January 1, 2014

(b) The following standards and amendments to published accounting standards were not effective during the year and have not been early adopted by the Group:

		Effective date (annual periods beginning on or after)
IFRS 2	Share-based Payment (Amendments)	July 01, 2014
IFRS 3	Business Combinations (Amendments)	July 01, 2014
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments)	January 1, 2014
IFRS 3	Business Combinations (Amendments)	July 01, 2014
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments)	January 01, 2016
IFRS 7	Financial Instruments: Disclosures (Amendments)	January 01, 2016
IFRS 8	Operating Segments (Amendments)	July 01, 2014
IFRS 9	Financial Instruments	January 01, 2018
IFRS 10	Consolidated Financial Statements (Amendments)	January 01, 2016
IFRS 11	Joint Arrangements (Amendments)	January 01, 2016
IFRS 12	Disclosure of interests in Other Entities (Amendments)	January 01, 2016
IFRS 13	Fair Value Measurement (Amendments)	July 01, 2014
IFRS 14	Regulatory Deferral Accounts	January 01, 2016
IFRS 15	Revenue from Contracts with Customers	January 01, 2017

		Effective date (annual periods beginning on or after)
IAS 1	Presentation of Financial Statements (Amendments)	January 01, 2016
IAS 16	Property, Plant and Equipment (Amendments)	July 01, 2014 & January 01, 2016
IAS 19	Employee Benefits (Amendments)	July 01, 2014 & January 01, 2016
IAS 24	Related Party Disclosures (Amendments)	July 01, 2014
IAS 27	Separate Financial Statements (Amendments)	January 01, 2016
IAS 28	Investments in Associates and Joint Ventures (Amendments)	January 01, 2016
IAS 34	Interim Financial Reporting (Amendments)	January 01, 2016
IAS 38	Intangible Assets (Amendments)	July 01, 2014 & January 01, 2016
IAS 40	Investment Property (Amendments)	July 01, 2014

The management anticipates that the adoption of the above standards and amendments in future periods, will have no material impact on the Group's financial statements other than in presentation / disclosures.

(c) Following standard has been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP), for the purpose of their applicability in Pakistan:

		Effective date (annual periods beginning on or after)
IFRS 1	First-time adoption of International Financial Reporting standards	July 01, 2009

(d) The following standards and amendments are effective, but are notified by SECP for the purpose of their applicability in Pakistan from annual periods beginning on or after January 1, 2015:

		Effective date (annual periods beginning on or after)
IFRS 10	Consolidated Financial Statements	January 01, 2013
IFRS 11	Joint Arrangements	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13	Fair Value Measurement	January 01, 2013
IAS 27	Separate Financial Statements	January 01, 2013
IAS 28	Investments in Associates and Joint Ventures	January 01, 2013
IFRS 10	Consolidated Financial Statements (Amendments)	January 01, 2014
IFRS 12	Disclosure of Interests in Other Entities (Amendments)	January 01, 2014
IAS 27	Separate Financial Statements (Amendments)	January 01, 2014

The management anticipates that the adoption of the above standards and amendments in future periods, will have no material impact on the Group's consolidated financial statements other than in presentation / disclosures.

(e) The following interpretations issued by the IASB have been waived off by SECP effective January 16, 2012:

IFRIC 4	Determining whether an arrangement contains lease
IFRIC 12	Service concession arrangements

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 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).

4.3 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. All other foreign exchange gains and losses are presented in the profit and loss account within other operating expenses.

4.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods; stated net of discounts, 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 Company manufactures and sells cigarettes to its appointed distributors. Sale of goods is 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.

(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.

4.5 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 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 substantively enacted by the balance sheet date.

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

4.6 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.

4.7 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.

4.8 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.

4.9 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 obligation 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 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.

(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. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

(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 profit and loss account.

(d) Bonus plans

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.

(e) Share based payments

The Group has cash-settled share-based compensation plans. Share options are granted to employees in the grades 37 and above which vest over a period of 3 years. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date.

Long Term Incentive Plan (LTIP)

Nil-cost options exercisable after three years from date of grant. Payout is subject to performance conditions based on earnings per share relative to inflation and total shareholder return, combining the share price and dividend performance of the British American Tobacco Group. Cash-settled LTIPs are granted in March each year.

Deferred Share Bonus Scheme (DSBS)

The number of deferred shares awarded is calculated by converting the portion of the incentive payment to be delivered as shares to Sterling (using an average year to date exchange rate) and by dividing this Sterling value by the British American Tobacco share price on the award date. These shares are transferable to the participant on the third anniversary (i.e. after three years), on condition that the individual is still in the employment of the Group in the British American Tobacco group. Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Cash-settled deferred shares are granted in March each year.

4.10 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 corresponding rental obligations, net of finance charges, are included in other long term payables. 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.

4.11 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 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 less residual value over their estimated useful lives at the following annual rates:

	2014	2013
Buildings on free-hold land, buildings on leasehold land	3%	3%
Plant and machinery	7%	7%
Air conditioners included in plant and machinery	20%	20%
Office and household equipment	20% to 33.33%	20% to 33.33%
Furniture and fittings	10% to 20%	10% to 20%
Vehicles - Owned and leased	20%	20%

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 assets' 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.

4.12 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 (cash-generating units). 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.

4.13 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.

4.14 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.

4.15 Financial assets

4.15.1 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.

4.15.2 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 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 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 Group's right to receive payment is established.

4.15.3 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.

4.15.4 Impairment of financial assets

The Groups 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.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

4.16 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 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.

4.17 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.

4.18 Borrowing Costs

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.

4.19 Dividend distribution

Final dividend distribution to the Group's shareholders is recognised as a liability in the 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.

4.20 Cash and cash equivalents

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

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 cash and bank balances and the amounts receivable/payable from/to the foreign entities. 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 37,207 thousand (2013: 64,844 thousand) and financial liabilities include Rs 866,152 thousand (2013: 517,592 thousand) which were subject to foreign exchange risk.

At December 31 2014, 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 56 million (2013: Rs 30 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 1,082,599 thousand (2013: Rs 2,822,048 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 million (2013: Rs 19 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 Agency	Rs (million)	
Counterparty	Short term	Long term		2014	2013
Standard Chartered	A1+	AAA	PACRA	7	-
MCB Bank Ltd	A1+	AAA	PACRA	20	25
Citibank N.A.	P-1	A2	Moody's	57	-
Deutsche Bank AG	P-1	A3	Moody's	63	32
				147	57

Loans and advances,trade debts and other receivables amounting to Rs 515 million (2013: Rs 561 million) do not include any amounts which are past due or impaired.

FOR THE YEAR ENDED DECEMBER 31, 2014

(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, 2014, the Group had Rs 5,937 million (2013: Rs 2,914 million) unutilised borrowing facilities from financial institutions and Rs 150 million (2013: Rs 60 million) cash and bank balances. Further, the Group also has strong financial support from its holding company.

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, 2014		
	Amount Rs '000	**Within one year Rs '000**	**Upto five years Rs '000**
Finance lease obligation	617,308	172,948	444,360
Trade and other payables	11,263,047	11,263,047	-
Short term running finance	562,870	562,870	-
Accrued interest / mark-up	24,166	24,166	-
	12,467,391	12,023,031	444,360

	December 31, 2013		
	Amount Rs '000	**Within one year Rs '000**	**Upto five years Rs '000**
Finance lease obligation	479,785	129,337	350,448
Trade and other payables	7,716,602	7,716,602	-
Short term running finance	2,436,445	2,436,445	-
Accrued interest / mark-up	27,048	27,048	-
	10,659,880	10,309,432	350,448

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 4.9a)
Employees' termination benefits (note 4.9b)
Bonus plans (note 4.9d)

(c) Property, plant and equipment

The Group 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.

	2014 Rs '000	2013 Rs '000
7. Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	7,558,214	6,177,047
Raw material purchases and expenses - note 7.1	19,627,913	16,912,811
Closing stock of raw materials and work in process	(9,802,963)	(7,558,214)
	17,383,164	15,531,644
Government taxes and levies		
Customs duty and surcharges	623,263	577,245
Provincial and municipal taxes and other duties	226,156	175,459
Excise duty on royalty	51,610	46,370
	901,029	799,074
	18,284,193	16,330,718
Royalty	516,103	463,704
Production overheads		
Salaries, wages and benefits	1,708,308	1,476,556
Stores, spares and machine repairs	627,626	710,117
Fuel and power	614,863	495,546
Insurance	45,433	45,733
Repairs and maintenance	376,925	216,901
Postage, telephone and stationery	8,792	7,679
Information technology	65,092	103,931
Depreciation	621,312	559,432
Provision for damaged stocks/stock written off	76,048	15,152
Provision for slow moving items/stores written off	78,000	21,726
Sundries	302,381	125,291
	4,524,780	3,778,064
Cost of goods manufactured	23,325,076	20,572,486
Cost of finished goods		
Opening stock	1,608,153	1,048,254
Closing stock	(2,161,545)	(1,608,153)
	(553,392)	(559,899)
Cost of sales	22,771,684	20,012,587

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs '000	2013 Rs '000
7.1 Raw material purchases and expenses		
Materials	17,080,383	15,454,647
Salaries, wages and benefits	907,889	689,322
Stores, spares and machine repairs	232,784	289,623
Fuel and power	837,065	223,840
Property rentals	107,818	54,555
Insurance	21,470	3,642
Repairs and maintenance	68,110	22,174
Postage, telephone and stationery	10,866	7,909
Depreciation	113,099	123,174
Sundries	248,429	43,925
	19,627,913	16,912,811

8. Selling and distribution costs

	2014 Rs '000	2013 Rs '000
Salaries, wages and benefits	654,105	603,447
Selling expenses	2,958,059	2,780,674
Freight	76,319	323,584
Repairs and maintenance	80,237	85,531
Postage, telephone and stationery	13,808	5,542
Travelling	37,409	45,382
Property rentals	15,452	11,299
Insurance	11,219	11,312
Finished goods stock written off	-	111,585
Depreciation	30,504	44,279
	3,877,112	4,022,635

9. Administrative expenses

	2014 Rs '000	2013 Rs '000
Salaries, wages and benefits	1,019,552	886,509
Fuel and power	16,856	37,678
Property rentals	131,489	53,854
Insurance	6,219	5,149
Repairs and maintenance	37,716	48,538
Postage, telephone and stationery	18,221	14,432
Legal and professional charges	41,893	37,044
Donations - note 9.1	10,100	1,100
Information technology	914,205	377,242
Travelling	82,357	116,517
Depreciation	68,882	85,263
Auditor's remuneration and expenses - note 9.2	9,756	15,830
Sundries	41,635	37,158
	2,398,881	1,716,314

9.1 There were no donations in which the directors, or their spouses, had any interest.

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs '000	2013 Rs '000
9.2 Auditor's remuneration and expenses include:		
- Statutory audit fee	1,628	1,507
- Group reporting, review of half yearly accounts, audit of consolidated accounts, audit of staff retirement benefit funds and special certifications	3,379	3,129
- Tax services	4,209	10,634
- Out-of-pocket expenses	540	560
	9,756	15,830

10. Other operating expenses

	2014 Rs '000	2013 Rs '000
Workers' profit participation fund	386,026	250,639
Workers' welfare fund	146,690	76,725
Bank charges and fees	32,952	38,662
Loss on disposal of property, plant and equipment	18,536	-
Interest paid to workers' profit participation fund	517	25
Foreign exchange loss	66,032	31,908
	650,753	397,959

11. Other income

	2014 Rs '000	2013 Rs '000
Income from an associated company		
- BAT SAA Services (Private) Limited, for services rendered	34,502	31,595
Recharges payable written back	94,810	-
Vehicle rental from marketing agencies	17,081	-
Adjustment for federal excise duty	11,814	-
Income recognised on sale and leaseback of vehicles - note 26.5	5,872	9,215
Insurance claim received	-	29,469
Sale of retail data	-	23,500
Gain on disposal of property, plant and equipment	-	25,353
Miscellaneous	2,336	9,997
	166,415	129,129

12. Finance cost

	2014 Rs '000	2013 Rs '000
Interest expense on:		
Bank borrowings	53,989	44,310
Finance lease	45,067	27,709
	99,056	72,019

13. Income tax expense

	2014 Rs '000	2013 Rs '000
Current	2,239,017	1,575,639
Deferred	98,639	(33,043)
	2,337,656	1,542,596

13.1 Effective tax rate reconciliation:

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

	2014 Rs '000	2013 Rs '000
Applicable tax rate	33.00	34.00
Tax effect of:		
Inadmissible expenses	0.35	0.44
Income taxed at different rate	(0.12)	(0.02)
Change in applicable tax rate	-	(0.69)
Others	(0.71)	(0.68)
Average effective tax rate	32.52	33.05

The applicable income tax rate was reduced from 34% to 33% during the year on account of the changes made to Income tax Ordinance, 2001 in 2014.

13.2 Tax on items directly credited to statement of comprehensive income

	2014 Rs '000	2013 Rs '000
Current tax charge on defined benefit plans	39,463	61,777
Deferred tax credit on defined benefit plans	(12,528)	(43,731)
	26,935	18,046

14. Earnings per share

	2014	2013
Profit after tax (Rs '000)	4,850,145	3,124,309
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share - Basic (Rs)	18.98	12.23

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 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			
	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
Managerial remuneration	74,722	72,447	44,941	47,940	257,896	211,522	747,115	681,622	1,124,674	1,013,531
Corporate bonus	19,320	30,988	47,252	122,793	224,341	163,755	225,571	245,476	516,484	563,012
Leave fare assistance	4,036	5,568	3,330	3,848	11,078	10,295	3,324	4,669	21,768	24,380
Housing and utilities	12,309	11,601	13,468	21,010	69,770	54,020	301,289	276,287	396,836	362,918
Medical expenses	-	1,103	1,667	2,527	18,597	12,075	42,697	48,194	62,961	63,899
Post employment benefits	5,604	11,544	6,029	12,027	38,572	27,156	155,981	148,086	206,186	198,813
	115,991	133,251	116,687	210,145	620,254	478,823	1,475,977	1,404,334	2,328,909	2,226,553
Number of persons	1	1	2*	4	37*	36	495	485	535	526

* Number of executive directors decreased from four to two in last quarter of the year 2013. One of them has been reported under Key Management Personnel.

15.1 The Group, in certain cases, also provides individuals with the use of group 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 six (2013: six) non-executive directors of the Group amounted to Rs 6,519 thousand (2013: Rs 4,653 thousand).

	2014 Rs '000	2013 Rs '000
16. Property, plant and equipment		
Operating assets - note 16.1	7,651,975	6,073,717
Capital work in progress - note 16.2	1,086,550	1,035,852
	8,738,525	7,109,569

16.1 Operating assets

	Free-hold land	Buildings on free-hold land	Buildings on leasehold land	Private railway sidings	Plant and machinery	Office and household equipment	Furniture and fittings	Vehicles - owned	Vehicles - under finance lease	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
At January 1, 2013										
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 January 1, 2013	33,934	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,522,359
Year ended December 31, 2103										
Net book amount at January 1, 2013	33,934	560,758	9,944	25	4,349,994	249,563	51,942	109,838	156,361	5,522,359
Additions	-	85,505	-	-	812,968	155,167	4,697	3,079	361,278	1,422,694
Disposals	-	(17,535)	(550)	(25)	(8,169)	(2,780)	(528)	(13,242)	(16,359)	(59,188)
Depreciation charge	-	(22,038)	(568)	-	(561,459)	(134,126)	(15,159)	(12,787)	(66,011)	(812,148)
Net book amount at December 31, 2013	33,934	606,690	8,826	-	4,593,334	267,824	40,952	86,888	435,269	6,073,717
At January 1, 2014										
Cost	33,934	802,628	22,149	-	9,314,801	742,444	100,760	425,229	514,442	11,956,387
Accumulated Depreciation	-	(195,938)	(13,323)	-	(4,721,467)	(474,620)	(59,808)	(338,341)	(79,173)	(5,882,670)
Net book amount January 1, 2014	33,934	606,690	8,826	-	4,593,334	267,824	40,952	86,888	435,269	6,073,717
Year ended December 31, 2014										
Net book amount at January 1, 2014	33,934	606,690	8,826	-	4,593,334	267,824	40,952	86,888	435,269	6,073,717
Additions	-	48,340	1,081	-	1,869,111	165,289	262,987	20,907	129,955	2,497,669
Disposals	-	(774)	(258)	-	(28,089)	(601)	(1,102)	(26,276)	(28,514)	(85,615)
Depreciation charge	-	(20,728)	(394)	-	(615,009)	(110,655)	(17,976)	(3,699)	(65,337)	(833,797)
Net book amount at December 31, 2014	33,934	633,528	9,255	-	5,819,347	321,857	284,861	77,820	471,373	7,651,975
At December 31, 2014										
Cost	33,934	849,171	20,011	-	11,090,485	880,031	361,319	317,526	603,886	14,156,363
Accumulated depreciation	-	(215,643)	(10,756)	-	(5,271,138)	(558,174)	(76,458)	(239,706)	(132,513)	(6,504,388)
Net book amount at December 31, 2014	33,934	633,528	9,255	-	5,819,347	321,857	284,861	77,820	471,373	7,651,975

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		2014 Rs '000	2013 Rs '000
16.2	Capital work in progress		
	Civil and electric works	21,684	21,684
	Plant and machinery	775,716	992,914
	Advances to suppliers	289,150	21,254
		1,086,550	1,035,852
16.3	Depreciation charge has been allocated as follows:		
	Cost of sales	621,312	559,432
	Raw material purchases and expenses	113,099	123,174
	Selling and distribution expenses	30,504	44,279
	Administrative expenses	68,882	85,263
		833,797	812,148

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:

	Cost Rs '000	Book value Rs '000	Sale proceeds less selling expenses Rs '000	Particulars of Buyers
Computer equipment				
- by insurance claim	102	65	108	EFU General Insurance Co.
	88	73	174	-do-
House hold furniture				
- as per Group's policy	222	117	111	Thusitha - ex employee
Office fixtures				
- by negotiation	141	66	72	Telenor (Pvt) Limited
	150	70	76	-do-
	180	107	92	-do-
	266	125	136	-do-
	432	204	220	-do-
	432	204	220	-do-
	495	206	178	-do-
- by auction	114	78	79	Karachi Auction Mart

	Cost Rs '000	Book value Rs '000	Sale Proceeds less selling expenses Rs '000	Particulars of Buyers
Vehicles				
- as per Group's policy	1,305	847	828	Nimra Athar - employee
	1,305	888	921	Zaheer Iqbal - employee
	1,350	876	850	Jibran Khursheed - ex employee
	1,350	802	666	Shabab Ali - employee
	1,354	282	135	Faisal Iqbal - employee
	1,395	902	912	Turab Ali Khan - employee
	1,691	1,317	1,354	Izza Aamer - ex employee
	1,691	1,047	1,285	Hammad Arif - employee
	1,691	1,062	1,060	Umair Luqman - employee
	1,691	1,090	1,083	Haroon Saleem - employee
	3,600	2,280	2,210	Feroze Ahmed - ex employee
	3,949	395	1,932	Ibrahim Shaikh - employee
	5,400	3,420	3,316	Mobasher Raza - ex employee
	1,354	197	135	Muhammad Ahsan - employee
	1,354	226	819	Umar Mansoor - employee
	1,395	902	912	Turab Ali Khan - employee
	1,418	853	889	Waqas Bhatti - employee
	1,691	1,298	1,409	Imran Sharif - employee
	1,720	251	991	Muhammad Asim - employee
	1,742	290	174	Muhammad Idries - employee
	2,106	1,340	1,433	Hasan Zulfiqar - employee
	2,106	1,616	1,642	Syed Asad Shah - employee
- by auction	981	98	1,041	Adil Mehmood - Rawalpindi
	1,040	104	795	Khanzada - Rawalpindi
	1,378	138	954	Haji Akbar Ali - Islamabad
	1,780	178	1,011	Mohammad Naeem - Islamabad
	2,350	235	1,270	Ajab deen - Parachinar
	2,365	236	932	Ajab deen - Parachinar
	2,650	265	1,361	Mohammad Bilal - Islamabad
	2,775	277	1,370	Tariq - Mehmood - Islamabad
	2,978	298	1,411	Tariq - Mehmood - Islamabad
- by insurance claim	101	94	101	New Hampshire Insurance Company
	1,250	817	1,500	-do-
	1,485	976	1,800	-do-
	1,691	1,333	1,691	-do-
	1,982	995	1,834	-do-
	2,007	1,768	2,007	-do-
	2,125	1,882	2,125	-do-
	2,162	1,781	2,162	-do-

	2014 Rs '000	2013 Rs '000
17. Long term loans - unsecured, considered good		
Related parties		
Key management personnel	23	45
Others		
Other executives	48	279
	71	324
Less: Receivable within one year	(52)	(249)
	19	75

17.1 Reconciliation of loans:

	Executives				Total	
	Key management personnel		Other executives			
	2014 Rs'000	2013 Rs'000	2014 Rs'000	2013 Rs'000	2014 Rs'000	2013 Rs'000
Balance as at January 1	45	105	279	1,270	324	1,375
Repayments	(22)	(60)	(231)	(991)	(253)	(1,051)
Balance as at December 31	23	45	48	279	71	324

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. The Group has discontinued this facility in prior years and new loans were not disbursed to employees during the year.

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

	2014 Rs '000	2013 Rs '000
Key management personnel	43	98
Other executives	236	1,136
	279	1,234

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	2014 Rs'000	2013 Rs'000

18. Long term deposits and prepayments

	2014 Rs'000	2013 Rs'000
Security deposits	25,958	18,351
Prepayments	6,495	3,127
	32,453	21,478

19. Stock-in-trade

	2014 Rs'000	2013 Rs'000
Raw materials	9,469,323	7,331,209
Raw materials in transit	252,569	157,213
Work in process	81,071	69,792
Finished goods	2,161,545	1,608,153
	11,964,508	9,166,367
Provision for damaged raw material	(70,000)	-
	11,894,508	9,166,367

20. Stores and spares

	2014 Rs'000	2013 Rs'000
Stores and spares	542,629	488,213
Provision for slow moving items	(70,600)	-
	472,029	488,213

21. Trade debts

These are unsecured, considered good.

22. Loans and advances

	2014 Rs'000	2013 Rs'000
Related parties		
Loans to key management personnel	15	22
Advances to key management personnel for house rent and expenses	6,037	7,036
Others		
Loans to executives and other employees	37	227
Advances to executives for house rent and expenses	40,650	46,867
Advances to other parties	19,953	35,427
	66,692	89,579

These loans and advances are unsecured and considered good.

	2014 Rs'000	2013 Rs'000

23. Other receivables

	2014 Rs'000	2013 Rs'000
Related parties - unsecured		
Due from holding company / associated companies - note 23.1	45,979	48,209
Unbilled receivable from related parties	28,089	5,848
Staff pension fund - note 28	319,535	345,253
Management's provident fund	-	1,484
Others		
Claims against suppliers	7,977	11,086
Others	3,866	3,154
	405,446	415,034

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

	2014 Rs'000	2013 Rs'000
Holding Company		
British American Tobacco p.l.c. - UK	-	2,015
Associated Companies		
BAT SAA Services (Private) Limited - Pakistan	34,502	16,741
BAT Nigeria Ltd - Nigeria	7,750	-
BAT Tutun Mamulleri - Turkey	2,392	3,471
PT Bentoel Prima - Indonesia	1,335	3,744
BAT Marketing (Singapore) Pte Ltd	-	6,976
BAT GLP Ltd - UK	-	3,769
BAT Korea Manufacturing - South Korea	-	2,732
BAT ASPAC Service Center Sdn Bhd - Malaysia	-	2,706
BAT Asia-Pacific Region Ltd - Hong Kong	-	1,478
BAT SCWE Ltd. - UK	-	1,475
BAT Switzerland SA	-	1,202
BAT Cambodia	-	1,109
BAT (Singapore) Pte Ltd	-	791
	45,979	48,209

24. Cash and bank balances

	2014 Rs'000	2013 Rs'000
Deposit account	18,282	24,105
Current accounts		
Local currency	104,138	1,394
Foreign currency	24,520	31,270
	146,940	56,769
Cash in hand	2,633	3,359
	149,573	60,128

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	2014 Rs'000	2013 Rs'000

25. Trade and other payables

	2014 Rs'000	2013 Rs'000
Related parties - unsecured		
Due to holding company / associated companies - note 25.1	1,007,494	628,305
Others		
Creditors	2,500,716	906,435
Federal excise duty - note 25.2	4,610,181	3,518,345
Sales tax	1,216,746	969,662
Tobacco excise duty / Tobacco development cess - note 25.3	122,329	99,218
Employee incentive schemes - note 25.4	98,046	163,771
Employees' gratuity fund - note 27	308,042	265,349
Staff pension fund - defined contribution	8,999	347
Management provident fund	2,998	-
Employees' provident fund	7,861	595
Workers' profit participation fund	386,026	250,639
Workers' welfare fund	146,690	95,243
Other accrued liabilities	751,444	757,017
Advances from customers	2,480	1,300
Security deposits	18,282	24,105
Dividend payable / unclaimed dividend	77,220	37,598
Deferred income on sale and leaseback of vehicles - note 25.5	972	6,844
	11,266,526	7,724,773

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

	2014 Rs'000	2013 Rs'000
Holding Company		
British American Tobacco p.l.c. - UK	185,610	152,075
Associated Companies		
BAT ASPAC Service Center Sdn Bhd - Malaysia	235,073	194,958
BAT Marketing (Singapore) Pte Ltd	168,787	114,117
BAT GLP Ltd - UK	134,368	54,364
BAT Singapore (Pte) Ltd - Singapore	92,603	-
BAT Bangladesh Co. Ltd	71,529	-
BAT Asia-Pacific Region Ltd - Hong Kong	53,523	56,349
BAT GSD Ltd. - UK	47,853	27,898
BAT Suisse - Switzerland	12,039	-
Ceylon Tobacco Company Plc - Sri Lanka	4,256	5,968
BAT Australia	1,268	21,283
BAT SCWE Ltd. - UK	585	-
BAT (Malaysia) Berhad	-	578
BAT Korea Manufacturing - South Korea	-	440
BAT Vinataba (JV) Ltd - Vietnam	-	275
	1,007,494	628,305

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	2014 Rs'000	2013 Rs'000
25.2 Federal excise duty		
Balance as at January 1	3,518,345	3,542,618
Charge for the year	54,447,161	46,110,971
Payment to the Government during the year	(53,355,325)	(46,135,244)
Balance as at December 31	4,610,181	3,518,345
25.3 Tobacco excise duty / Tobacco development cess:		
Balance as at January 1	99,218	78,566
Charge for the year	152,795	116,299
Payment to the Government during the year	(129,684)	(95,647)
Balance as at December 31	122,329	99,218

25.4 Employee incentive schemes

These represent liability for unvested portion of cash-settled share-based payment schemes available to certain employees. Such schemes require the Group to pay the intrinsic value of these share based payments to the employee at the vesting date.

	2014 Rs'000	2013 Rs'000
Long Term Incentive Plan (LTIP) - note 25.4.1		
Balance as at January 1	78,815	57,816
(Reversal) / charge for the year	(24,200)	41,940
Payment to employees	(20,672)	(20,941)
Balance as at December 31	33,943	78,815
Deferred Share Bonus Scheme (DSBS) - note 25.4.2		
Balance as at January 1	84,956	79,927
(Reversal) / charge for the year	59,389	52,421
Payment to employees	(80,242)	(47,392)
Balance as at December 31	64,103	84,956
	98,046	163,771

25.4.1 Long Term Incentive Plan

Details of the options movement for cash-settled LTIP scheme during the year were as follows:

	Number of options	
Outstanding as at January 1	19,788	17,415
Granted during the year	10,129	6,393
Exercised during the year	(17,561)	(4,020)
Outstanding as at December 31	12,356	19,788

There are no exercisable options at end of the year.

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

25.4.2 Deferred Share Bonus Scheme (DSBS)

Details of the options movement for cash-settled DSBS scheme during the year were as follows:

	2014	2013
	Number of options	
Outstanding as at January 1	24,324	22,679
Granted during the year	12,705	8,565
Exercised during the year	(14,863)	(6,920)
Outstanding as at December 31	22,166	24,324

There are no exercisable options at end of the year.

	2014 Rs '000	2013 Rs '000
25.5 Deferred income on sale and leaseback of vehicles		
Deferred income	6,844	16,059
Income recognised during the year	(5,872)	(9,215)
	972	6,844

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 is being 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 6,500 million (2013: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 5,937 million (2013: Rs 2,914 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 7,222 million (2013: Rs 5,940 million). The mark-up ranges between 10.03% and 10.69% (2013: 9.22% and 10.46%) 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 (2013: Rs 2,500 million) and Rs 420 million (2013: Rs 670 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 483 million (2013: Rs 1,537 million) and Rs 213 million (2013: Rs 179 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 670 million (2013: Rs 670 million).

	2014 Rs '000	2013 Rs '000
27. Retirement benefits		
Staff pension fund - Asset (note 23)	(319,535)	(345,253)
Employees' gratuity fund - Liability (note 25)	308,042	265,349

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2014 using the projected unit credit method. Details of the defined benefit plans are:

		Defined benefit pension plan		Defined benefit gratuity plan	
		2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
(a)	The amounts recognised in the balance sheet:				
	Present value of defined benefit obligations	4,034,421	3,582,353	1,257,137	1,082,176
	Fair value of plan assets	(4,353,956)	(3,927,606)	(949,095)	(816,827)
	Net (Assets) / liability	(319,535)	(345,253)	308,042	265,349
(b)	Movement in the liability recognized in the balance sheet is as follow:				
	Balance as at January 1	(345,253)	(182,804)	265,349	91,720
	Charge for the year - profit & loss	30,456	69,333	78,231	50,862
	Employer's contribution during the year	126,458	(22,611)	(91,345)	(35,529)
	Remeasurement (gain) / loss recognized in Other Comprehensive Income (OCI) during the year	(131,196)	(209,171)	55,807	158,296
	Balance as at December 31	(319,535)	(345,253)	308,042	265,349
(c)	The amounts recognised in the profit and loss account:				
	Current service cost	120,171	109,222	52,215	45,633
	Interest cost	461,845	409,753	139,199	102,011
	Expected return on plan assets	(504,067)	(405,129)	(106,749)	(91,318)
		(42,222)	4,624	32,450	10,693
	Members' own contribution	(28,607)	(27,868)	-	-
	Secondees' own contribution	(7,400)	(5,948)	-	-
	Contribution by employer in respect of secondees	(11,486)	(10,697)	(6,434)	(5,464)
		30,456	69,333	78,231	50,862
(d)	Re-measurements recognised in Other Comprehensive Income (OCI) during the year:				
	Actuarial (gain) / loss on obligation	39,883	(133,450)	98,892	169,163
	Net return on plan assets over interest income	(171,079)	(75,721)	(43,085)	(10,867)
	Total re-measurements recognised in OCI	(131,196)	(209,171)	55,807	158,296

		Defined benefit pension plan		Defined benefit gratuity plan	
		2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
(e)	Movement in the present value of defined benefit obligation:				
	Present value of defined benefit obligation as at January 1	3,582,353	3,358,267	1,082,176	870,406
	Current service cost	120,171	109,222	52,215	45,633
	Interest cost	461,845	409,753	139,199	102,011
	Actual benefits paid during the year	(169,831)	(161,439)	(115,345)	(105,037)
	Remeasurements: Actuarial (gain)/loss on obligation	39,883	(133,450)	98,892	169,163
	Present value of defined benefit obligation as at December 31	4,034,421	3,582,353	1,257,137	1,082,176
(f)	Movement in the fair value of plan assets:				
	Fair value of plan assets as at January 1	3,927,606	3,541,071	816,827	778,686
	Expected return on plan assets	504,067	405,129	106,749	91,318
	Contribution by employer in respect of members	(126,458)	22,611	91,345	35,529
	Members' own contribution	28,607	27,868	-	-
	Secondees' own contribution	7,400	5,948	-	-
	Contribution by employer in respect of secondees	11,486	10,697	6,434	5,464
	Actual benefits paid during the year	(169,831)	(161,439)	(115,345)	(105,037)
	Total remeasurement on assets acturial gain	171,079	75,721	43,085	10,867
	Fair value of plan assets as at December 31	4,353,956	3,927,606	949,095	816,827
	Actual return on plan assets	482,124	469,627	112,609	97,839

The Group expects to charge Rs 45 million for pension plan and Rs 109 million for gratuity plan for the year ending December 31, 2015.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2014 Rs '000	2013 Rs '000	2014 Rs '000	2013 Rs '000
(g)	The major categories of plan assets:				
	Investment in equities	803,341	629,549	169,970	135,632
	Investment in bonds	3,526,215	3,287,427	747,082	679,634
	Cash and other assets	24,400	10,630	32,043	1,561
		4,353,956	3,927,606	949,095	816,827
(h)	Significant actuarial assumptions at the balance sheet date:				
	Discount rate	11.25%	13.00%	11.25%	13.00%
	Pension increase rate	7.00%	9.00%	-	-
	Expected rate of increase in salary				
	First year	13.50%	14.00%	13.50%	14.00%
	Second year onwards	10.25%	12.00%	10.25%	12.00%

The mortality table used for post retirement mortality is Standard Table Mortality The "80" Series PMA 80 (C=2015) and PFA 80(C=2015) for males and females respectively but rated up 2 years.

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.

(i) Sensitivity Analysis on significant actuarial assumptions

The calculation of the defined benefit obligation is sensitive to assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the year end of the reporting period would have increased / (decreased) as a result of a change in respective assumptions by one percent.

	Defined benefit pension plan		Defined benefit gratuity plan	
	1 percent increase	1 percent decrease	1 percent increase	1 percent decrease
Discount rate	3,478,253	(4,744,345)	(1,145,530)	1,385,878
Salary increase	4,241,225	(3,850,881)	1,376,524	(1,151,471)
Increase in post retirement pension	4,517,173	(3,639,718)	-	-

If life expectancy increases by 1 year, the obligation of the Pension Fund increases by Rs 113.585 million.

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

	2014 Rs'000	2013 Rs'000
Defined Contribution Provident Fund	78,184	65,663
Defined Benefit Pension Fund	30,455	69,333
Defined Contribution Pension Fund	49,098	36,078
Defined Benefit Gratuity Fund	77,214	50,862
	234,951	221,936

27.2 Defined Contribution Plan

Details of the management and employees' provident funds are as follows:

	2014 Rs'000	2013 Rs'000
(a) Net assets	1,546,833	1,327,418
Cost of investments made	1,263,629	1,119,354
Percentage of investments made	82%	84%
Fair value of investments made	1,391,122	1,196,239

		2014		2013	
		Rs '000	%age	Rs '000	%age
(b)	Breakup of investments at cost				
	Treasury bills	26,722	2%	29,031	3%
	Pakistan Investment Bonds	459,541	30%	401,713	30%
	Investment plus deposit certificates	447,100	29%	472,144	35%
	Investment in savings account with bank	14,833	1%	7,243	1%
	Investment in securities	185,243	12%	109,258	8%
	Accrued Interest	130,190	8%	99,965	7%
		1,263,629	82%	1,119,354	84%

(c) Investments out of provident fund have been made in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and the rules formulated for the purpose.

28. Deferred income tax liability

	2014 Rs'000	2013 Rs'000
Deferred tax liability is in respect of		
Accelerated tax depreciation	1,151,987	1,058,402
Leased assets	77,075	25,621
	1,229,062	1,084,023
Deferred tax asset is in respect of		
Remeasurement loss arising on employees' retirement benefit	(82,433)	(69,905)
Provision for stock and stores	(46,400)	-
	1,100,229	1,014,118
The gross movement on deferred income tax account is as follows:		
At January 1	1,014,118	1,090,892
Charge / (credit) for the year - profit and loss account	98,639	(33,043)
Credit for the year - statement of comprehensive income	(12,528)	(43,731)
At December 31	1,100,229	1,014,118

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 617,308 thousand (2013: 479,785) thousand and are payable in equal monthly installments latest by December 2018. Taxes, repairs, replacement and insurance costs are to be borne by the Group. Financing rates of 10.30% to 11.43% (2013: 10.30% to 11.37%) 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:

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs'000	2013 Rs'000
Present value of minimum lease payments	519,728	385,603
Current maturity shown under current liabilities	(119,375)	(92,559)
	400,353	293,044
Minimun Lease Payments		
Not later than one year	172,948	129,337
Later than one year and not later than five years	444,360	350,448
	617,308	479,785
Future finance charges on finance leases	(97,580)	(94,182)
Present value of finance lease liabilities	519,728	385,603
Present value of finance lease liabilities		
Not later than one year	119,375	92,559
Later than one year and not later than five years	400,353	293,044
	519,728	385,603

30. Share capital

30.1 Authorized share capital

2014	2013		2014	2013
(Number Of Shares)			Rs'000	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

2014	2013		2014	2013
(Number Of Shares)			Rs'000	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 (2013: 241,045,141) ordinary shares at the year end.

31. Contingencies and commitments

	2014 Rs'000	2013 Rs'000
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	212,455	179,447

(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 financial statements.

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

31.2 Commitments

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

	2014 Rs'000	2013 Rs'000
Not later than one year	68,535	135,229
Later than one year and not later than five years	627,265	559,700
Later than five years	65,167	18,403

(b) Letters of credit outstanding at December 31, 2014 were Rs 584,891 thousand (2013: Rs 1,536,509 thousand).

32. Financial instruments

32.1 Financial assets and liabilities

	2014 Rs'000	2013 Rs'000
Financial assets		
Loans and receivables		
Maturity up to one year:		
Trade debts	3,225	764
Loans and advances	66,692	89,579
Other receivables		
Local currency	393,968	383,566
Foreign currency	11,478	31,468
	405,446	415,034
Cash and bank balances		
Local currency	123,844	26,752
Foreign currency	25,729	33,376
	149,573	60,128
	624,936	565,505
Maturity after one year:		
Loans	19	75
Security deposits	19,958	18,351
	644,913	583,931

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs'000	2013 Rs'000
Financial liabilities		
Other financial liabilities		
Maturity up to one year:		
Trade and other payables		
Excise duty and sales tax payable	5,826,927	4,488,007
Others		
Local currency	4,560,572	2,711,030
Foreign currency	866,152	517,592
	11,253,651	7,716,629
Short term running finance	562,870	2,436,445
Finance lease obligation	119,375	92,559
Accrued interest / mark-up	24,166	27,048
	11,960,062	10,272,681
Maturity after one year:		
Finance lease obligation	400,354	293,044
	12,360,416	10,565,725

33.2 Forward foreign exchange contracts

The principal amounts of the outstanding forward foreign exchange contracts for hedging of letters of credit amounted to Rs 434,729 thousand at December 31, 2014 (2013: Rs 1,480,922 thousand).

33. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2013: 94.34%) shares of the Group 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.

Notes to and forming part of the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rs'000	2013 Rs'000
Purchase of goods and services from		
Holding company	729,250	359,552
Associated companies	1,853,760	2,083,481
Sale of goods and services to		
Holding company	8,766	32,902
Associated companies	61,938	122,114
Royalty charge from		
Holding company	516,103	463,704
Expenses reimbursed to		
Holding company	13,323	-
Associated companies	12,574	579
Expenses reimbursed by		
Holding company	8,645	-
Associated companies	20,773	4,312

34. Post balance sheet event

In respect of the year ended December 31, 2014 final dividend of Rs 12.00 (2013: Rs 6.00) per share amounting to a total dividend of Rs 3,065,925 thousand (2013: 1,532,963 thousand) has been proposed at the Board of Directors meeting held on February 23, 2015. These consolidated financial statements do not reflect this proposed dividend.

35. General

35.1 Capacity and production

Against an estimated manufacturing capacity of 53,000 million cigarettes (2013: 46,000 million cigarettes) actual production was 44,496 million cigarettes (2013: 43,984 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, 2014 were 1,269 (2013: 1,250). Average number of employees during the year were 1,234 (2013 : 1,193)

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 Group on February 23, 2015.

Graeme Amey
Managing Director & CEO

Syed Javed Iqbal
Director Finance & IT

PAKISTAN TOBACCO COMPANY

Form of Proxy

I, ____

of ____

a member of Pakistan Tobacco Company Limited, hereby appoint ________________________________

____ of ________________________________

or failing him ________________________________ of ________________________________

or failing him either of them, may in writing appoint any other person to act as my proxy at the **68th** Annual General Meeting of the Company to be held on the **20th April, 2015** and at any and every adjournment thereof.

As witness my hand this ____________ day of ________ 2015.

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, **8-F, Next to Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shahrah-E-Faisal, Karachi,** not later than 48 hours before the time for holding the Meeting or adjourned Meeting and in default the instrument of proxy shall not be treated as valid.

For Beneficial Owners as per CDC List

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

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

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

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

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

Witness as per (ii) above:

1. ______________________ 2. ______________________

www.ptc.com.pk

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Serena Business Complex
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Islamabad-44000