



PAKISTAN TOBACCO
COMPANY

Maximum Volume

2005



Registered Office

Pakistan Tobacco Company Limited
 Evacuee Trust Complex
 Agha Khan Road, Sector F-5/1
 P.O. Box 2549, Islamabad 44000
 Telephone: (051) 2083200-01
 Fax: (051) 2278376, 2278377
 Web: www.ptc.com.pk

Company Secretary

Tajamal Shah
 Head of Legal & Company Secretary
 E-mail: tajamal_shah@bat.com

Bankers

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

Auditors

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

Share Registrar

Ferguson Associates (Pvt.) Ltd.
 1-A, State Life Building
 I.I. Chundrigar Road, Karachi

Factories

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

Jhelum Factory

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

Regional Sales Offices

North Punjab & N.W.F.P.
 57-A/6, Satellite Town, Rawalpindi
 Telephone: (051) 4582390-1
 Fax: (051) 4582392

Central Punjab

128/129-G, Commercial Area
 DHA, Phase I, Lahore
 Telephone: (042) 5899351-5
 Fax: (042) 5899356

Southern Punjab

46-B, Qasim Road, Multan
 Telephone: (061) 4584376, 4512553
 Fax: (061) 4542291

Sind & Baluchistan

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

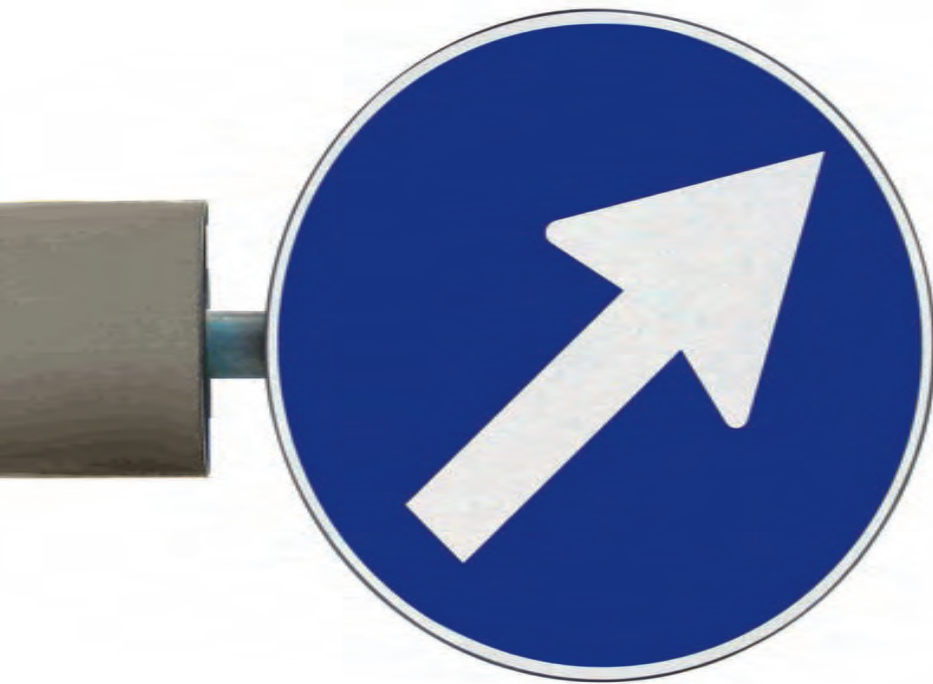
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**Special Feature**

BAT's world-renowned international brand, Dunhill, is officially launched in Pakistan for the super-premium segment. **P42**

Corporate Objectives

Our vision, mission and strategic objectives define the way we live and work. We nurture four guiding principles that represent the core values of our organisation.



Our Vision

First Choice for Everyone.

Our Mission

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

Our Strategic Objectives

Higher Operating Margins, Volume Growth, Level Playing Field and Winning Culture are defined at PTC as 'Must Achieve Objectives.'

Our Values

Open-mindedness

- We listen actively, communicate openly and value feedback.
- We are open and honest in all our dealings and foster a climate of trust and support.
- We encourage creativity and constantly challenge the status quo.
- We operate across functions and boundaries and involve all our stake holders.

Strength from diversity

- We seek ideas and accept input from a range of sources.
- We know and value individual abilities and utilise these in improving team contribution.
- We foster a diverse workforce.
- Equality is a hallmark of our workplace.

Freedom through responsibility

- We provide our people with the accountability, responsibility and resources they need.
- We actively coach and develop our people.
- We provide role clarity and set and maintain standards.
- We provide an environment that encourages employees to maximise their potential.

Enterprising spirit

- We constantly provide opportunities and experiences to learn and grow to maximise the individual potential.
- We encourage an innovative, creative environment.
- We celebrate and reward success.
- We challenge our current way of doing things.

The Board



Mr. Aslam Khaliq
Chairman & Non-Executive Director

Aslam Khaliq joined Pakistan Tobacco in 1967 as an agronomist. During his service, he worked in various departments including Product Development and Corporate Planning. He was seconded to BAT, UK during 1988-89 and upon returning to Pakistan was appointed as GM, Leaf.

In 1996, he was appointed as Director Corporate and Regulatory Affairs and became Deputy Managing Director in 2001. On retirement in June 2004, he was invited to become the Chairman of the Board.

He also served as a member of the Pakistan Tobacco Board (Federal Board under the Ministry of Commerce) between 1991-2003, and as Chairman and Vice Chairman of Cigarette Manufacturers Association between 1997-2004.

He is also a member of the boards of Lahore University of Management Sciences (LUMS), OGDCL, NADRA, Pakistan Intellectual Property Rights Organization (PIPRO), Indus Valley School of Arts and Architecture, and Jahangir Siddiqui Capital Markets Limited.



Mr. William Toh Ah Wah
Managing Director & Chief Executive

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

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

Before joining BAT, William was the Managing Director of Greater China with Rothmans International based in Hong Kong. In fact, he began his career with Rothmans, Malaysia as a Management Trainee in 1981. He spent 10 and a half years of his career with the Company in Malaysia (5 years as State Sales Manager and 4 years as Marketing Manager) before he was seconded overseas with his first posting to China in 1991.



Mr. Fazal Ghaffoor
Marketing Director

Affably known as Ghaff, he joined Pakistan Tobacco Company as Marketing Director having previously served as Area Marketing Manager in East Africa, spanning a canvas of thirteen countries.

A native of Sri Lanka, Ghaff joined the group in 1976 and has served at various positions in marketing and exports at Ceylon Tobacco Company. Outside the Group, he has been General Manager for DHL and Whittals Insurance at home.



Mr. Mobasher Raza
Finance Director

Mobasher Raza, Finance Director, is with the Company for last 26 years. His experience has varied in various key positions in the Finance function in PTC and other Group Companies. His international assignments include Internal Auditor for British American Tobacco UK, Finance Director Nigeria Tobacco Company and Head of Finance British American Tobacco Croatia before taking his current role in 2002. Mobasher is also the Chairman of Cigarette Manufacturers' Association and a member of OICCI Taxation Committee.



Mr. Ahmed Zeb
Production Director

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

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



Mr. Feroze Ahmed
IT Director

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

His career includes posts of Regional IT Director in Africa & Middle East, South Asia & East Asia. He served as a member of the Board of Directors in Reckitt & Colman, South Africa and is a member of the Institute of Directors (IoD), UK. He joined the Board in October 2005.

The Board



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

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

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

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



Mr. Brendan James Brady
Non-Executive Director

With over 15 years in the tobacco industry, Brendan has had a variety of roles including regional responsibilities for Asia Pacific, Europe, Africa and Latin America. He has also worked in two operating companies as Head of Special Public Affairs Projects at Brown & Williamson and CORA Director at British American Tobacco Australasia.

Brendan has also worked for various international tobacco trade associations.



Mr. Fatehali Walimuhammad Vellani
Non-Executive Director

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

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

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



Mr. Istaqbal Mehdi
Non-Executive Director

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

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



Mr. Kunwar Idris
Non-Executive Director

Mr. Kunwar Idris joined the Civil Service of Pakistan in 1957 and retired in 1994. In a career spanning 36 years, he has not only held administrative posts like Chief Secretary, Home Secretary of Sindh, and District Magistrate/ Commissioner of Karachi, but also posts like Secretary to the Government of Pakistan in the Ministries of Petroleum and Production. In his early career, he was Assistant Commissioner and Political Agent in the North-West Frontier Tribal Areas. He was also Chairman / Chief Executive of Pakistan Automobile Corporation and Bankers Equity during the 80s.

Since his retirement from public service, Mr. Idris is associated with the boards of Hinopak Motors, Orix Investment Bank, and Al-Ghazi Tractors (all three have foreign investments) — besides being on the Board of Pakistan Tobacco. Mr. Idris is also Chairman of Pakistan Automotive Manufacturers Association.

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



Mr. Mueen Afzal
Non-Executive Director

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

He is on the board of various reputed organisations including ICI Pakistan Ltd., Muree Brewery Company Ltd., Beaconhouse National University Foundation, Al-Shifa Trust, Pakistan Poverty Alleviation Fund, Pakistan Philanthropy Centre, Sanjan Nagar Trust and Azgard Nine (Pvt.) Ltd. etc.

Mr. Afzal is also the Chairman of the Pay & Pension Committee of the Government of Pakistan and is a member of the Advisory Board of the Pakistan Cricket Board (PCB).

Financial Highlights

Profit & Loss

Volume
Gross Turnover
Excise & Sales Tax
Net Turnover
Gross Profit
Operating Profit
Profit / (Loss) Before Tax
Profit / (Loss) After Tax
Dividends

Balance Sheet

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

Investor Information

Gross Profit Ratio
Earnings / (Loss) Per Share After Tax
Inventory Turnover Ratio
Fixed Assets Turnover Ratio
Total Assets Turnover Ratio
Break-up Value Per Share
Market Value Per Share at year end
Highest Market Value Per Share during the year
Lowest Market Value Per Share during the year
Price-Earning Ratio
Dividend Per Share
Dividend Yield Ratio
Dividend Payout Ratio
Return on Capital Employed
Debt to Equity Ratio
Current Ratio
Interest Cover
Government Levies as a Percentage of Turnover

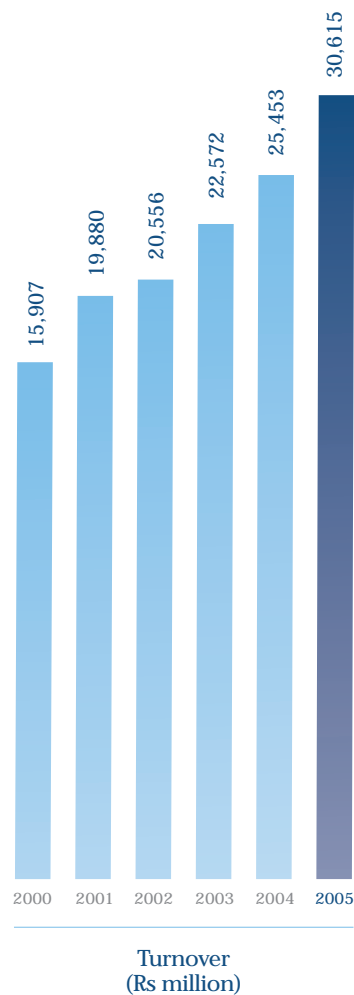
Government Levies

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

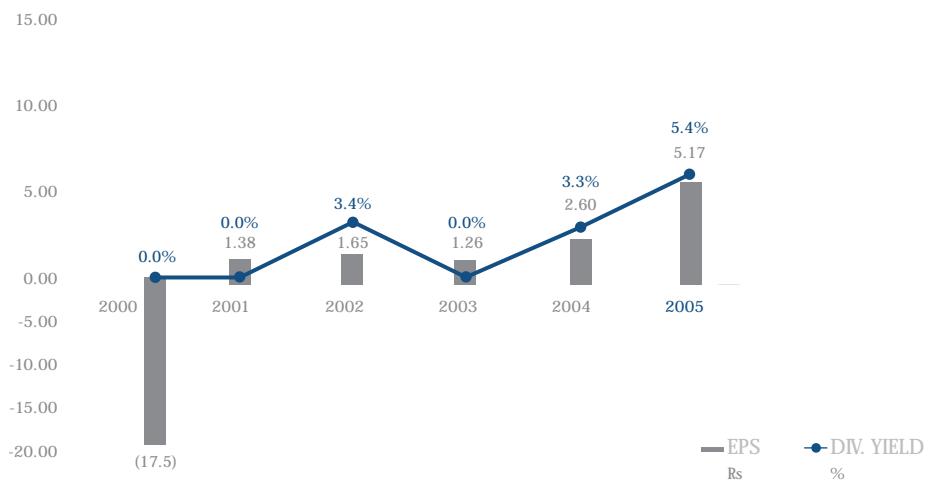
	2005	2004	2003	2002	2001	2000
Million Sticks	30,620	26,846	24,861	24,364	27,103	21,360
Rs million	30,615	25,453	22,572	20,556	19,880	15,907
Rs million	18,783	15,693	13,849	12,570	11,968	9,790
Rs million	11,832	9,760	8,723	7,986	7,912	6,117
Rs million	4,530	3,483	2,872	2,505	1,983	1,475
Rs million	2,378	1,445	1,010	952	643	316
Rs million	2,082	1,056	615	730	352	(854)
Rs million	1,322	665	321	420	354	(884)
Rs million	946	511	0	204	0	0
Rs million	2,555	2,555	2,555	2,555	2,555	2,555
Rs million	3,639	3,263	2,853	2,788	2,572	2,218
Rs million	1,084	708	554	233	17	(337)
Rs million	3,798	3,564	3,411	3,013	2,815	2,421
Rs million	532	297	40	65	(58)	(6)
Rs million	4,364	3,887	3,479	3,108	2,942	2,430
Rs million	717	598	854	523	713	841
Rs million	725	624	371	321	370	212
%	14.8	13.7	12.7	12.2	10.0	9.3
Rs	5.17	2.60	1.26	1.65	1.38	(17.49)
	6.1	7.0	5.9	5.4	5.2	5.3
	8.1	7.1	6.6	6.8	7.1	6.6
	3.8	3.6	3.1	3.1	2.9	2.8
Rs	14.24	12.77	12.17	10.91	10.07	8.68
Rs	68.95	61.50	27.00	23.80	10.50	12.65
Rs	77.00	61.50	39.00	32.40	12.40	30.50
Rs	47.55	46.40	19.50	10.30	9.25	10.00
	13.3	23.6	21.4	14.5	7.6	(0.7)
Rs	3.7	2.0	0.0	0.8	0	0
%	5.4	3.3	0.0	3.4	0	0
%	71.5	76.9	0.0	48.5	0	0
%	30.3	17.1	9.2	13.5	12.0	(36.4)
	0.3	0.3	0.5	0.6	0.9	0.8
	1.1	1.1	1.0	1.0	1.0	1.0
	46.9	29.9	7.7	4.7	2.5	(1.1)
%	62.5	64.0	64.0	63.1	64.6	65.0
Rs million	19,129	16,086	14,322	12,861	12,726	10,230
Rs million	87	71	75	76	82	74
Rs million	634	137	44	40	40	31

Financial Highlights

Our pillars of success are based on a foundation of solid growth



Earnings Per Share and Dividend Yield

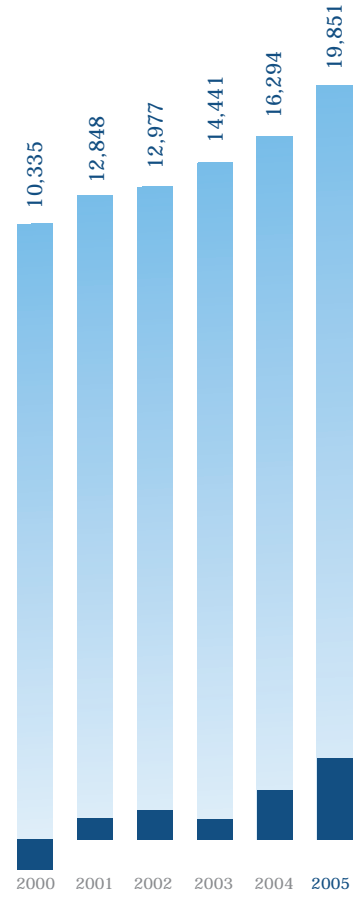




Volume (Million sticks)



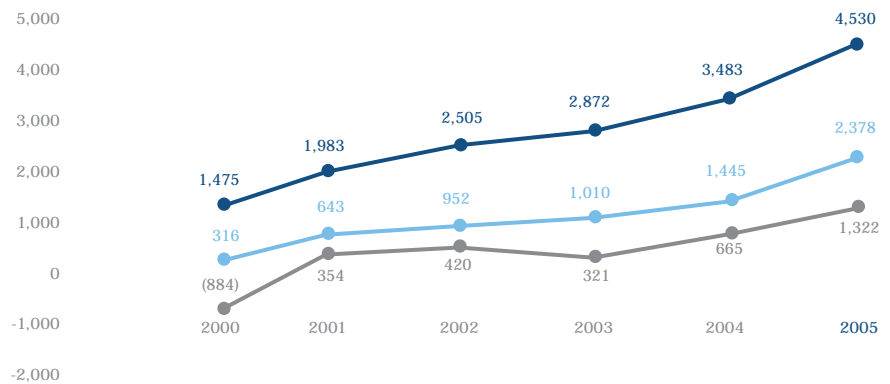
Property, Plant & Equipment
(Rs million)



Govt. Levies vs. Net Profit
(Rs million)

Gross, Operating & Net Profit

(Rs million)



Notice is hereby given for the 59th Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the 59th Annual General Meeting of Pakistan Tobacco Company Limited ("the Company") will be held at the Company's Registered Office at Evacuee Trust Complex, Agha Khan Road, Sector F-5/1, Islamabad on Thursday, April 20, 2006 at 11.00 a.m. to transact the following business:

Ordinary Business

1. To receive and consider the audited accounts for the year ended December 31, 2005 and the Report of the Directors & Auditors thereon.
2. To declare and approve Dividend recommended by the Board
3. To appoint Auditors and to fix their remuneration.

By Order of the Board

Tajamal Shah

Head of Legal & Company Secretary

March 28, 2006
Islamabad

Notes

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

2. Forms of proxy must be deposited at the office of the Company's Share Registrar not less than 48 hours before the time appointed for the Meeting and in default forms of proxy will not be treated as valid.

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

a. In Person:

i) The Company shall obtain list of beneficial owners from the Central Depository Company ("CDC") as per Regulation 12.3.5 of the CDC Regulations;

ii) In the case of individuals, authenticate his identity by showing his/her National Identity Card (NIC) or original Passport at the time of the meeting; and

iii) In the case of a corporate entity provide the Board of Directors' Resolution/Power of Attorney with specimen signatures of the nominee at the time of the meeting.

b. By Proxy:

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

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

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

iv) The proxy shall produce his original NIC or original passport at the time of the meeting.

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

4. The Share Transfer Books of the Company will be closed from April 11, 2006 to April 20, 2006 — both days inclusive.

Transfers received in order at the office of the Company's Share Registrar, Ferguson Associates (Pvt.) Ltd, State Life Building 1-A, I. I. Chundrigar Road, Karachi at the close of business on April 10, 2006 will be in time to be entitled to vote and for the entitlement of dividend.

5. Shareholders are requested to notify the Company's Share Registrar promptly of changes in their address.





Last year, I announced that 2005 was going to be a leap year. A year when we're going to take a leap from the good to the great

It gives me immense pleasure to say that Pakistan Tobacco Company (PTC) has demonstrated outstanding performance in 2005, the key features of which are:

- **Regaining of Market Leadership**
- **Record Production and Sales**
- **Record Operating Profit**

For their above achievements the Company was recognised by the Asia Pacific Regional Board of the BAT Group and awarded one of three inaugural 'Legacy Awards' for 2005.

However, for achievement of sustainable business results, we need to continue to focus on strengthening the fundamentals of business by continuing investment in technology, brands, people and improvement in processes and systems to meet the challenges of the future.

In pursuance of the latter, the Company was awarded the Global Supply Chain Excellence Award and recertified as a Class 'A' Company for MRP-II.

I would again like to acknowledge the efforts of the Government of Pakistan (GoP) to control evasion, and strengthening excise rules which have not only contributed in making this performance possible, but also resulted in significant increase in GoP revenue i.e. from Rs 16.2 billion in 2004 to over Rs 19.2 billion in 2005. Having said that, I would like to add that Illicit Trade continues to remain at over 20%, which in future will hamper the progress of the Legitimate Sector and undermine GoP's revenue collection drive, and would therefore urge the Government to add to the on going initiatives.

In the external environment, PTC continues to support the Government of Pakistan in the 'sensible regulation' of the industry and in its efforts to control Illicit Trade. On Corporate Social Responsibility, the Company, besides expanding and improving existing initiatives such as its Afforestation Programme, Mobile Doctors Programme, Computer Training Centres, Water Treatment Plants etc., has recently committed to four new initiatives in the earthquake disaster areas.

Here, I would like to extend a special 'thank you' to all PTC staff not only for their financial contribution but the untiring efforts by many of them in the immediate relief operations.

I would be failing if I did not applaud the sincere and generous contribution by our sister companies around the world, their staff and certain special individuals. The total amount of this humble contribution to-date stands at Rs 60 million (US\$ 1 million).

2005 also saw the change of Managing Director Jeremy Pike who left after three very successful years to take up a position in Africa. I would like to place Jeremy's outstanding contribution on record; particularly, his focused approach and quick decision making. William Toh, who succeeded Jeremy, comes to Pakistan on the back of some strong performances with the BAT Group in New Zealand, China and Taiwan. I would like to take this opportunity to welcome William and am confident that under his leadership, we will mount ever bigger challenges and attain greater heights.

Other changes on the Board include the retirement of Zafar Taji and the resignation of Stephen Daintith. I would like to thank both of them for their contributions.

On behalf of the Board and myself, I would like to express our appreciation to all the staff for their dedication, hardwork and professionalism resulting in excellent improvements under all major business indicators.

At the same time, going forward, I welcome the bold regional vision of our future, emerging from their 'above market' approach to addressing issues.

This promises to bring regional clout behind issues faced by individual Operating Companies within BAT — like PTC, while at the same time ensuring that there is no duplication; hence, wastage of resources.

Aslam Khaliq
Chairman



Managing Director's Review



Turnover, 2005 vs. 2004



Over-all Industry Growth, 2005 vs. 2004

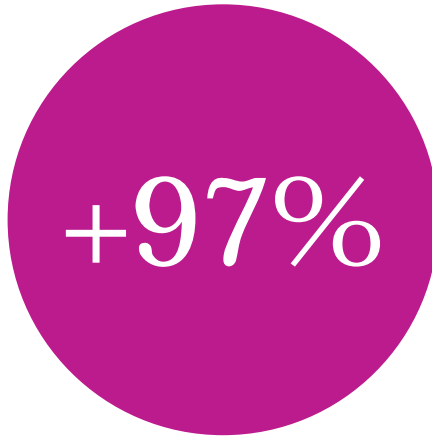
Sales Volume Growth, 2005 vs. 2004



Capstan Annual Growth, 2005 vs. 2004



Operating Profit, 2005 vs. 2004



Profit Before Tax, 2005 vs. 2004



Profit After Tax, 2005 vs. 2004



JPGL Annual Growth, 2005 vs. 2004



Gold Flake Annual Growth, 2005 vs. 2004



An unprecedented year of leadership: We have now successfully regained our Volume Leadership and continue to consolidate our Value Leadership

Source: Independent Research, 2005



It gives me great pleasure to present my first report as Managing Director of Pakistan Tobacco Company (PTC), covering our performance in 2005. I am very proud to report that your Company has scaled new heights of excellence in all areas of the business, building upon the foundations laid in the past few years.

The key achievement for 2005 is the regain of Market Volume Leadership after many years (Source: Independent Research) and further consolidation of our Value Leadership — which we have always maintained.

Operating Profit, at Rs 2,378 million is the highest ever in our history and is 65% higher than 2004. Similarly, Profit Before Tax and Profit After Tax are higher by 97% and 99% vs. last year respectively.

This outstanding performance is due to the significant increase in our sales volume, improved margins and effective cost control in all areas of the business. The details of the financial performance have been covered in the Directors' Review.

Tax evasion has registered a slight decline from last year's level due to increased Government enforcement activities.

We highly appreciate the Government's actions to control evasion and firmly believe that the continued aggressive enforcement will result in higher Government revenues while strengthening the legitimate sector.

Gold Flake achieved superb volume growth of 36% over 2004 with a volume of 14.6 billion sticks accounting for 48% of total company volume

Brand Performances

PTC achieved impressive growth of 14% over 2004 sales volume in a market with an overall growth of 3% and our brands attained volume and value growth in all three categories i.e. Premium, Medium and Low.

Dunhill

The Dunhill King Size range was launched with its Activated Charcoal Filter in December 2005 in the premium segment. Dunhill is BAT's world-renowned international brand and, in line with consumer demand, is being imported with mandatory health warning. The brand has been well received by consumers primarily due to its unique, fresh taste and the exceptionally smooth smoke that the Activated Charcoal Filter delivers.

Benson & Hedges (B&H)

Benson & Hedges, the largest franchise in the premium segment, strengthened its foothold in Key Accounts and restaurants across Pakistan with successful promotions and events. In future, the brand will continue to capitalise on its strong equity based on its consistently superior quality.

John Player Gold Leaf (JPGL)

JPGL had yet another remarkable year and grew by 9%, making its third consecutive year of impressive growth. Focusing on innovative ways to interact with its target consumers, it successfully delivered its winning performance. By building on its strong consumer loyalty and superior taste, JPGL will continue to engage and delight its consumers through innovative communication tools.

Capstan

Capstan re-affirmed its overwhelming strength of the Medium segment in 2005. Further, despite being priced above competitive offers in the Medium segment, it was able to gain the competition's volume and achieved 5.5% growth over 2004. A vibrant communication, with thematic and consumer promotion, received very positive responses from the target smokers.

Gold Flake

Gold Flake achieved a superb volume growth of 36% over 2004 and further consolidated its position as the largest selling brand in our portfolio, with a volume of 14.6 billion sticks and accounting for 48% of total company volume. Gold Flake's huge success has been



Constructive engagement with stakeholders in CSR dialogue sessions resulted in more clarity and knowledge — allowing for both parties a forum to reason, debate, explain and exchange

driven through focus on targeted and relevant promotional activity. Recent improvements in product and packaging, communicating a modern image that appealed to smokers in the low segment. Gold Flake has been used effectively, in line with our portfolio strategy, to take volume from the illicit sector, with the result that our overall share of the low segment has increased. Gold Flake looks poised to add further momentum to its growth in the years ahead and is all set to play the leading role in PTC's overall volume growth by offsetting the volume losses on Embassy.

Embassy

Embassy is the only brand in the portfolio seeing a declining trend with volume down by 13% compared to 2004. It is priced slightly below Gold Flake and faces tough competition from the cheaper offers from the tax-evaded sector as well as some in-switching to Gold Flake. We will continue with the envisioned migration strategy, while maintaining the product and packaging quality relevant to its loyal consumers.

Business Process Re-engineering

Your company is fully aware that continuous improvement in all business processes results in greater efficiencies and effectiveness to deliver strong business results in a sustainable way. Our continued focus on the realignment and integration of Supply Chain into the business resulted in process efficiencies and value addition. The Company was presented with the Global Supply Chain Excellence (overall) Award and the Supply Chain Operational Excellence (in the industry category) Award for 2005 by the U.S. based

Supply Chain Council. The Council represents a broad cross-section of Global industries, including manufacturers, services, distributors and retailers. We also received "Class A" recertification in Manufacturing Resource Planning (MRP II) in 2005.

Moreover, by leveraging technology, our focus on process re-engineering led to the automation of our 'procure-to-pay' process through the implementation of SRM System (Supplier Relationship Management).

Corporate Social Responsibility (CSR)

After the launch of the Social Report in early 2005, PTC played a considerable role in furthering the CSR agenda in Pakistan.

We are very pleased to see that the CSR topic is becoming pivotal in the Pakistani society and workplace. The constructive engagement with our stakeholders in our Social Reporting dialogue sessions during 2004 has resulted in more clarity for us and has been informative to our stakeholders as we have explained the reasons for our decisions.

This two-way information sharing has continued throughout 2005 in an informal manner. It is fast becoming the way of life in our business. Today, decisions taken by the Company enjoy more stakeholders input unlike the unilateral approach of the past.

PTC further strengthened its credentials as a socially responsible corporate citizen through its earthquake relief efforts. We immediately mobilized our Mobile Free Dispensaries to the affected areas and made our storage facilities

available in Mansehra to the International Committee of the Red Cross.

The Company contributed in cash and in kind to the relief efforts of Federal, NWFP and AJK Governments. Our management, officers and staff contributed their one day's salary and, on our call, other BAT companies and their employees who also sent contributions which will be utilised for rebuilding the infrastructure and rehabilitation of earthquake affectees.

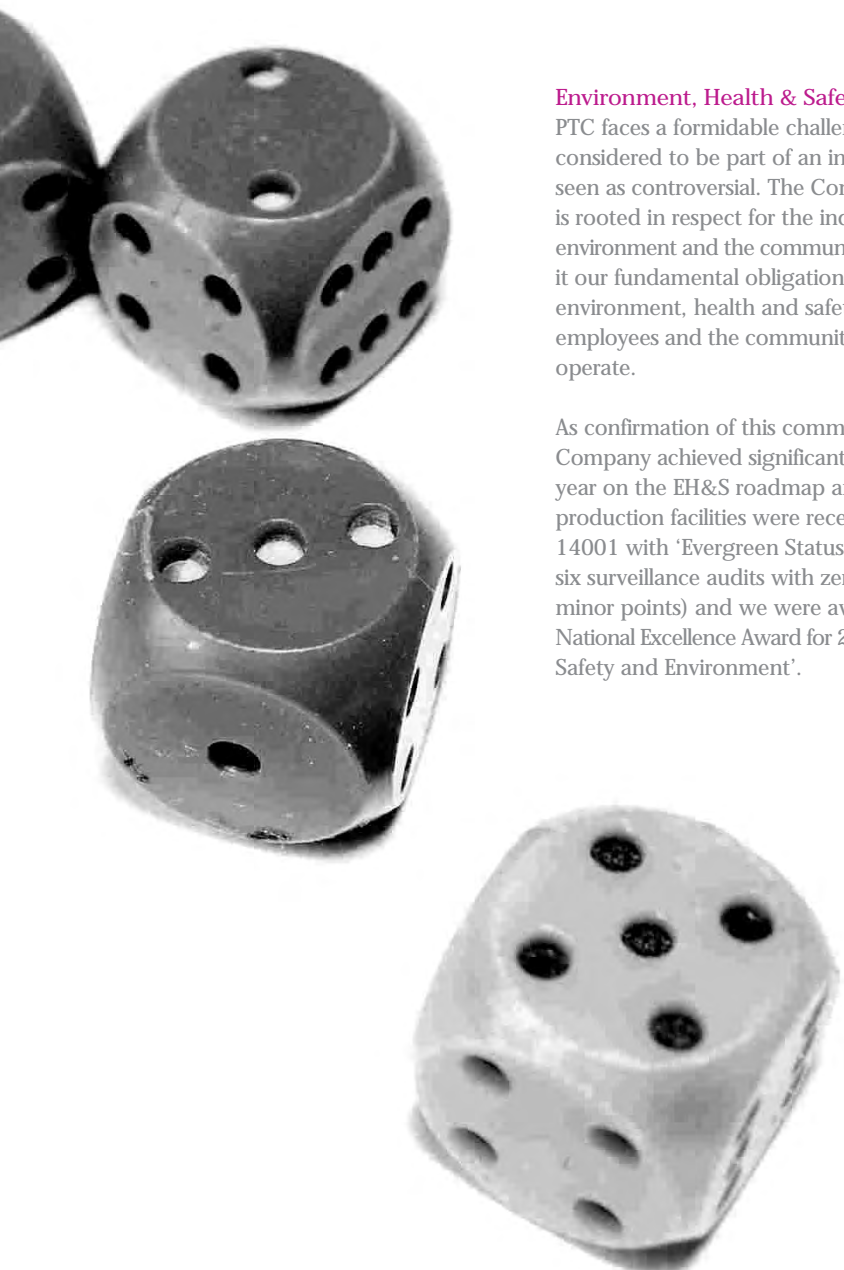
CSR and periodic Social Reporting have proved that businesses and communities can both benefit as long as the two parties treat each other as partners. CSR is how we live one of our three Business Principles, that of Mutual Benefit.

Organisational Restructuring

Our factory modernisation programme continued in 2005 with a view to improve our productivity, provide world class products to our customers and to keep costs under control. This successfully led to reduced crewing requirements and we offered a separation scheme to our production employees in Jhelum factory with very attractive separation packages. A total of 70 employees opted for the scheme and left the organisation in a cordial and honourable way. We managed to stretch ourselves to deliver the highest ever production volume and leaf purchases.

The morale of all members of the PTC family remains high and all of us are committed to continue to deliver excellent workplace and superior business results as 'One Team'.

We are committed to achieving our Vision as ‘The First Choice For Everyone’ which challenges us every day to achieve our dream of becoming the best consumer goods company in Pakistan



Environment, Health & Safety (EH&S)

PTC faces a formidable challenge as it is considered to be part of an industry which is seen as controversial. The Company's culture is rooted in respect for the individuals, the environment and the community. We consider it our fundamental obligation to protect the environment, health and safety of the employees and the communities in which we operate.

As confirmation of this commitment, the Company achieved significant milestones this year on the EH&S roadmap and both production facilities were recertified with ISO 14001 with 'Evergreen Status' (consecutive six surveillance audits with zero major and minor points) and we were awarded the National Excellence Award for 2005 on 'Health, Safety and Environment'.

2006 & Beyond

2005 has been a great year for the Company, establishing itself as the volume and value leader of the industry. With this momentum, we are more determined than ever to continue the Company's era of sustained growth in market share and profitability.

We are equally committed to achieving the Company's Vision to be 'The First Choice For Everyone' which challenges us every day to make concerted efforts to achieve our dream of becoming the best consumer goods Company in Pakistan. I would like to specially commend the untiring efforts of my colleagues in PTC and our valued business partners who worked throughout 2005 with absolute commitment and diligence—they are the main drivers behind the Company's success. All of us are proud to be part of the "PTC Family" and resolve to take the Company to ever-greater heights in the years to come.

In 2006, we will focus on offering our customers and consumers the best quality products and services in order to continuously enhance our leadership position in the market. Our fundamental challenge would be to tackle the tax evaded sector which continues to deprive the Government of revenues besides reducing the market and threatening the long term profitability of the legitimate sector. We would urge the Government to continue to work with the legitimate industry to effectively curb this threat.

A handwritten signature in blue ink, appearing to read 'Toh Ah Wah', is positioned above the name and title.

Toh Ah Wah
Managing Director and CEO

Directors' Review



The year 2005 was decidedly one of the most successful years in the history of the company



The Directors are pleased to submit the 59th Annual Report along with the audited financial statements of the Company for the year ended December 31, 2005.

The year 2005 was one of the most successful years in the history of the Company where it achieved outstanding growth in all areas of the business. Strong, organic volume growth and award-winning improvements in productivity led to regaining volume leadership and further strengthening the Company's value leadership. The Company made a record profit – crossing the Rs 2 billion mark in Profit Before Tax for the first time in its history.

Business Performance

The following summary of key financial results is a clear reflection of the Company's outstanding performance as compared to the year 2004.

	2005 Rs million	2004 Rs million	Increase
Turnover	30,615	25,453	20%
Government levies	19,217	16,157	19%
Gross profit	4,530	3,483	30%
Operating profit	2,378	1,445	65%
Profit before tax	2,082	1,056	97%
Profit after tax	1,322	665	99%
Earnings per share – EPS (Rs)	5.17	2.60	99%

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

Sales Performance

The Company achieved a record sales volume of 30.6 billion sticks – 14% growth vs. Same Period Last Year (SPLY). The incremental sales volume of 3.8 billion sticks in 2005 is an impressive achievement compared to 2004 especially when the industry's overall growth is estimated at 3%. The aggressive investment behind the brands over the years, greater emphasis on the understanding of consumer behaviour, use of innovative and effective communication tools and focus on trade support have yielded a consistent and strong growth in our brand portfolio. Gold Flake sales grew at a remarkable rate of 36% vs. SPLY, whereas Gold Leaf further solidified its base with impressive growth of 9% vs. SPLY.

Embassy is the only brand in our portfolio that faced volume erosion in the face of stiff competition from the cheap tax evaded offers from the illicit sector.

As the largest excise tax generator in the private sector of the country, Pakistan Tobacco contributed Rs 19.2 billion to the National Exchequer in 2005

Contribution to the National Exchequer

PTC is the largest excise tax payer in private sector of the country. In 2005, the Company contributed Rs 19.2 billion to the National Exchequer in Excise Duty, Sales Tax and Custom Duties etc. – 18.9% higher than SPLY. Moreover, foreign exchange of Rs 263 million (24% higher than SPLY) was also generated through export of leaf, further reflecting our participation in the national economy.

Cost of Sale

Reorganization of the Supply Chain in 2004 resulted in significant reduction in procurement cost and more efficient working capital management. The increase in per unit cost of sale was merely 3% higher than SPLY. In April 2005, PTC was recognised for its world class performance and contributions in the areas of Supply Chain Management by the US based Supply Chain Council.

Operating & Other Costs

Our total marketing expenses grew from Rs 1,442 million in 2004 to Rs 1,579 million in 2005 – an increase of 9% vs. SPLY. In December 2005, the Company launched Dunhill, an international brand with state of the art charcoal filter, in three metro cities. We increased our focus on trade support, innovative brand initiatives and effective campaigns like the House of John Player Gold Leaf's launch of the 'Taste the World' range with a selection of international blends, followed by Limited Editions Packs (LEPs) of Benson & Hedges and Capstan. Administration expenses were lower by 4%, than SPLY — 2004 included SAP implementation costs which were offset by higher donations mainly for earthquake relief activities. The decrease of Rs 82 million in Other expenses represents reduced cost of staff separation offset by higher WPPF/ WWF charge due to higher profit.

Cash Flows

The Company generated Rs 284 million more cash than last year mainly due to improved profitability and effective working capital management offset by higher dividend amount paid during the year.

Plant Modernisation

The Company continued modernising and automating its manufacturing facilities to deliver products of world class quality and meet the growth in market demand. During the year, the Company invested Rs 586 million in Plant and Machinery out of a total investment of Rs 717 million in fixed assets.



PTC provides a safe workplace for employees, protects the environment, prevents damage to property, enhances employee morale, and assures compliance with applicable laws and regulations

Appropriation of Profits

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

	2005 Rs million	2004 Rs million
Operating profit	2,378	1,445
Profit after tax	1,322	665
Accumulated profit brought forward	708	553
Profit available for appropriation	2,030	1,218
Appropriations:		
Interim dividend 2005 @ 25% (2004: 10%)	639	255
Final dividend 2004 @ 12%	307	
Final dividend 2003 @ 10%		255
Un-appropriated profit carried forward	1,084	708

Dividend

In view of the good performance this year, the Board is pleased to recommend a final dividend of 25% over and above the interim dividend of 25% paid in September 2005, subject to the approval of shareholders in their meeting scheduled for April 20, 2006.

Environment, Health & Safety (EH&S)

The Company, under its EH&S Program, provides a safe workplace for employees, protects the environment, prevents damage to property, enhances employee morale, and assures compliance with applicable laws and regulations.

Achievement of these objectives has been made possible with the employment of best practices and a commitment to continuous improvement. These efforts resulted in the Company receiving BAT Golden EH&S Merit Award for five years with zero loss working case (accident free working days).

Both production facilities were recertified for ISO 14001 and achieved 'Evergreen Status' for lifetime. This status was awarded for six consecutive surveillance audits with zero major and minor non-compliance. The Company also received two national awards in 2005: National Environmental Excellence Award and National Health and Safety Award, given by the National Forum of EH&S and the Health Foundation, respectively. These awards confirm that world class standards of EH&S have become a way of life at PTC.

Good Corporate Governance

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

- a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of account of the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of all financial statements.
- e) The system of internal control, which is sound in design has been effectively implemented and is being continuously reviewed.
- f) There are no doubts about the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) All major Government levies in the normal course of business, payable as at December 31, 2004 have been cleared subsequent to the year end.
- i) Key operating and financial data for last six years in summarised form is annexed.

Under Jeremy Pike's leadership, PTC was able to make significant progress in all the areas of the business including regaining of volume leadership

j) Values of investments in employees retirement funds based on audited accounts for year ended December 31, 2004 are as follows in Rupees Million:

Management Provident Fund	Rs 257
Staff Pension Fund	Rs 967
Employees' Provident Fund	Rs 359
Employees' Gratuity Fund	Rs 218

The Board

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

The Board has several committees, a list of which is provided separately in the report.

Changes in the Board

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

- Mr. Jeremy David Pike, Managing Director and CEO resigned on October 31, 2005 after completing his 3 years' contract. We express our appreciation for the valuable contributions made by Jeremy during his tenure. Under his leadership the Company was able to make significant progress in all the areas of the business including regaining of volume leadership.

- Mr. Toh Ah Wah has been appointed as new Managing Director and CEO with effect from November 01, 2005 to fill the casual vacancy caused by the resignation of Mr. Jeremy David Pike. The Board welcomes Mr. Toh Ah Wah who brings with him a wealth of experience before joining the Company. His annual managerial remuneration will be Rs 20,290 thousands only. The Company will also provide him facilities such as transportation, medical etc. in accordance with the service rules and policies of the Company. No director of the Company has

had any interest in this appointment.

- Mr. Zafar Ahmed Taji, Human Resources Director, retired from the Company service and resigned from the Board on June 30, 2005. We express our appreciation for the contributions made by Zafar during his tenure and wish him every success for the future.

- Mr. Ahmed Zeb was appointed as Production Director with effect from July 01, 2005 to fill the casual vacancy caused by the resignation of Mr. Zafar Ahmed Taji.

- Mr. Stephen Wayne Daintith, Non-Executive Director, resigned from the Board on September 30, 2005.

- Mr. Feroze Ahmed was appointed as IT Director with effect from October 01, 2005 to fill the casual vacancy caused by the resignation of Mr. Stephen Wayne Daintith.



Several committees assist the Board in the effective and timely performance of its functions



Board of Directors Meetings

During the year 2005, five meetings of the Board of Directors were held. The attendance by the Directors is detailed below:

Name of Director	No. of meetings attended
1. Mr. Aslam Khaliq, Chairman and Non-Executive Director	5
2. Mr. Toh Ah Wah,* Managing Director and Chief Executive	1
3. Mr. Jeremy David Pike**, Managing Director and Chief Executive	4
4. Mr. Fazal Ghaffoor, Marketing Director	5
5. Mr. Mobasher Raza, Finance Director	4
6. Mr. Ahmed Zeb, Production Director	3
7. Mr. Feroze Ahmed, IT Director	2
8. Mr. Zafar Ahmed Taji**, Human Resources Director	0
9. Lt. Gen. Ali Kuli Khan Khattak, Non-Executive Director	2
10. Mr. Brendan James Brady, Non-Executive Director	2
11. Mr. Fatehali Walimuhammad Vellani, Non-Executive Director	5
12. Mr. Istaqbal Mehdi, Non-Executive Director	2
13. Mr. Kunwar Idrees, Non-Executive Director	4
14. Mr. Mueen Afzal, Non-Executive Director	4
15. Mr. Stephen Wayne Daintith**, Non-Executive Director	0

* Mr. Toh Ah Wah was appointed with effect from November 01, 2005.

** Mr. Zafar Ahmed Taji, Mr. Stephen Wayne Daintith and Mr. Jeremy David Pike resigned from the board with effect from June 30, 2005, September 30, 2005 and October 31, 2005 respectively.

Board Committees

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

Audit Committee

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

maintenance of internal controls and the responsible task of financial reporting.

The Committee comprises seven Non-Executive Directors. Stephen Wayne Daintith resigned as a member of the Board and Audit Committee in 2005. The Managing Director and Finance Director are invited to attend the meetings, however, they are not members. The Internal Audit Manager is secretary of the Committee reporting directly to the Chairman of the Audit Committee and the BAT Asia Pacific Regional Audit Controller, who is based in Hong Kong.

Directors' Review

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

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

The Audit Committee supervises the function of the Internal Audit Department of the Company and assists the Board of Directors in monitoring and managing risks and internal controls. The Internal Audit Department adopts a risk-based approach for planning and conducting business process audits, which is consistent with the Company's established framework.

The Audit Committee approves the annual Internal Audit Plan at the beginning of the year, and regularly monitors the progress. The Committee also reviews the performance of the Company's External Auditors and recommends their appointment and the terms of their appointment.

Auditors

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





Shareholding

The pattern of shareholding as at December 31, 2005 along with disclosure as required under Code of Corporate Governance is annexed.

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

Holding Company

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

Consolidated Financial Statements

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

Business Challenges and Future Outlook

The Government's efforts to bring fiscal discipline and promoting a friendly business environment by ensuring consistency in its policies have resulted in a strong and stable economic growth in the country in recent years. We take this opportunity to greatly appreciate the ongoing support provided by the Government in curtailing the illicit trade and helping the legitimate industry in its endeavors to build a level playing field.

The print media campaigns on 'Minimum Price' and 'Smuggling' run by the Government had an impact in terms of generating awareness and demonstrating Government's resolve to curb illicit trade.

The rampant infringement of 'the Intellectual Property' is also an increasing threat to legitimate business in Pakistan and the

cigarette industry is no exception. We understand that this is on the priority agenda of the Government, which is a welcome sign.

Despite various positive initiatives taken by the Government, particularly by the 'Central Board of Revenue (CBR)', the illicit trade still hovers around 21% of the total market and continues to be a major threat to both Government revenues and the legitimate industry. In order to effectively curb this menace, the situation, besides fiscal measures, warrants stringent and consistent enforcement of the regulatory framework by the Government. We resolve to extend our utmost support and will continue to work closely with the relevant authorities.

The Company expresses its sincere appreciation for the persistent support from the PTC family including employees, distributors, suppliers and customers towards 'Winning as One' and also to its shareholders for their growing confidence in the Company.

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

Aslam Khaliq
Chairman

March 07, 2006

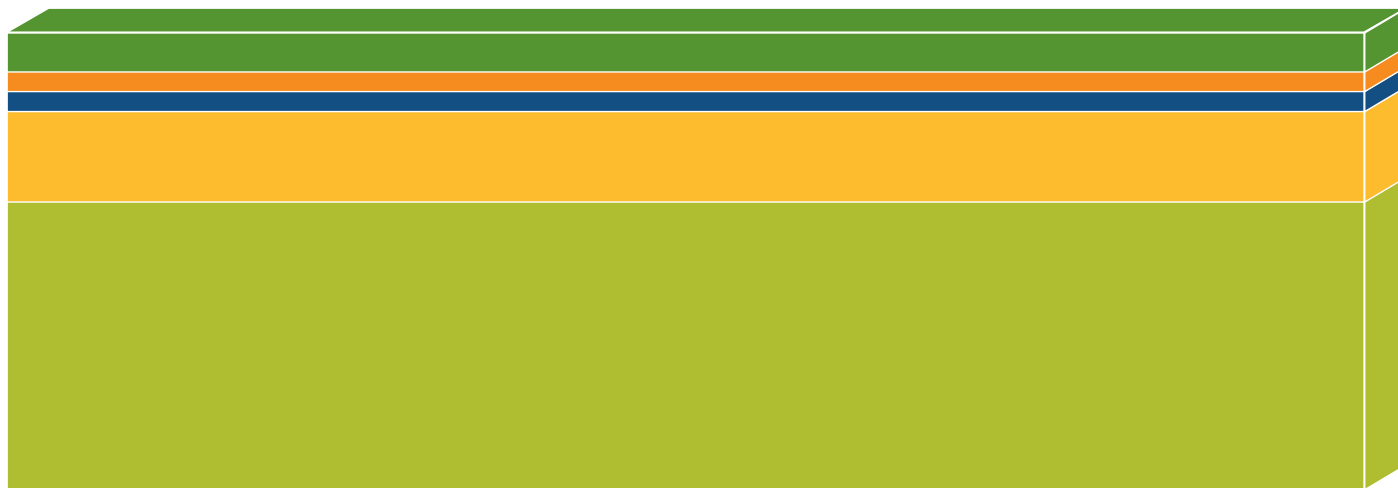
Toh Ah Wah
Managing Director and CEO



Statement of Revenue Generated & Distributed

	2005 Rs million	2004 Rs million
Generation		
Revenue Generated	30,615	25,453
	30,615	25,453
Distribution		
Government Levies	19,217	16,158
Employees	1,281	1,270
Materials and Services	6,021	4,971
Profit After Tax	1,322	665
Others	2,775	2,389
	30,615	25,453

Revenue Distribution in Percentage



Key

63% Govt. Levies 20% Material and Services 4% Employees 4% Profit After Tax 9% Others

Pattern of Shareholding as at December 31, 2005

Number of Shareholders	Categories				Total Shares
1,459	From	1	To	100	47,791
1,377	From	101	To	500	399,705
521	From	501	To	1,000	380,915
473	From	1,001	To	5,000	1,057,508
62	From	5,001	To	10,000	471,351
20	From	10,001	To	15,000	264,375
12	From	15,001	To	20,000	216,125
11	From	20,001	To	25,000	257,090
6	From	25,001	To	30,000	170,780
4	From	30,001	To	35,000	127,000
1	From	35,001	To	40,000	37,000
2	From	40,001	To	45,000	86,400
4	From	45,001	To	50,000	197,500
1	From	50,001	To	55,000	51,761
2	From	55,001	To	60,000	113,500
1	From	60,001	To	65,000	60,961
2	From	65,001	To	70,000	138,000
1	From	70,001	To	75,000	70,140
2	From	80,001	To	85,000	161,500
1	From	85,001	To	90,000	86,509
1	From	105,001	To	110,000	110,000
1	From	135,001	To	140,000	140,000
1	From	165,001	To	170,000	167,633
1	From	180,001	To	185,000	183,353
1	From	195,001	To	200,000	200,000
1	From	205,001	To	210,000	207,667
1	From	220,001	To	225,000	221,000
1	From	330,001	To	335,000	334,300
1	From	370,001	To	375,000	372,100
1	From	385,001	To	390,000	389,500
1	From	440,001	To	445,000	440,500
1	From	505,001	To	510,000	510,000
1	From	695,001	To	700,000	700,000
1	From	700,001	To	705,000	700,480
1	From	795,001	To	800,000	798,282
1	From	4,575,001	To	4,580,000	4,577,925
1	From	241,045,001	To	241,050,000	241,045,141
3,979					255,493,792

Pattern of Shareholding as at December 31, 2005

	No. of shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	4,597,595
Directors, CEO and their spouses and minor children	60,797
Executives	200
Public Sector Companies and Corporations	986,513
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, Modaraba and Mutual Funds	2,297,164
Others	687,088
Individuals	5,021,012
	255,493,792
Associated Companies, Undertakings and Related Parties	
British American Tobacco (Investments) Limited	241,045,141
Rothmans International	798,282
NIT and ICP (name wise details)	
National Bank of Pakistan, Trustee Deptt.	4,578,440
Investment Corporation of Pakistan	19,155
Directors, CEO, their spouses and minor children (namewise details)	
Aslam Khaliq	8
Kunwar Idris	65
Ali Kuli Khan Khattak	100
Brendan James Brady	500
Mueen Afzal	2,124
Fatehali Walimuhammad Vellani	58,000
Executives	
Naveed Aftab Ahmad	200
Shareholders holding 10% or more voting interest	
British American Tobacco (Investments) Limited	241,045,141

	Number	Shares Held	Percentage (%)
Categories of Shareholders			
Individuals	3,893	5,070,641	2.0
Investment Companies	6	1,002,005	0.4
Insurance Companies	9	1,292,627	0.5
Joint Stock Companies	28	258,160	0.1
Financial Institutions	14	4,883,723	1.9
Modarabas	3	6,122	0.0
Government Organisations	3	41	0.0
Foreign Investors	15	242,596,916	95.0
Co-operative Societies	2	2,189	0.0
Charitable Trusts & Others	6	381,368	0.1
Total	3,979	255,493,792	100.0



Executive Committee of the Board; Board Compensation Committee; Audit Committee; Share Transfer Committee; CSR Committee; Crisis Management Committee

Executive Committee of the Board (ECB)

The Executive Committee of the Board (ECB) is the central working nucleus of the organisation. Comprising Executive Directors and other Heads of Department, the ECB provides the daily inputs required for running the day to day affairs of the Company.

Taking their guidance from the Strategy made by the Board, the ECB plans and controls the various functions to deliver on that strategic direction. The oversight is operational and entails a key element of command and control. Directing the functions in a manner that adds value to the business, the ECB is an essential body that carries on its work in compliance of all corporate governance principles and rules.

Audit Committee (AC)

The Audit Committee's function is to assist the Board of Directors in the management of business risks, internal controls and the conduct of the business in an economically sound and ethical manner.

CSR Committee (CSRC)

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

Crisis Management Committee (CMC)

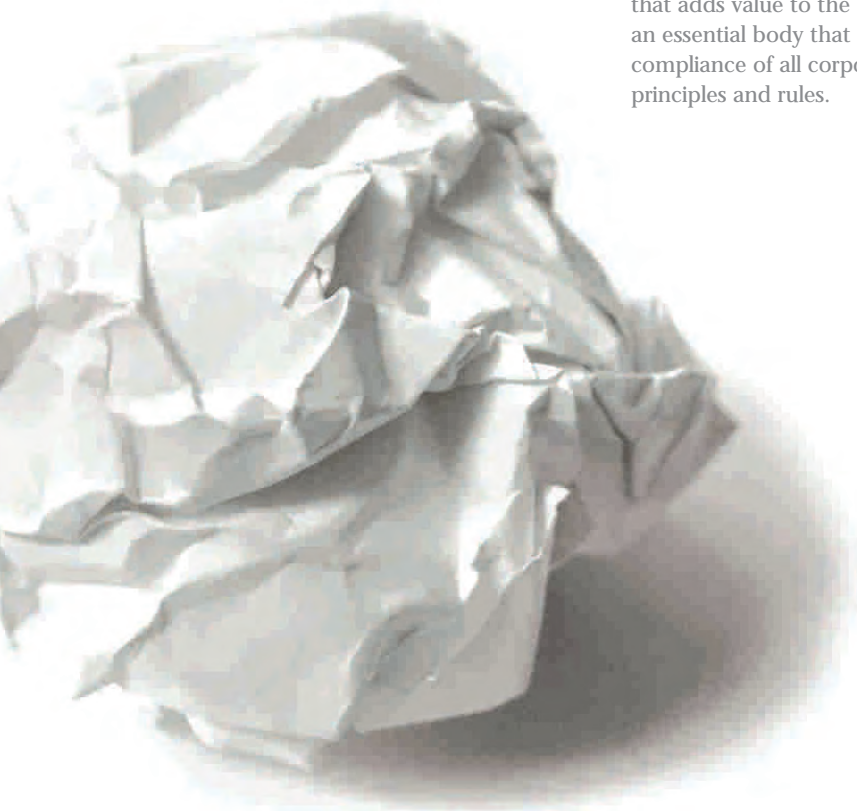
The purpose of the committee is to ensure the safety of personnel, the security of Company assets and information by initiating and executing the Business Continuity Plan (BCP); and, associated decision making in the event of a disaster.

Board Compensation Committee (BCC)

The Board Compensation Committee is responsible for the compensation of the Directors of the Company.

Share Transfer Committee (STC)

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



	Board	ECB	AC	CSRC	CMC	BCC	STC
Executive Directors							
Mr. Toh Ah Wah	Member	Member		Member	Member	Member	Member
Mr. Fazal Ghaffoor	Member	Member			Member		
Mr. Mobasher Raza	Member	Member		Member	Member		Member
Mr. Ahmed Zeb	Member	Member			Member		
Mr. Feroze Ahmed	Member	Member		Member	Member		
Non-Executive Directors							
Mr. Aslam Khaliq	Member		Member	Member		Member	
Lt. Gen. (Retd) Ali Kuli Khan Khattak	Member		Member	Member			
Mr. Brendan James Brady	Member		Member				
Mr. Fatehali Walimuhammad Vellani	Member		Member			Member	
Mr. Istaqbal Mehdi	Member		Member				
Mr. Kunwar Idrees	Member		Member				
Mr. Mueen Afzal	Member		Member	Member			
Key Management Personnel							
Mr. Hasan Adnan		Member			Member	Secretary	
Mr. Jim Kirke		Member			Member		
Mr. Naveed A. Ahmad		Member					Member
Mr. Naveed A. Khawaja		Member					
Mr. Malik Asmat Saleem		Member					
Mr. Zahid-ul-Islam		Member					
Mr. Syed Ali Naseer		Member		Member	Member		
Mr. Asif Khan		Member					
Mr. Rehan Baig		Member					
Mr. Tajamal Shah	Secretary	Member					Member
Other Management Personnel							
Mr. Khalil Ahmed			Secretary				
Mr. Anwar Khan					Secretary		

Key

Member

Secretary



Statement of Compliance with Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (Code) contained in Regulation No.37 of Listing Regulations of the Stock Exchanges of Karachi, Lahore and Islamabad for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six independent non-executive directors and one non-executive director representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred in the Board on June 30, 2005, September 30, 2005 and October 31, 2005 and they were filled within 30 days thereof.
5. The Company has prepared a 'Standards of Business Conduct', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms



and conditions of employment of the CEO and other executive directors, have been taken by the Board.

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

9. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

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

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

12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

14. The Board has formed an audit committee. It comprises of seven members, of whom all are non-executive directors including the chairman of the committee.

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the

Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

16. The Board has set-up an effective internal audit function manned by suitable qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full time basis.

17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

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

Toh Ah Wah
Managing Director and CEO

Statement of Compliance with Best Practices on Transfer Pricing for the year ended December 31, 2005

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



Toh Ah Wah
Managing Director and CEO



Review Report

Review Report to Members on the Statement of Compliance with Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2005 prepared by the Board of Directors of Pakistan Tobacco Company Limited, to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2005.



A.F. Ferguson & Co
Chartered Accountants

Islamabad

Our Company: Harvesting fields of excellence



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

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

Our strategy reflects a vision to champion growth, productivity and responsibility through a winning organisation.

We ensure that we deploy our resources and capabilities in the most efficient way. Insisting on capital effectiveness and growth, we utilise and leverage our assets to the maximum. We are determined to become an organisation with a focused, energised, and diverse talent-pool, achieving sustainable high performance that can effectively translate into a working philosophy of a 'Winning Culture'.

In 2005, we were recognised for our world class performance and contributions in the areas of Supply Chain Management by the US based Supply Chain Council.

We are the proud recipients of the Global Supply Chain Excellence and Supply Chain Operational Excellence Awards in the industry category. What's more, during the year, the Company's Class 'A' status in Business Excellence Program (MRP-II Version 5) was also re-certified by the internationally renowned consulting firm, Oliver Wight.

In recognition of our remarkable contribution towards regional targets of the Asia Pacific region, we were awarded the regional award for achieving record production, sales and profit in the region. We continue to be the largest excise revenue generator in the country.



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

We believe that products that pose risks to health, such as tobacco, require regulation. We seek to engage with governments, regulatory bodies and other tobacco companies on tobacco regulation that can tackle real issues in workable ways.

We are committed to working with national governments and relevant multilateral organisations, to reduce the health impact of smoking — in a spirit of partnership.

As such, we look forward to and welcome opportunities to participate in good faith where we can collectively achieve real progress. Following the ratification of the Framework Convention on Tobacco Control by the Government of Pakistan, we are working with the Government and local regulatory bodies to illustrate our dedication to marketing our brands in a responsible way.

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

We are poised to demonstrate our behaviour as a responsive and responsible tobacco company. Societies today demand that companies work with broader goals that not only benefit shareholders but positively affect stakeholders. Community participation, high standards of ethical behaviour and greater transparency and accountability are expectations that must be delivered to society. Moreover, as expectations of corporate responsibility change, we must change some of the ways we address issues of concern.

We don't know all the answers, or claim to get everything right every time, but we are committed to continuous improvement and to keeping an open mind. We have learned that companies can rarely act alone; almost all our contributions to society involve working constructively with others and by engaging with and listening to all our stakeholders. This is how we match our words with action.



Our People: Seasoning PTC with hot talent



To impactfully deliver the strategic plan, our focus has been to cultivate a powerful combination of placing the right leaders in the right environment to drive our strategic initiatives. The summary of our people strategy and key focus during the year follows:

Great Place to Work

We have been challenging and motivating our people to achieve daring and stretching milestones set under the umbrella of three Must Achieve Objectives.

During 2005, we further improved the focus of our business and people through the Strategic Leadership Agenda (SLA) and by embedding People Processes based on the system of Leadership Capabilities.

Employer of Choice

The following initiatives were implemented to make PTC an Employer of Choice.

Employee Welfare Activities

- The first Day Care Centre was established at our Akora Khattak Factory to provide child care facilities to infants and children of all working mothers. We aim to establish similar facilities at our Jhelum Factory and our Head Office in Islamabad.
- We are also investing heavily in other Employee Welfare Projects including Vocational Classes, Medical Awareness Sessions, Learning Resource Centers, and Children Sponsorship schemes.

Your Voice: Employee Perception Survey

A series of surveys conducted by an international research agency allows us to actively listen and respond to the views of all employees on corporate initiatives and their immediate working environment.

As part of the process, the survey was conducted again at the end of 2005 with the benefit of total employee participation. The top line results were encouraging with PTC scored by employees as ahead of external norms from other high performing companies around the globe. We are in the process of acting on the improvement areas identified and will reassess the perception through a follow up survey at the end of 2006.

Outstanding People

To effectively cope with growing demand for talent, our key focus in 'Outstanding People' has been to source, develop and strengthen our talent pipeline.

During 2005, for instance, we invested heavily in building our Employer Brand and related activities. We launched the 'We challenge you' media campaign to attract and recruit talented graduates. As a result, we recruited a batch of 12 Management Trainees (MTs) who are currently being developed within

the Global Management Trainee Programme.

Moreover, we continue to invest generously in developing our people through exposure on international secondments and development programmes. Such a high degree of investment has created a surging demand for our talent. Consequently, we have now achieved the status of net exporters of talent in the BAT World.

During 2006, apart from furthering the above agenda, we will drive more organisational

initiatives linked to our business objectives. These include development frameworks for Business Support Officers, Supply Chain Integration for Leaf, Manufacturing & Supply Chain roles that will lead to an integrated function, and a Reward & Recognition scheme that will ensure motivation for better performance and retention of the right talent.

We will continue our focus in this area by having the right people with the ability and the hunger to drive and deliver competitive advantage through superior performances.



Gold Flake: Pump up the volume



محرودار: تمباکو نوشی کینسر
اوردل کی بیماریوں کا باعث ہے۔
وزارتِ صحت

Gold Flake played a pivotal role in delivering volume leadership in 2005.

The brand exceeded all expectations by delivering an outstanding 36% volume growth over 2004 — achieving the highest ever sales for a PTC brand with total volumes of 14.6 billion cigarettes for the year.

In a highly competitive environment, the brand was able to build on its strength in product and packaging and emerged as the strongest contender in the low segment. Brand fundamentals such as product and packaging are core to smokers in the low priced segment and our strategy was to drive awareness of the product offering and generate strong trial among these smokers as widely as possible.

Multiple regional and market-specific activities were designed and executed countrywide to create trial for Gold Flake. This combination of large-scale activities, targeted consumer promotions and direct contact with adult smokers of competing brands fuelled growth in Gold Flake's favour. Additionally, we worked to improve the imagery of Gold Flake as a modern, high quality offer by developing and launching a new thematic campaign.

There's no doubt that Gold Flake will continue to maintain PTC as the volume leader in the industry and will play a dominant role in the low segment in the years to come.

John Player Gold Leaf: Sailing with bigger sales



John Player Gold Leaf had yet another remarkable year in 2005 surpassing all consumer expectations.

In its third successive year of 9% or greater growth, Gold Leaf is a constant reminder to its loyal base of how it remains 'A Taste Apart'. It is the undisputed leader in its price segment.

The year saw the brand continue to win consumers with its strong, core benefits inherent in its product offering. Gold Leaf showed the way in innovation by being the first to introduce a line of Limited Edition flavours for our smokers via the 'Taste the World' campaign inspired by the legendary John Player's travels.

In addition to this, JPGL conducted a number of international promotions and activities that utilized maximum communication touch points, emphasizing the concept of product expertise all the time.

With a steady increase in its total market share which closed at 8.2% in 2005, this year promises to be one of accomplishment by way of discovering new horizons and focusing on even more innovative ways of communicating with our consumers.

Aligned with the pioneering spirit of JPGL, consumers can look forward to continue being delighted with product innovation and unique brand experiences.

HILL LTD

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DUNHILL



SPECIAL FEATURE

Dunhill is amongst BAT's largest and most profitable international brands. It is at the top end of the premium segments of the world



The House of Dunhill has long been known for expertise in tobacco. Dunhill's heritage dates back to 1907, when Alfred Dunhill opened his first tobacconist shop in St. James's, London. Since then, Dunhill has enjoyed a reputation for craftsmanship and quality and is one of the fastest growing international cigarette brands in the world. Our new range reflects the best of our traditions, coupled with the taste for the modern.

The New King Size Range was launched in December 2005 in the three major metros of the country. Available in two variants, Filter and Lights, Dunhill is imported directly from our state-of-the-art manufacturing facilities in Singapore. The result is absolute product freshness for consumers unlike the other offers available through multi-sourced channels.

Dunhill is clearly identified and authenticated with an Urdu Health Warning visible on the

top-third of the pack in line with regulations of the Government of Pakistan. Our challenge is to establish our imported Dunhill as the legitimate premium offer against a number of other transit sourced products.

Dunhill in Pakistan also has the unique distinction of being the first and only cigarette that contains an Activated Charcoal Filter: A unique taste technology that delivers an exceptionally smooth smoking experience.

Dunhill is made available through the exacting use of unconventional distribution avenues such as hotels, restaurants and cafés (HoReCa) alongside selective retail outlets. So far, the response from the target has been engaging and positive. They have welcomed a superior, legitimate product that defines their lifestyles. In the years ahead, we are confident that Dunhill will continue to attract and retain a loyal profile suited to its standards of perfection.



People, Quality & Heritage

Dunhill stands for expertise in tobacco and expresses this perspective with its exclusive 'Perfectionists in Tobacco' brand proposition



The foundation of expertise in tobacco is built on three pillars comprising of our people, the expert professionals behind the brand; our quality, a principle of no-compromise behind each product of the brand; and, of course, heritage, the history and roots of the brand.

This trinity of accumulated knowledge forges a compelling product-focused message that is of interest to our consumers: confident and socially agile 'cosmocrats' who demand substance and style from a modern classic.

Our People

Of the three pillars, our people are a crucial differentiator for the brand. As experts, Dunhill people are the very perfectionists who embody the heart and soul of the brand.

As one of our blenders said, 'You can't do blending by computer. A computer can't tell how tobaccos work with one another and a computer can't smoke the product. You can have best quality tobacco, but not the best smoking product. It definitely relies on skill.'

Our Quality

Quality is the way our expertise manifests itself across all our products. This includes:

- No compromise: superior ingredients, knowledgeable sourcing, expert selectivity.
- Precision: attention to detail and excellence.
- Quality Control: highest standard is critical.

As proof of this passion, consider what our Quality Assurance Manager said, 'There are 300 criteria by which we measure every pack of cigarettes. These cover everything from the actual stick to the whole package.'

Likewise, a Senior Product Designer said, 'It's very rare that you are given the opportunity to develop something that is 'best in class' and that was exactly the remit for Dunhill.'

Our Heritage

Our century-old heritage is the result of a long tradition of experts delivering quality that lives on in the professionals who create Dunhill today:

- Alfred Dunhill: his entrepreneurship, his attention to detail and customer service.
- Tobacco tradition: standards for excellence in product quality and customer focus.
- Physical location: St. James's, London. The first tobacconist shop was opened in 1907. Since then, Dunhill has enjoyed the same reputation of perfection around the world.

A new generation of smokers is drawn to our style and substance. Our style focuses on four creative elements called “Dimensions”

1. Culinary Trends



Dunhill's appeal and relevance to a new generation of smokers is reliant on two key aspects of the brand. These are:

- Style: a contemporary international style.
- Substance: active communication and drive of Dunhill's core equity of tobacco expertise.

2. Modern Performance



Dunhill's style content focuses on four creative elements called “Dimensions”. This content is developed from key insights into what truly captivates the Dunhill target consumer and creates a dialogue by delivering information and insights that our target consumer seeks to make informed, individual lifestyle choices.

3. Living Design



4. Entrepreneurship



House of Dunhill

Dunhill has stood for the same expertise and craftsmanship for ninety-nine years



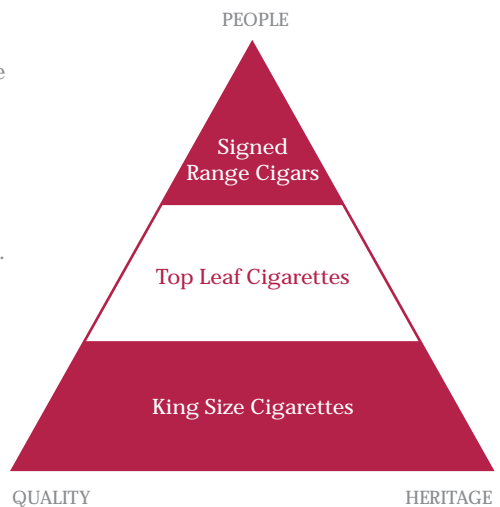
House of Dunhill

Dunhill's 'Perfectionists in Tobacco' brand proposition is further supported by the House of Dunhill's vertical and horizontal range.

The vertical range comprises the Dunhill Signed Range Cigars at the top-end, Top Leaf Cigarettes for special occasions and King Size Cigarettes for everyday luxuries.

Due to high duty structure we are not commercially distributing cigars.

The King Size range, in Pakistan, comprises two variants; Dunhill Filter and Dunhill Lights.



Consumer Launch

The launch of Dunhill in Pakistan was marked by exclusively tailored consumer events in Karachi, Lahore and Islamabad.

Performances during these events were aligned with Dunhill "Dimensions": French Singer, Sonia de Meglio, rendered an unforgettable performance, followed by some spellbinding DJ-ing from Greg and image creation of vibrant colors and lights by renowned VJ's Xavier and Francois. Chefs Olivier Chaput and Sebastian Oriot of Buddha Bar, Paris fame, used authentic French ingredients and presented a culinary experience of exquisite taste and imagination.

Another highlight of the launch were the Tobacco experts who had flown in specially to participate in these events. Our Master Cigar Roller had flown in from the Dominican Republic and the Sommeliers had flown in from Malaysia to roll and blend fresh cigarettes and cigars for our 'cosmocrat' invitees.





Trade Launch

To introduce Dunhill to the trade, separate events were organized. These events included presentations introducing the new Dunhill King Size range to the trade and exposing them to the brand world.

The aim was to educate the trade about the superior and differentiated product offering so that they could share the same message with their customers. They were also given a chance to win exciting prizes through a retail advocacy programme designed specifically for Dunhill.

The performances in the trade events were also in line with "Dimensions". They included a mesmerizing contemporary performance by classical dancer Nighat Chaudry as well as a novel performance by famous international illusionist, J.C.Sum of Singapore for the first time in the country.





Auditors' report to the members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion
 - (i) the balance sheet and profit and loss account together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2005 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of the Ordinance.



Profit and loss account for the year ended December 31, 2005

	Note	2005 Rs '000	2004 Rs '000
Gross turnover		30,615,062	25,452,634
Sales tax		4,103,324	3,413,146
Turnover - net of sales tax		26,511,738	22,039,488
Cost of sales	3	21,982,134	18,556,867
Gross Profit		4,529,604	3,482,621
Marketing and distribution expenses	4	1,578,656	1,442,356
Administration expenses	5	573,285	595,637
		2,151,941	2,037,993
Operating Profit		2,377,663	1,444,628
Other income	6	34,417	14,590
Other expenses	7	284,665	366,637
		2,127,415	1,092,581
Finance cost	8	45,351	36,542
Profit Before Taxation		2,082,064	1,056,039
Tax charge	9	760,145	390,812
Profit After Taxation		1,321,919	665,227
Earnings per share (Rupees)	10	5.17	2.60

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



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Balance sheet as at December 31, 2005

	Note	2005 Rs '000	2004 Rs '000
Property, Plant and Equipment	13	3,798,190	3,564,407
Investment In Subsidiary Company	14	5,000	5,000
Long Term Loans	15	17,782	16,324
Long Term Deposits and Prepayments	16	11,365	4,433
Current Assets			
Stocks	17	3,780,931	3,074,052
Stores and spares	18	125,232	121,464
Trade debts	19	2,894	12,486
Loans and advances	20	32,676	32,273
Prepayments		31,987	36,003
Other receivables	21	104,791	119,126
Cash and bank balances	22	57,605	39,197
		4,136,116	3,434,601
Less: Current Liabilities			
Trade and other payables	23	2,515,824	2,056,298
Interest accrued		10,911	5,041
Short term finance	24	400,662	996,579
Income tax payable		676,969	79,549
		3,604,366	3,137,467
Net Current Assets		531,750	297,134
		4,364,087	3,887,298
Financed By:			
Share Capital			
Authorised capital 300,000,000 ordinary shares of Rs 10 each		3,000,000	3,000,000
Issued, subscribed and paid-up capital	25	2,554,938	2,554,938
Revenue Reserves		1,084,476	707,885
Shareholders' Equity		3,639,414	3,262,823
Deferred Taxation	26	724,673	624,475
Commitments and Contingencies	27		
		4,364,087	3,887,298

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



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Cash flow statement for the year ended December 31, 2005

	2005 Rs '000	2004 Rs '000
Cash Flow from Operating Activities		
Cash receipts from customers	30,624,654	25,585,897
Cash paid to Government for Federal Excise Duty, Sales Tax and other Levies	(19,126,208)	(16,021,304)
Cash paid to suppliers	(7,795,529)	(6,450,403)
Cash paid to employees and retirement funds	(1,400,619)	(1,465,490)
Income tax paid	(62,527)	(53,370)
Other cash receipts / (payments)	33,637	42,369
Net cash inflow from operating activities	2,273,408	1,637,699
Cash Flow from Investing Activities		
Purchase of property, plant and equipment	(716,852)	(597,702)
Proceeds from sale of operating fixed assets	42,815	38,027
Net cash outflow from investing activities	(674,037)	(559,675)
Cash Flow from Financing Activities		
Repayment of long term loans	-	(200,000)
Dividend paid	(943,649)	(507,318)
Financial charges paid	(32,531)	(42,656)
Long term loans, deposits and prepayments	(8,390)	2,658
Cash paid to subsidiary company	(476)	(620)
Net cash outflow from financing activities	(985,046)	(747,936)
Net Increase in Cash and Cash Equivalents	614,325	330,088
Cash and Cash Equivalents as at January 01	(957,382)	(1,287,470)
Cash and Cash Equivalents as at December 31	(343,057)	(957,382)
Cash and Cash Equivalents Comprise:		
Cash and bank balances	57,605	39,197
Short term finances	(400,662)	(996,579)
	(343,057)	(957,382)

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



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Statement of changes in equity for the year ended December 31, 2005

	Share Capital	Revenue Reserves	Rs '000 Total
Balance at December 31, 2003	2,554,938	553,646	3,108,584
Final dividend Re 1.00 per share relating to the year ended December 31, 2003	-	(255,494)	(255,494)
Profit for the year	-	665,227	665,227
Interim dividend of Re 1.00 per share relating to the year ended December 31, 2004	-	(255,494)	(255,494)
Balance at December 31, 2004	2,554,938	707,885	3,262,823
Final dividend of Rs 1.20 per share relating to the year ended December 31, 2004	-	(306,593)	(306,593)
Profit for the year	-	1,321,919	1,321,919
Interim dividend of Rs 2.50 per share relating to the year ended December 31, 2005	-	(638,735)	(638,735)
Balance at December 31, 2005	2,554,938	1,084,476	3,639,414



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Notes to and forming part of the financial statements for the year ended December 31, 2005

1. The Company and its Operations

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

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

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

2.2 Taxation

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

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

2.3 Provisions

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

2.4 Retirement benefits

The Company operates:

i) approved funded pension scheme for management and certain grades of business support officers and gratuity scheme for all employees. Actuarial valuation of these schemes is carried out each year and the latest valuation was carried out as at December 31, 2005. The details of the valuation are summarised in note 28.

ii) approved contributory provident fund for all employees for which contributions of the Company are charged to the income for the year.

2.5 Property, plant and equipment

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

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

Depreciation on additions and deletions during the year is charged on a pro rata basis from the

month when asset is put into use upto the month when asset is disposed / written off.

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

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

2.6 Investments in subsidiary

Investment in subsidiary is carried at cost less impairment losses, if any.

2.7 Impairment

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

2.8 Operating leases

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

2.9 Stocks

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

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

2.10 Stores and spares

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

2.11 Revenue recognition

Sales are recorded on despatch of goods to customers.

2.12 Borrowing cost

All borrowing costs are expensed as incurred.

2.13 Foreign currency transactions

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

2.14 Related party transactions

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

The prices agreed between associated companies for sale of materials and manufactured goods are based on normal commercial practices on similar terms and conditions as applicable to transactions with third parties. Intra Group charges for sale and purchase of goods and services, and royalties are also based on the principles of normal commercial practice between independent businesses.

2.15 Financial instruments

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

2.16 Dividend Recognition

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

2.17 Cash and cash equivalents

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

2.18 Trade and other payables

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

	2005 Rs '000	2004 Rs '000
3. Cost of Sales		
Raw material consumed		
Opening stock of raw materials and work in process	2,678,084	2,902,957
Raw material purchases and expenses -note 3.1	6,058,690	4,321,327
Closing stock of raw materials and work in process	(3,011,196)	(2,678,084)
	5,725,578	4,546,200
Government taxes and levies		
Federal excise duty	14,758,558	12,466,912
Customs duty and surcharges	267,604	206,289
Provincial and municipal taxes and other excise duties	87,125	71,342
	15,113,287	12,744,543
	20,838,865	17,290,743
Production overheads		
Salaries, wages and benefits	643,317	648,493
Stores, spares and machine repairs	287,517	217,760
Fuel and power	110,389	100,054
Insurance	12,801	19,464
Repairs and maintenance	58,525	21,331
Postage, telephone and stationery	7,986	8,549
Information technology / SAP implementation	65,998	24,819
Depreciation	257,590	226,389
Damaged and obsolete materials written off	58,779	52,639
Sundries	14,134	18,048
	1,517,036	1,337,546
Cost of goods manufactured	22,355,901	18,628,289
Cost of finished goods		
Opening stock	395,968	324,546
Closing stock	(769,735)	(395,968)
	(373,767)	(71,422)
	21,982,134	18,556,867

	2005 Rs '000	2004 Rs '000
3.1 Raw Material Purchases and Expenses		
Materials	5,325,193	3,657,756
Royalty	237,686	219,827
Salaries, wages and benefits	204,655	192,740
Stores, spares and machine repairs	83,833	63,304
Fuel and power	54,620	53,153
Property and vehicle rentals	20,133	17,087
Insurance	6,731	7,745
Repairs and maintenance	5,200	4,675
Postage, telephone and stationery	5,500	4,428
Depreciation	86,628	83,941
Sundries	28,511	16,671
	6,058,690	4,321,327
4. Marketing and Distribution Expenses		
Salaries, wages and benefits	172,542	157,875
Selling expenses	1,119,742	1,038,358
Freight	114,836	96,991
Property and vehicle rentals	7,381	6,303
Bad debts written off	6,371	-
Insurance	8,007	9,434
Repairs and maintenance	61,442	48,683
Postage, telephone and stationery	9,583	9,684
Travelling	39,145	35,088
Depreciation	39,607	39,940
	1,578,656	1,442,356
5. Administration Expenses		
Salaries, wages and benefits	260,168	270,614
Fuel and power	6,355	3,331
Property and vehicle rentals	27,120	16,399
Insurance	2,912	2,270
Repairs and maintenance	13,707	13,117
Postage, telephone, stationery and communication	12,436	11,432
Legal and professional charges	8,469	6,530
Donations - note 5.1	24,566	7,285
Information technology / SAP implementation	85,096	157,052
Travelling	52,074	26,877
Depreciation	43,062	39,940
Directors' fee - note 5.2	250	230
Sundries	33,498	36,559
Auditors' remuneration and expenses		
Statutory audit	670	620
Special certifications, audit of consolidated accounts and staff funds, review of half yearly accounts	1,221	1,600
Tax compliance and advisory services	1,621	1,570
Out-of-pocket expenses	60	211
	3,572	4,001
	573,285	595,637

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

5.2 Directors' fee of Rs 250 thousand (2004: Rs 230 thousand) is in respect of five (2004: five) non-executive directors for attending board meetings during the year.

	2005 Rs '000	2004 Rs '000
6. Other Income		
Insurance commission	4,075	6,752
Interest on short term deposits	26,317	-
Miscellaneous	4,025	7,838
	34,417	14,590
7. Other Expenses		
Workers' Profit Participation Fund / Workers Welfare Fund	148,291	64,127
Loss on operating fixed assets written off / sold	13,367	15,946
Staff separation cost	123,007	286,564
	284,665	366,637
8. Finance Cost		
On short term finance	24,568	20,057
Bank charges and fees	19,797	15,277
Interest on Workers' Profit Participation Fund	986	1,208
	45,351	36,542
9. Tax Charge		
Current - for the year	633,809	136,969
- for prior years	26,138	-
	659,947	136,969
Deferred - for the year	100,198	253,019
- for prior years	-	824
	100,198	253,843
	760,145	390,812
9.1. Reconciliation of tax charge for the year	%	%
Applicable tax rate	35.00	35.00
Add: Tax effect of amounts that are not deductible for tax purposes	0.25	1.92
Tax effect of provision for prior years	1.26	0.08
Average effective tax rate charged to income	36.51	37.00
10. Earnings Per Share		
Profit after tax (in thousands)	1,321,919	665,227
Number of fully paid weighted average ordinary shares (in thousands)	255,494	255,494
Earnings per share (Rupees)	5.17	2.60

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

11. Post Balance Sheet Event

Final dividend in respect of the year ended December 31, 2005 of Rs 2.50 per share (2004: Rs 1.20 per share) amounting to a total dividend of Rs 638,735 thousand (2004: Rs 306,593 thousand) has been declared out of the unappropriated profit at the Board of Directors' meeting on March 07, 2006. These financial statements do not reflect this dividend payable.

12. Remuneration of Chief Executive, Directors and Executives.

	Chief Executive		Directors		Executive				Total	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000	*Key Management Personnel		Other Executives		2005 Rs '000	2004 Rs '000
					2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000		
Managerial remuneration	29,897	41,888	45,316	45,931	49,873	49,732	136,670	152,678	261,756	290,229
Corporate bonus	7,308	6,000	11,326	20,169	20,731	13,799	40,077	41,221	79,442	81,189
Leave fare assistance	1,049	1,285	1,055	1,186	1,293	620	52	1,582	3,449	4,673
Retirement benefits	-	-	2,270	4,281	3,975	5,760	23,319	34,566	29,564	44,607
Housing and utilities	3,801	4,574	8,464	7,039	10,016	8,122	59,914	51,940	82,195	71,675
Medical expenses	117	134	1,072	415	2,463	1,934	14,866	9,964	18,518	12,447
	42,172	53,881	69,503	79,021	88,351	79,967	274,898	291,951	474,924	504,820
** Number of persons	1	1	6	6	10	9	123	122	140	138

* Remuneration to key management personnel represents remuneration paid to members of the Executive Committee of the Board other than the chief executive and directors.

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

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

13. Property, Plant and Equipment

	2005 Rs '000	2004 Rs '000
Operating fixed assets - note 13.1	3,748,575	3,328,454
Capital work in progress - note 13.2	49,615	235,953
	3,798,190	3,564,407

13.1 Operating fixed assets

	Cost				Depreciation				Written down values as at Dec 31, 2005
	As at Jan 01, 2005	Additions	Deletions	As at Dec 31, 2005	As at Jan 01, 2005	Charge for the year	On deletions	As at Dec 31, 2005	
Freehold land	6,834	-	-	6,834	-	-	-	-	6,834
Buildings on freehold land	334,036	8,160	-	342,196	85,413	9,384	-	94,797	247,399
Buildings on leasehold land	23,317	-	(340)	22,977	12,668	407	(340)	12,735	10,242
Private railway sidings	349	-	-	349	323	-	-	323	26
Plant and machinery	4,122,322	754,809	(124,741)	4,752,390	1,412,478	294,183	(89,038)	1,617,623	3,134,767
Office and house-hold machinery and equipment	279,305	52,707	(23,314)	308,698	147,078	44,064	(19,939)	171,203	137,495
Furniture and fittings	61,428	1,615	(37)	63,006	34,837	7,081	(22)	41,896	21,110
Vehicles	414,132	85,899	(60,262)	439,769	220,472	71,768	(43,173)	249,067	190,702
Total	5,241,723	903,190	(208,694)	5,936,219	1,913,269	426,887	(152,512)	2,187,644	3,748,575
2004	4,676,870	735,065	(170,212)	5,241,723	1,639,298	390,210	(116,239)	1,913,270	3,328,454

Rs '000

	2005 Rs '000	2004 Rs '000
13.2 Capital work in progress		
Civil works and buildings	16,285	-
Plant and machinery	13,436	195,965
Advances to suppliers	19,894	37,412
Machinery and fixtures in transit / storage	-	2,576
	49,615	235,953
13.3 Depreciation charge has been allocated as follows		
Cost of sales - note 3 and 3.1	344,218	310,330
Marketing and Distribution expenses - note 4	39,607	39,940
Administration expenses - note 5	43,062	39,940
	426,887	390,210

13.4 Details of disposal of operating fixed assets:

Rs '000

	Original Cost	Accumulated depreciation	Book value	Sale proceeds	Particulars of buyers
Household / office equipment					
by negotiation	591	404	187	196	Jeremy David Pike
by auction	353	281	72	4	Raja M. Gulzar (sale as scrap)
by insurance claim	210	81	129	169	EFU General Insurance
Computer equipment					
by auction	6,194	5,421	773	126	Bahadar Khan (sale as scrap)
	1,439	1,159	280	12	Raja M. Gulzar (sale as scrap)
by insurance claim	159	74	85	39	International General Insurance (IGI)
	431	149	282	310	EFU General Insurance
Vehicles					
by Company policy	991	892	99	99	Abdullah Shah - Employee
	633	570	63	63	Najeeb ur Rehman - Employee
	1,196	299	897	800	Ahmed Nawaz - Ex-employee
	750	156	594	576	Javed Rasool - Employee
	520	468	52	52	Asad Ali Shah - Employee
	859	773	86	138	Abdul Sattar Babar - Ex-employee
	633	570	63	63	Mirza Zubair Ahmed - Employee
	705	635	71	149	Fahim Ashraf - Employee
	705	635	71	239	Rizwan Mamdani - Employee
	705	632	73	304	Jamshed Inam Sheikh - Employee
	719	524	195	463	Nadeem Abbasi - Employee
	745	481	264	392	Bilal Virk - Ex-employee
	750	563	188	435	Talat Mahmood - Employee
	1,024	469	555	686	Asif Khan - Employee
	5,122	2,368	2,754	3,627	Zafar Ahmed Taji - Ex-employee
	750	234	516	561	Adil Cheema - Employee
	1,024	277	747	803	Rashid Khan - Ex-employee
	750	203	547	547	Atif Dar - Ex-employee
	71	9	62	69	Rasheed Khatri - Ex-employee
	952	857	95	99	Wajid Ali - Employee
	633	570	63	63	Shafqat Ali - Employee
	705	617	88	156	Nabeel Tajik - Employee
	1,024	43	981	944	Asif Anis - Ex-employee
	633	570	63	63	Turab Ali Khan - Employee
by auction	549	494	55	526	Aurangzeb - Rawalpindi
	2,236	2,013	223	2,041	Malik Wasif - Taxila
	917	826	91	811	Mushtaq Ahmed Aziz - Abbotabad
	635	572	64	581	Ahmed Ali - Peshawar
	1,004	904	100	981	Muhammad Zahoor - Haripur
	679	611	68	657	Sheikh Rizwan - Taxila
	679	611	68	660	Muhammad Saleem - Rawalpindi
	1,398	1,258	140	1,443	Raja Muhammad Zahoor - Rawalpindi
	633	570	63	660	Mehmood Aslam - Rawalpindi
	774	679	95	502	Mrs. Tahira Ch. - Rawalpindi
	689	620	69	668	Abdul Hameed - Azad Kashmir
	894	805	89	730	Muhammad Yousaf Sani - Rawalpindi
	2,657	2,392	266	1,752	Amanullah - Peshawar
	3,039	2,735	304	1,960	Mir Zaman - Charsadah
	455	380	75	246	Zia-ud-Din - Taxila
	901	811	90	783	Musaddaq Muhammad - Islamabad
	608	547	61	511	Rashid Ayub Khan - Karachi
	1,062	956	106	830	M/s Nimble Bull - Islamabad
by insurance claim	8,407	4,495	3,912	7,131	AIG New Hampshire Insurance Co.

14. Investment in Subsidiary Company

This represents cost of 500,001 (2004: 500,001) fully paid ordinary shares of Rs 10 each in Phoenix (Private) Limited. The break up value of shares calculated by reference to net assets worked out to be Rs 10 per share based on audited financial statements for the year ended December 31, 2005 (2004: Rs 10 per share). This is a wholly owned subsidiary of the Company which has not yet commenced commercial production.

15. Long Term Loans

	2005 Rs '000	2004 Rs '000
Considered good		
Loans due from directors and executives	6,631	6,877
Loans due from other employees	17,708	15,224
	24,339	22,101
Less: receivable within one year	6,557	5,777
	17,782	16,324

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

	Directors/ Executives Rs '000	Others Rs '000	Total Rs '000
Opening balance	6,877	15,224	22,101
Disbursements	1,681	11,283	12,964
Recoveries	(1,927)	(8,799)	(10,726)
Closing balance	6,631	17,708	24,339

15.2 The above comprises interest free loans amounting to Rs 151 thousand (2004: Rs 189 thousand) and Rs 6,480 thousand (2004: Rs 6,688 thousand) given to the directors and executives respectively for purchase of household furniture, appliances, cars and motorcycles, repayable over 5 to 10 years in equal instalments.

15.3 The maximum amounts due from the directors and executives at the end of any month during the year were Rs 151 thousand (2004: Rs 201 thousand) and Rs 6,480 thousand (2004: Rs 7,083 thousand) respectively.

16. Long Term Deposits and Prepayments

	2005 Rs '000	2004 Rs '000
Security Deposits	6,167	1,972
Prepayments	5,198	2,461
	11,365	4,433

17. Stocks

Raw materials	2,855,400	2,552,527
Raw materials in transit	133,511	106,246
Work in process	22,285	19,311
Finished goods	769,735	395,968
	3,780,931	3,074,052

18. Stores and Spares

Machine spares - cigarette production	124,251	119,546
Miscellaneous stores	981	1,918
	125,232	121,464

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	2005 Rs '000	2004 Rs '000
19. Trade Debts		
Considered good	2,894	12,486
Considered doubtful	2,322	2,322
	5,216	14,808
Provision for doubtful debts	(2,322)	(2,322)
	2,894	12,486

20. Loans and Advances

Considered good		
Loans due from directors and executives - note 15	6,557	5,777
Advances due from employees - note 20.1	4,550	5,195
Advances due from others	21,569	21,301
	32,676	32,273

20.1 The above includes Rs 1,032 thousand (2004: Rs 3,566 thousand) due from executives of the Company.

20.2 The maximum amount due from executives of the Company at the end of any month during the year was Rs 17,858 thousand (2004: Rs 18,231 thousand).

21. Other Receivables

Margin against guarantees	3,887	6,318
Due from subsidiary company	23,762	23,286
Due from associated companies - note 21.1	18,377	25,655
Claims	27,564	14,765
Employees' / management provident fund	15,824	30,764
Payments on behalf of employees' gratuity and pension funds	10,108	-
Others	5,269	18,338
	104,791	119,126

21.1 The amount due from associated companies comprises

British American Tobacco - Regional Office Hong Kong	6,407	4,019
British American Tobacco - Nigeria	4,885	2,322
Ceylon Tobacco Company - Sri Lanka	3,237	1,185
British American Tobacco - UK	2,426	2,369
British American Tobacco - South Korea	402	138
British American Tobacco - Australia	273	629
British American Tobacco - Dubai	262	209
British American Tobacco - Benin	220	220
British American Tobacco - Singapore	129	2,718
British American Tobacco - Syria	88	-
British American Tobacco - Uzbekistan	48	48
British American Tobacco - Bangladesh	-	11,349
British American Tobacco - New Zealand	-	226
British American Tobacco - Indonesia	-	223
	18,377	25,655

	2005 Rs '000	2004 Rs '000
22. Cash and Bank Balances		
On hand	3,143	2,096
In transit	1,072	1,405
At banks on current accounts - Foreign currency	36,985	23,024
- Local currency	7,959	5,426
	<hr/>	<hr/>
Security deposits - held in special account	49,159	31,951
	8,446	7,246
	<hr/>	<hr/>
	57,605	39,197

23. Trade and Other Payables

Creditors	669,765	426,663
Federal excise duty	668,877	407,430
Sales tax	294,041	266,723
Other Federal / Provincial taxes- note 23.1	203,658	402,020
Accrued liabilities	271,971	230,904
Due to associated companies - note 23.2	266,109	246,361
Advances from customers	7,531	1,237
Security deposits	8,446	7,246
Workers' Profit Participation Fund - note 23.3	111,518	55,989
Staff pension fund	1,605	1,605
Employees' gratuity fund	2,512	2,512
Management provident fund	518	14
Unclaimed dividend	9,273	7,594
	<hr/>	<hr/>
	2,515,824	2,056,298

23.1 Other Federal / Provincial taxes

Opening balance	402,020	362,504
Provision during the year	60,621	61,659
Payments during the year	(258,983)	(22,143)
	<hr/>	<hr/>
	203,658	402,020

	2005 Rs '000	2004 Rs '000
23.2 The amount due to associated companies comprises:		
British American Tobacco - UK	181,360	178,016
British American Tobacco - Regional Office Hong Kong	42,387	30,030
Souza Cruz Overseas S.A. - Brazil	27,863	18,702
British American Tobacco - Malaysia	4,788	5,275
British American Tobacco - Uganda	3,864	2,020
Ceylon Tobacco Company - Sri Lanka	2,401	5,109
British American Tobacco - Singapore	1,698	391
British American Tobacco - South Africa	1,429	22
British American Tobacco - Australia	319	1,832
Brown & Williamson - U.S.A.	-	3,811
British American Tobacco - Ghana	-	460
British American Tobacco - Hungary	-	281
British American Tobacco - Switzerland	-	237
British American Tobacco - Indonesia	-	94
British American Tobacco - Bangladesh	-	77
GSD KL - Malaysia	-	4
	266,109	246,361
23.3 Workers' Profit Participation Fund		
Balance at January 1	55,989	32,352
Allocation for the year	111,518	55,989
Interest on funds utilised in Company's business	986	1,208
Payment to the fund during the year	(56,975)	(33,560)
Balance at December 31	111,518	55,989

24. Short Term Finance - Secured

Short term finances are under mark-up arrangements with banks and are secured by hypothecation of stocks of raw materials and finished goods. The mark-up ranges between 4.75% and 12.34% (2004: 1.75% and 6.45%) per annum and is payable quarterly. Total facility available under mark-up arrangements amounts to Rs 2,380 million (2004: Rs 2,380 million) out of which the amount unavailed at the year end was Rs 1,979.338 million (2004: Rs 1,383.421 million). These facilities are renewable annually.

25. Issued, Subscribed and Paid-up Capital

230,357,068 ordinary shares of Rs 10 each fully paid in cash and 25,136,724 ordinary shares of Rs 10 each issued as fully paid bonus shares.

2,554,938	2,554,938
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British American Tobacco (Investments) Limited held 241,045,141 ordinary shares of Rs 10 each at December 31, 2005 (2004: 241,045,141 shares).

26. Deferred Taxation

The deferred tax liability of Rs 724,673 thousand (2004: Rs 624,475 thousand) represents tax liability related to temporary differences between carrying amount of fixed assets and the corresponding tax base.

27. Commitments and Contingencies

27.1 Letters of credits outstanding at December 31, 2005 were Rs 642,828 thousand (2004 : 447,679 thousand), out of which Rs 555,007 thousand (2004: 236,124 thousand) were hedged through forward foreign currency contracts with various banks.

	2005 Rs '000	2004 Rs '000
27.2 Rentals under lease agreements		
Premises - not later than one year	41,653	40,131
- later than one year and not later than five years		
2007	16,213	21,585
2008	11,870	17,425
2009	9,130	11,870
2010	5,220	9,130
- later than five years	9,012	14,232

27.3 Claims not acknowledged as debt amounted to Rs 48,415 thousand (2004: Rs 69,168 thousand).

27.4 Guarantees issued by banks on behalf of the Company amounted to Rs 75,193 thousand (2004: Rs 60,543 thousand).

28. Employees' Defined Benefit Funded Pension and Gratuity Schemes

The details of actuarial valuation carried out as at December 31, 2005 and December 31, 2004 are as follows:

	Pension	2005 Rs '000	Gratuity	Pension	2004 Rs '000	Gratuity
Expense						
Service cost	20,030		14,009	20,381		14,987
Interest cost	76,748		16,746	51,290		12,108
Expected return on assets	(76,625)		(16,553)	(50,487)		(8,502)
Actuarial (gains) / losses	-		-	6,277		6,095
	20,153		14,202	27,461		24,688
Liability						
Balance at January 1	1,605		2,512	13,780		61,906
Charge for the year	20,153		14,202	27,461		24,688
Amount paid during the year	(20,153)		(14,202)	(39,636)		(23,905)
Special payment	-		-	-		(60,177)
Balance at December 31	1,605		2,512	1,605		2,512
Reconciliation						
Present value of defined benefit obligations	1,214,950		316,968	965,451		215,533
Less: fair value of plan assets	1,036,970		224,990	963,846		213,021
Less: unrecognised actuarial (gains) / losses	176,375		89,466	-		-
Liability recognised in the financial statements	1,605		2,512	1,605		2,512
Actual return on plan assets	120,173		21,138	120,766		24,196

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

	2005	2004
- Discount rate	9%	8%
- Expected rate of increase in salary level	10%	8%
- Expected yearly increase in post retirement pension	5%	3%
- Expected rate of return on plan assets	9%	8%

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	Pension Rs '000	Gratuity Rs '000
28.1 Plan assets comprise the following financial instruments		
Investment in equities	81,018	30,273
Investment in fixed-income securities	897,653	178,247
Cash and receivables	58,299	16,470
	1,036,970	224,990

28.2 Unrecognised actuarial gains / losses in excess of the 'corridor' (10% of the higher of the fair value of the plan assets or the present value of the defined benefit obligation) at the current reporting date are recognised in following years over the remaining working lives of employees participating in the defined benefit schemes, in accordance with provisions of IAS 19 - Employee Benefits.

28.3 "Salaries, wages and benefits" as appearing in notes 3, 3.1, 4 and 5 include amounts in respect of the following:

	2005 Rs '000	2004 Rs '000
Provident fund	27,105	24,301
Pension fund	20,153	27,461
Gratuity fund	14,202	24,688
	61,460	76,450

29. Financial Instruments

29.1 Financial assets and liabilities

	2005			2004		
	Exposed to interest rate risk	Not exposed to interest rate risk	Total	Exposed to interest rate risk	Not exposed to interest rate risk	Total
Financial assets						
Maturity upto one year:						
Trade debts	-	2,894	2,894	-	12,486	12,486
Loans and advances	-	32,676	32,676	-	32,273	32,273
Other receivables	-	104,791	104,791	-	119,126	119,126
Cash and bank balances	8,446	49,159	57,605	7,246	31,951	39,197
Maturity after one year:						
Investment in subsidiary company	-	5,000	5,000	-	5,000	5,000
Loans	-	17,782	17,782	-	16,324	16,324
Deposits	-	6,167	6,167	-	1,972	1,972
Total	8,446	218,469	226,915	7,246	219,132	226,378
Financial liabilities						
Maturity upto one year:						
Trade and other payables	-	1,345,131	1,345,131	-	976,008	976,008
Interest accrued	-	10,911	10,911	-	5,041	5,041
Short term finance	400,662	-	400,662	996,579	-	996,579
Total	400,662	1,356,042	1,756,704	996,579	981,049	1,977,628
Off balance sheet items						
Letters of credit	-	642,828	642,828	-	447,679	447,679
Bank guarantees	-	75,193	75,193	-	60,543	60,543
Total	-	718,021	718,021	-	508,222	508,222

29.2 Credit risk

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

29.3 Interest rate risk

Financial liabilities include Rs 400,662 thousand (2004 : Rs 996,579 thousand) which are subject to floating interest ranging between 4.75% and 12.34% (2004 : 1.75% and 6.45%) per annum.

29.4 Foreign exchange risk

Financial assets of equivalent Rs 55,362 thousand (2004 : Rs 48,679 thousand) and financial liabilities of equivalent Rs 239,642 thousand (2004 : 223,056 thousand) were in foreign currency which were exposed to foreign currency risk. Foreign currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. Currently, the Company's foreign exchange risk exposure is restricted to bank balances and the amounts receivable from / payable to the foreign entities. Most of the Company's risk, emanating from Pak rupee / foreign currency parity, for foreign currency transactions is hedged through forward foreign currency contracts with various banks.

29.5 Fair value of financial assets and liabilities

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

30. Transactions with Related Parties

British American Tobacco (Investments) Limited holds 94.34 % (2004: 94.34%) shares of the Company at the year end. Therefore all the subsidiaries and associated undertakings of British American Tobacco (Investments) Limited are related parties of the Company. The related parties include directors, major shareholders, key management personnel and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivable and payable balances. The remuneration of the chief executive, directors, key management personnel and executives is disclosed in note 12 to the financial statements.

	Purchase of goods	Purchase of services	Reimbursement of expenses	Royalty charge	Sale of goods	Sale of services	2005 (Rs '000) Receipts as reimbursement of expenses
Holding Company							
British American Tobacco – U.K.	37,285	121,429	5,989	237,687	-	23,573	-
Associated Companies							
British American Tobacco – Asia Pacific Hong Kong	-	35,699	2,388	-	-	2,520	50
British American Tobacco – Australia	-	408	-	-	-	574	82
British American Tobacco – Bangladesh	125,924	-	-	-	-	-	-
Ceylon Tobacco Company – Sri Lanka	-	1,440	19	-	275	2,122	-
British American Tobacco – Cambodia	44,015	-	-	-	-	-	-
British American Tobacco – Dubai	-	-	-	-	-	1,175	-
British American Tobacco – Germany	-	-	-	-	43,738	-	-
British American Tobacco – Indonesia	90,598	-	-	-	-	983	411
British American Tobacco – International	701	-	-	-	-	-	-
British American Tobacco – Korea	-	401	-	-	-	-	-
British American Tobacco – Malaysia	5,049	9,636	-	-	-	-	-
British American Tobacco – Nigeria	-	-	-	-	-	4,214	-
British American Tobacco – Russia	-	-	-	-	181,255	-	-
British American Tobacco – Poland	2,872	-	-	-	-	-	-
British American Tobacco – Singapore	183,830	1,726	-	-	30,524	545	-
Souza Cruz Overseas S. A. – Brazil	227,650	241	-	-	-	-	-
British American Tobacco – South Africa	-	844	-	-	-	-	-
British American Tobacco – Syria	-	-	-	-	-	310	-
British American Tobacco – Uganda	94,240	1,574	-	-	-	-	633
British American Tobacco – Uzbekistan	-	-	-	-	3,708	-	-
Distribution Services (Pvt) Ltd, Karachi	-	-	-	-	3,712,566	-	-
Shell Pakistan	-	1,683	-	-	-	-	-
PSO Pakistan	8,478	744	-	-	-	-	-
Subsidiary Company							
Phoenix (Private) Limited, Azad Kashmir	-	-	-	-	-	-	476

2004 (Rs '000)

	Purchase of goods	Purchase of services	Reimbursement of expenses	Royalty charge	Sale of goods	Sale of services	Receipts as reimbursement of expenses
Holding Company							
British American Tobacco – U.K.	81,239	121,343	940	219,827	31,532	1,859	-
Associated Companies							
British American Tobacco – Asia Pacific Hong Kong	-	24,740	-	-	-	1,549	-
British American Tobacco – Australia	-	-	1,151	-	-	-	-
British American Tobacco – Bangladesh	15,253	-	76	-	36	3,716	-
British American Tobacco – Benin	-	-	-	-	-	220	-
Brown & Williamsons	3,563	-	-	-	-	-	-
Ceylon Tobacco Company – Sri Lanka	334	3,467	-	-	1	1,045	-
British American Tobacco – Dubai	-	-	-	-	-	1,454	-
British American Tobacco – Germany	-	9,151	-	-	79,647	203	-
British American Tobacco – Indonesia	-	90	-	-	-	822	-
British American Tobacco – Korea	-	118	-	-	-	-	-
British American Tobacco – Malaysia	-	4,480	-	-	-	-	4
British American Tobacco – New Zealand	-	-	-	-	-	-	226
British American Tobacco – Nigeria	-	-	-	-	23,908	1,700	-
P T Rothmans	7,515	-	-	-	-	-	-
R J Reynolds	6,451	-	-	-	-	-	-
British American Tobacco – Singapore	-	-	155	-	8,113	3,035	-
Souza Cruz Overseas S.A. – Brazil	300,608	792	-	-	-	-	-
British American Tobacco – South Africa	-	22	-	-	-	-	-
British American Tobacco – Switzerland	-	-	237	-	-	-	-
Tobacco Fina Vander Elst S.A	9,743	-	-	-	-	-	-
British American Tobacco – Uganda	125	1,865	-	-	-	-	-
British American Tobacco – Uzbekistan	-	-	-	-	-	-	48
Distribution Services (Pvt) Ltd, Karachi	-	-	-	-	3,202,627	-	-
Shell Pakistan	-	2,928	-	-	-	-	-
PSO Pakistan	1,395	-	-	-	-	-	-
Subsidiary Company							
Phoenix (Private) Limited, Azad Kashmir	-	-	-	-	-	-	620

31. General

31.1 Capacity and production

Against an estimated manufacturing capacity of 33,114 (2004: 28,174) million cigarettes, actual production was 31,758 (2004: 27,001) million cigarettes. There was no production through any outside manufacturing source as actual production was sufficient to meet market demand.

31.2 Number of employees

Total number of employees as at December 31, 2005 was 1,818 (2004: 1,745).

31.3 Corresponding figures

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison. For more appropriate presentation, sales tax of Rs 3,413.146 million for the year ended December 31, 2004 has been shown as a deduction from sales which was previously reflected under cost of sales in note 3.

31.4 Date of authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on March 07, 2006.



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Phoenix (Private) Limited

Financial Statements for the year ended December 31, 2005

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

Auditors
A.F. Ferguson & Co.
Chartered Accountants
3rd Floor, PIA Building
49 Blue Area, Islamabad.

Board of Directors:

Syed Nasir Shams
Chief Executive

Ahmed Zeb
Director

Mahboob Ahmad
Director

Naveed Aftab Ahmad
Director and Company Secretary

Directors' Review

The Directors have pleasure in presenting report together with the Audited Accounts of the Company for the year ended December 31, 2005.

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

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

On behalf of the Board



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director

Auditors' report to the members

We have audited the annexed balance sheet of Phoenix (Private) Limited as at December 31, 2005 and the related cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion
 - (i) the balance sheet together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984, and is in agreement with the books of account and is further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2005 and its cash flows for the year then ended; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



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

Balance sheet as at December 31, 2005

	Note	2005 Rs '000	2004 Rs '000
Property, Plant and Equipment	3	28,784	28,308
Preliminary Expenses	4	1	1
Current Assets			
Balance with bank in current account		4	4
Less: Current Liabilities			
Trade and other payables	5	23,789	23,313
Net Current Assets		(23,785)	(23,309)
		5,000	5,000
Financed By:			
Share Capital			
Authorised capital 5,000,000 ordinary shares of Rs 10 each		50,000	50,000
Issued, subscribed and paid-up capital	6	5,000	5,000
		5,000	5,000

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



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director

Cash flow statement for the year ended December 31, 2005

	2005 Rs '000	2004 Rs '000
Cash Flow from Investing Activities		
Capital Work-in-Progress	(476)	(620)
Net cash outflow from investing activities	(476)	(620)
Cash Flow from Financing Activities		
Cash received from Pakistan Tobacco Company Limited	476	620
Net cash inflow from financing activities	476	620
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents as at January 01	4	4
Cash and Cash Equivalents as at December 31	4	4

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



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director

Notes to and forming part of the financial statements for the year ended December 31, 2005

1. The Company and its Operations

Phoenix (Private) Limited (the Company) was incorporated on March 09, 1992 in Azad Jammu and Kashmir as a wholly owned subsidiary of Pakistan Tobacco Company Limited. The object for which the Company has been incorporated is to operate and manage an industrial undertaking in Azad Jammu and Kashmir to deal in tobacco products. The Company has not yet commenced its commercial operations, therefore, the Profit and Loss Account has not been prepared. The registered office of the Company is situated at Bun Khuma, Chichian Road, Mirpur, Azad Jammu and Kashmir.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

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

2.2 Property, plant and equipment

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

	2005 Rs '000	2004 Rs '000
3. Property, Plant and Equipment		
Freehold land	3,364	3,364
Capital work-in-progress:		
Civil and electrical works	12,561	12,561
Plant and machinery	9,121	9,121
Advances to suppliers	2	2
Pre-operating expenses	3,736	3,260
	25,420	24,944
	28,784	28,308
4. Preliminary Expenses		
Legal fees	16	16
Registration fees	81	81
	97	97
Preliminary expenses transferred to Pakistan Tobacco Company Limited	(96)	(96)
	1	1

	2005 Rs '000	2004 Rs '000
5. Trade and Other Payables		
Due to Pakistan Tobacco Company Limited	23,762	23,286
Others	27	27
	23,789	23,313

6. Issued, Subscribed and Paid-up Capital

500,001 fully paid ordinary shares (2004: 500,001 ordinary shares) of Rs 10 each. All the shares of the Company are held by Pakistan Tobacco Company Limited.

7. Financial Assets and Liabilities**Financial Assets**

Cash and bank balances

Not exposed to interest rate risk
Maturity upto one year

2005 Rs '000	2004 Rs '000
4	4

Financial Liabilities

Trade and other payables

23,789

23,313

7.1 Fair value of financial assets and liabilities

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

8. Date of Authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on March 07, 2006.



Syed Nasir Shams
Chief Executive



Mahboob Ahmad
Director

Auditors' report on consolidated financial statements to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan Tobacco Company Limited (PTC) and its subsidiary company as at December 31, 2005 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of PTC and its subsidiary company. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 Pakistan Tobacco Company Limited and its subsidiary company as at December 31, 2005 and the results of their operations, their cashflows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.



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

Consolidated Profit and loss account for the year ended December 31, 2005

	Note	2005 Rs '000	2004 Rs '000
Gross turnover		30,615,062	25,452,634
Sales tax		4,103,324	3,413,146
Turnover - net of sales tax		26,511,738	22,039,488
Cost of sales	3	21,982,134	18,556,867
Gross Profit		4,529,604	3,482,621
Marketing and distribution expenses	4	1,578,656	1,442,356
Administration expenses	5	573,285	595,637
		2,151,941	2,037,993
Operating Profit		2,377,663	1,444,628
Other income	6	34,417	14,590
Other expenses	7	284,665	366,637
		2,127,415	1,092,581
Finance cost	8	45,351	36,542
Profit Before Taxation		2,082,064	1,056,039
Tax charge	9	760,145	390,812
Profit After Taxation		1,321,919	665,227
Earnings per share (Rupees)	10	5.17	2.60

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



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Consolidated Balance sheet as at December 31, 2005

	Note	2005 Rs '000	2004 Rs '000
Property, Plant and Equipment	13	3,826,974	3,592,715
Long Term Loans	14	17,782	16,324
Long Term Deposits and Prepayments	15	11,365	4,433
Current Assets			
Stocks	16	3,780,931	3,074,052
Stores and spares	17	125,232	121,464
Trade debts	18	2,894	12,486
Loans and advances	19	32,676	32,273
Prepayments		31,987	36,003
Other receivables	20	81,030	95,841
Cash and bank balances	21	57,609	39,201
		4,112,359	3,411,320
Less: Current Liabilities			
Trade and other payables	22	2,515,851	2,056,325
Interest accrued		10,911	5,041
Short term finance	23	400,662	996,579
Income tax payable		676,969	79,549
		3,604,393	3,137,494
Net Current Assets		507,966	273,826
		4,364,087	3,887,298
Financed By:			
Share Capital			
Authorised capital 300,000,000 ordinary shares of Rs 10 each		3,000,000	3,000,000
Issued, subscribed and paid-up capital	24	2,554,938	2,554,938
Revenue Reserves		1,084,476	707,885
Shareholders' Equity		3,639,414	3,262,823
Deferred Taxation	25	724,673	624,475
Financed By Commitments And Contingencies	26		
		4,364,087	3,887,298

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



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Consolidated Cash flow statement for the year ended December 31, 2005

	2005 Rs '000	2004 Rs '000
Cash Flow from Operating Activities		
Cash receipts from customers	30,624,654	25,585,897
Cash paid to Government for Federal Excise Duty, Sales Tax and other Levies	(19,126,208)	(16,021,304)
Cash paid to suppliers	(7,795,529)	(6,450,403)
Cash paid to employees and retirement funds	(1,400,619)	(1,465,490)
Income tax paid	(62,527)	(53,370)
Other cash receipts / (payments)	33,637	42,369
Net cash inflow from operating activities	2,273,408	1,637,699
Cash Flow from Investing Activities		
Purchase of property, plant and equipment	(717,328)	(598,322)
Proceeds from sale of operating fixed assets	42,815	38,027
Net cash outflow from investing activities	(674,513)	(560,295)
Cash Flow from Financing Activities		
Repayment of long term loans	-	(200,000)
Dividend paid	(943,649)	(507,318)
Financial charges paid	(32,531)	(42,656)
Long term loans, deposits and prepayments	(8,390)	2,658
Net cash outflow from financing activities	(984,570)	(747,316)
Net Increase in Cash and Cash Equivalents	614,325	330,088
Cash and Cash Equivalents as at January 01	(957,378)	(1,287,466)
Cash and Cash Equivalents as at December 31	(343,053)	(957,378)
Cash and Cash Equivalents Comprise:		
Cash and bank balances	57,609	39,201
Short term finances	(400,662)	(996,579)
	(343,053)	(957,378)

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



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Consolidated Statement of changes in equity for the year ended December 31, 2005

	Share Capital	Revenue Reserves	Rs '000 Total
Balance at December 31, 2003	2,554,938	553,646	3,108,584
Final dividend Re 1.00 per share relating to the year ended December 31, 2003	-	(255,494)	(255,494)
Profit for the year	-	665,227	665,227
Interim dividend of Re 1.00 per share relating to the year ended December 31, 2004	-	(255,494)	(255,494)
Balance at December 31, 2004	2,554,938	707,885	3,262,823
Final dividend of Rs 1.20 per share relating to the year ended December 31, 2004	-	(306,593)	(306,593)
Profit for the year	-	1,321,919	1,321,919
Interim dividend of Rs 2.50 per share relating to the year ended December 31, 2005	-	(638,735)	(638,735)
Balance at December 31, 2005	2,554,938	1,084,476	3,639,414



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO

Notes to and forming part of the consolidated financial statements for the year ended December 31, 2005

1. The Group and its Operations

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

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

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

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

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

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

2.2 Taxation

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

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

2.3 Provisions

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

2.4 Retirement benefits

The Company operates:

i) approved funded pension scheme for management and certain grades of business support officers and gratuity scheme for all employees. Actuarial valuation of these schemes is carried out each year and the latest valuation was carried out as at December 31, 2005. The details of the valuation are summarised in note 27.

ii) approved contributory provident fund for all employees for which contributions of the Company are charged to the income for the year.

2.5 Property, plant and equipment

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

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

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

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

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

2.6 Impairment

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

2.7 Operating leases

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

2.8 Stocks

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

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

2.9 Stores and spares

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

2.10 Revenue recognition

Sales are recorded on despatch of goods to customers.

2.11 Borrowing cost

All borrowing costs are expensed as incurred.

2.12 Foreign currency transactions

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

2.13 Related party transactions

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

The prices agreed between associated companies for sale of materials and manufactured goods are based on normal commercial practices on similar terms and conditions as applicable to transactions with third parties. Intra Group charges for sale and purchase of goods and services, and royalties are also based on the principles of normal commercial practice between independent businesses.

2.14 Financial instruments

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

2.15 Dividend Recognition

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

2.16 Cash and cash equivalents

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

2.17 Trade and other payables

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

	2005 Rs '000	2004 Rs '000
3. Cost of Sales		
Raw material consumed		
Opening stock of raw materials and work in process	2,678,084	2,902,957
Raw material purchases and expenses -note 3.1	6,058,690	4,321,327
Closing stock of raw materials and work in process	(3,011,196)	(2,678,084)
	5,725,578	4,546,200
Government taxes and levies		
Federal excise duty	14,758,558	12,466,912
Customs duty and surcharges	267,604	206,289
Provincial and municipal taxes and other excise duties	87,125	71,342
	15,113,287	12,744,543
	20,838,865	17,290,743
Production overheads		
Salaries, wages and benefits	643,317	648,493
Stores, spares and machine repairs	287,517	217,760
Fuel and power	110,389	100,054
Insurance	12,801	19,464
Repairs and maintenance	58,525	21,331
Postage, telephone and stationery	7,986	8,549
Information technology / SAP implementation	65,998	24,819
Depreciation	257,590	226,389
Damaged and obsolete materials written off	58,779	52,639
Sundries	14,134	18,048
	1,517,036	1,337,546
Cost of goods manufactured	22,355,901	18,628,289
Cost of finished goods		
Opening stock	395,968	324,546
Closing stock	(769,735)	(395,968)
	(373,767)	(71,422)
	21,982,134	18,556,867

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	2005 Rs '000	2004 Rs '000
3.1 Raw Material Purchases and Expenses		
Materials	5,325,193	3,657,756
Royalty	237,686	219,827
Salaries, wages and benefits	204,655	192,740
Stores, spares and machine repairs	83,833	63,304
Fuel and power	54,620	53,153
Property and vehicle rentals	20,133	17,087
Insurance	6,731	7,745
Repairs and maintenance	5,200	4,675
Postage, telephone and stationery	5,500	4,428
Depreciation	86,628	83,941
Sundries	28,511	16,671
	6,058,690	4,321,327
4. Marketing and Distribution Expenses		
Salaries, wages and benefits	172,542	157,875
Selling expenses	1,119,742	1,038,358
Freight	114,836	96,991
Property and vehicle rentals	7,381	6,303
Bad debts written off	6,371	-
Insurance	8,007	9,434
Repairs and maintenance	61,442	48,683
Postage, telephone and stationery	9,583	9,684
Travelling	39,145	35,088
Depreciation	39,607	39,940
	1,578,656	1,442,356
5. Administration Expenses		
Salaries, wages and benefits	260,168	270,614
Fuel and power	6,355	3,331
Property and vehicle rentals	27,120	16,399
Insurance	2,912	2,270
Repairs and maintenance	13,707	13,117
Postage, telephone, stationery and communication	12,436	11,432
Legal and professional charges	8,469	6,530
Donations - note 5.1	24,566	7,285
Information technology / SAP implementation	85,096	157,052
Travelling	52,074	26,877
Depreciation	43,062	39,940
Directors' fee - note 5.2	250	230
Sundries	33,498	36,559
Auditors' remuneration and expenses		
Statutory audit	670	620
Special certifications, audit of consolidated accounts and staff funds, review of half yearly accounts	1,221	1,600
Tax compliance and advisory services	1,621	1,570
Out-of-pocket expenses	60	211
	3,572	4,001
	573,285	595,637

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

5.2 Directors' fee of Rs 250 thousand (2004: Rs 230 thousand) is in respect of five (2004: five) non-executive directors for attending board meetings during the year.

	2005 Rs '000	2004 Rs '000
6. Other Income		
Insurance commission	4,075	6,752
Interest on short term deposits	26,317	-
Miscellaneous	4,025	7,838
	34,417	14,590
7. Other Expenses		
Workers' Profit Participation Fund / Workers Welfare Fund	148,291	64,127
Loss on operating fixed assets written off / sold	13,367	15,946
Staff separation cost	123,007	286,564
	284,665	366,637
8. Finance Cost		
On short term finance	24,568	20,057
Bank charges and fees	19,797	15,277
Interest on Workers' Profit Participation Fund	986	1,208
	45,351	36,542
9. Tax Charge		
Current - for the year	633,809	136,969
- for prior years	26,138	-
	659,947	136,969
Deferred - for the year	100,198	253,019
- for prior years	-	824
	100,198	253,843
	760,145	390,812
9.1. Reconciliation of tax charge for the year	%	%
Applicable tax rate	35.00	35.00
Add: Tax effect of amounts that are not deductible for tax purposes	0.25	1.92
Tax effect of provision for prior years	1.26	0.08
Average effective tax rate charged to income	36.51	37.00
10. Earnings Per Share		
Profit after tax (in thousands)	1,321,919	665,227
Number of fully paid weighted average ordinary shares (in thousands)	255,494	255,494
Earnings per share (Rupees)	5.17	2.60

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

11. Post Balance Sheet Event

Final dividend in respect of the year ended December 31, 2005 of Rs 2.50 per share (2004: Rs 1.20 per share) amounting to a total dividend of Rs 638,735 thousand (2004: Rs 306,593 thousand) has been declared out of the unappropriated profit at the Board of Directors' meeting on March 07, 2006. These financial statements do not reflect this dividend payable.

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12. Remuneration of Chief Executive, Directors and Executives.

	Chief Executive		Directors		Executive				Total	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000	*Key Management Personnel		Other Executives		2005 Rs '000	2004 Rs '000
					2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000		
Managerial remuneration	29,897	41,888	45,316	45,931	49,873	49,732	136,670	152,678	261,756	290,229
Corporate bonus	7,308	6,000	11,326	20,169	20,731	13,799	40,077	41,221	79,442	81,189
Leave fare assistance	1,049	1,285	1,055	1,186	1,293	620	52	1,582	3,449	4,673
Retirement benefits	-	-	2,270	4,281	3,975	5,760	23,319	34,566	29,564	44,607
Housing and utilities	3,801	4,574	8,464	7,039	10,016	8,122	59,914	51,940	82,195	71,675
Medical expenses	117	134	1,072	415	2,463	1,934	14,866	9,964	18,518	12,447
	42,172	53,881	69,503	79,021	88,351	79,967	274,898	291,951	474,924	504,820
** Number of persons	1	1	6	6	10	9	123	122	140	138

* Remuneration to key management personnel represents remuneration paid to members of the Executive Committee of the Board other than the chief executive and directors.

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

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

13. Property, Plant and Equipment

	2005 Rs '000	2004 Rs '000
Operating fixed assets - note 13.1	3,751,939	3,331,817
Capital work in progress - note 13.2	75,035	260,898
	3,826,974	3,592,715

13.1 Operating fixed assets

	Cost				Depreciation				Written down values as at Dec 31, 2005
	As at Jan 01, 2005	Additions	Deletions	As at Dec 31 2005	As at Jan 01, 2005	Charge for the year	On deletions	As at Dec 31, 2005	
Freehold land	10,198	-	-	10,198	-	-	-	-	10,198
Buildings on freehold land	334,036	8,160	-	342,196	85,413	9,384	-	94,797	247,399
Buildings on leasehold land	23,317	-	(340)	22,977	12,668	407	(340)	12,735	10,242
Private railway sidings	349	-	-	349	323	-	-	323	26
Plant and machinery	4,122,322	754,809	(124,741)	4,752,390	1,412,478	294,183	(89,038)	1,617,623	3,134,767
Office and house-hold machinery and equipment	279,305	52,707	(23,314)	308,698	147,078	44,064	(19,939)	171,203	137,495
Furniture and fittings	61,428	1,615	(37)	63,006	34,837	7,081	(22)	41,896	21,110
Vehicles	414,132	85,899	(60,262)	439,769	220,472	71,768	(43,173)	249,067	190,702
Total	5,245,087	903,190	(208,694)	5,939,583	1,913,269	426,887	(152,512)	2,187,644	3,751,939
2004	4,680,234	735,065	(170,212)	5,245,087	1,639,299	390,210	(116,239)	1,913,270	3,331,817

	2005 Rs '000	2004 Rs '000
13.2 Capital work in progress		
Civil works and buildings	28,846	12,561
Plant and machinery	26,293	208,347
Advances to suppliers	19,896	37,414
Machinery and fixtures in transit / storage	-	2,576
	75,035	260,898
13.3 Depreciation charge has been allocated as follows		
Cost of sales - note 3 and 3.1	344,218	310,330
Marketing and Distribution expenses - note 4	39,607	39,940
Administration expenses - note 5	43,062	39,940
	426,887	390,210

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13.4 Details of disposal of operating fixed assets:

Rs '000

	Original Cost	Accumulated depreciation	Book value	Sale proceeds	Particulars of buyers
Household / office equipment					
by negotiation	591	404	187	196	Jeremy David Pike
by auction	353	281	72	4	Raja M. Gulzar (sale as scrap)
by insurance claim	210	81	129	169	EFU General Insurance
Computer equipment					
by auction	6,194	5,421	773	126	Bahadar Khan (sale as scrap)
	1,439	1,159	280	12	Raja M. Gulzar (sale as scrap)
by insurance claim	159	74	85	39	International General Insurance (IGI)
	431	149	282	310	EFU General Insurance
Vehicles					
by Company policy	991	892	99	99	Abdullah Shah - Employee
	633	570	63	63	Najeeb ur Rehman - Employee
	1,196	299	897	800	Ahmed Nawaz - Ex-employee
	750	156	594	576	Javed Rasool - Employee
	520	468	52	52	Asad Ali Shah - Employee
	859	773	86	138	Abdul Sattar Babar - Ex-employee
	633	570	63	63	Mirza Zubair Ahmed - Employee
	705	635	71	149	Fahim Ashraf - Employee
	705	635	71	239	Rizwan Mamdani - Employee
	705	632	73	304	Jamshed Inam Sheikh - Employee
	719	524	195	463	Nadeem Abbasi - Employee
	745	481	264	392	Bilal Virk - Ex-employee
	750	563	188	435	Talat Mahmood - Employee
	1,024	469	555	686	Asif Khan - Employee
	5,122	2,368	2,754	3,627	Zafar Ahmed Taji - Ex-employee
	750	234	516	561	Adil Cheema - Employee
	1,024	277	747	803	Rashid Khan - Ex-employee
	750	203	547	547	Atif Dar - Ex-employee
	71	9	62	69	Rasheed Khatri - Ex-employee
	952	857	95	99	Wajid Ali - Employee
	633	570	63	63	Shafqat Ali - Employee
	705	617	88	156	Nabeel Tajik - Employee
	1,024	43	981	944	Asif Anis - Ex-employee
	633	570	63	63	Turab Ali Khan - Employee
by auction	549	494	55	526	Aurangzeb - Rawalpindi
	2,236	2,013	223	2,041	Malik Wasif - Taxila
	917	826	91	811	Mushtaq Ahmed Aziz - Abbotabad
	635	572	64	581	Ahmed Ali - Peshawar
	1,004	904	100	981	Muhammad Zahoor - Haripur
	679	611	68	657	Sheikh Rizwan - Taxila
	679	611	68	660	Muhammad Saleem - Rawalpindi
	1,398	1,258	140	1,443	Raja Muhammad Zahoor - Rawalpindi
	633	570	63	660	Mehmood Aslam - Rawalpindi
	774	679	95	502	Mrs. Tahira Ch. - Rawalpindi
	689	620	69	668	Abdul Hameed - Azad Kashmir
	894	805	89	730	Muhammad Yousaf Sani - Rawalpindi
	2,657	2,392	266	1,752	Amanullah - Peshawar
	3,039	2,735	304	1,960	Mir Zaman - Charsadah
	455	380	75	246	Zia-ud-Din - Taxila
	901	811	90	783	Musaddaq Muhammad - Islamabad
	608	547	61	511	Rashid Ayub Khan - Karachi
	1,062	956	106	830	M/s Nimble Bull - Islamabad
by insurance claim	8,407	4,495	3,912	7,131	AIG New Hampshire Insurance Co.

	2005 Rs '000	2004 Rs '000
14. Long Term Loans		
Considered good		
Loans due from directors and executives	6,631	6,877
Loans due from other employees	17,708	15,224
	24,339	22,101
Less: receivable within one year	6,557	5,777
	17,782	16,324

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

	Directors/Executives Rs '000	Others Rs '000	Total Rs '000
Opening balance	6,877	15,224	22,101
Disbursements	1,681	11,283	12,964
Recoveries	(1,927)	(8,799)	(10,726)
Closing balance	6,631	17,708	24,339

14.2 The above comprises interest free loans amounting to Rs 151 thousand (2004: Rs 189 thousand) and Rs 6,480 thousand (2004: Rs 6,688 thousand) given to the directors and executives respectively for purchase of household furniture, appliances, cars and motorcycles, repayable over 5 to 10 years in equal instalments.

14.3 The maximum amounts due from the directors and executives at the end of any month during the year were Rs 151 thousand (2004: Rs 201 thousand) and Rs 6,480 thousand (2004: Rs 7,083 thousand) respectively.

	2005 Rs '000	2004 Rs '000
15. Long Term Deposits and Prepayments		
Security Deposits	6,167	1,972
Prepayments	5,198	2,461
	11,365	4,433

16. Stocks

Raw materials	2,855,400	2,552,527
Raw materials in transit	133,511	106,246
Work in process	22,285	19,311
Finished goods	769,735	395,968
	3,780,931	3,074,052

17. Stores and Spares

Machine spares - cigarette production	124,251	119,546
Miscellaneous stores	981	1,918
	125,232	121,464

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	2005 Rs '000	2004 Rs '000
18. Trade Debts		
Considered good	2,894	12,486
Considered doubtful	2,322	2,322
	5,216	14,808
Provision for doubtful debts	(2,322)	(2,322)
	2,894	12,486

19. Loans And Advances

Considered good		
Loans due from directors and executives - note 14	6,557	5,777
Advances due from employees - note 19.1	4,550	5,195
Advances due from others	21,569	21,301
	32,676	32,273

19.1 The above includes Rs 1,032 thousand (2004: Rs 3,566 thousand) due from executives of the Company.

19.2 The maximum amount due from executives of the Company at the end of any month during the year was Rs 17,858 thousand (2004: Rs 18,231 thousand).

20. Other Receivables

Margin against guarantees	3,887	6,318
Due from associated companies - note 20.1	18,377	25,655
Claims	27,564	14,765
Employees' / management provident fund	15,824	30,764
Payments on behalf of employees' gratuity and pension funds	10,108	-
Others	5,270	18,339
	81,030	95,841

20.1 The amount due from associated companies comprises

British American Tobacco - Regional Office Hong Kong	6,407	4,019
British American Tobacco - Nigeria	4,885	2,322
Ceylon Tobacco Company - Sri Lanka	3,237	1,185
British American Tobacco - UK	2,426	2,369
British American Tobacco - South Korea	402	138
British American Tobacco - Australia	273	629
British American Tobacco - Dubai	262	209
British American Tobacco - Benin	220	220
British American Tobacco - Singapore	129	2,718
British American Tobacco - Syria	88	-
British American Tobacco - Uzbekistan	48	48
British American Tobacco - Bangladesh	-	11,349
British American Tobacco - New Zealand	-	226
British American Tobacco - Indonesia	-	223
	18,377	25,655

	2005 Rs '000	2004 Rs '000
21. Cash and Bank Balances		
On hand	3,143	2,096
In transit	1,072	1,405
At banks on current accounts - Foreign currency	36,985	23,024
- Local currency	7,963	5,430
	49,163	31,955
Security deposits - held in special account	8,446	7,246
	57,609	39,201
22. Trade and Other Payables		
Creditors	669,792	426,690
Federal excise duty	668,877	407,430
Sales tax	294,041	266,723
Other Federal / Provincial taxes - note 22.1	203,658	402,020
Accrued liabilities	271,971	230,904
Due to associated companies - note 22.2	266,109	246,361
Advances from customers	7,531	1,237
Security deposits	8,446	7,246
Workers' Profit Participation Fund - note 22.3	111,518	55,989
Staff pension fund	1,605	1,605
Employees' gratuity fund	2,512	2,512
Management provident fund	518	14
Unclaimed dividend	9,273	7,594
	2,515,851	2,056,325
22.1 Other Federal / Provincial taxes		
Opening balance	402,020	362,504
Provision during the year	60,621	61,659
Payments during the year	(258,983)	(22,143)
	203,658	402,020

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	2005 Rs '000	2004 Rs '000
22.2 The amount due to associated companies comprises:		
British American Tobacco - UK	181,360	178,016
British American Tobacco - Regional Office Hong Kong	42,387	30,030
Souza Cruz Overseas S.A. - Brazil	27,863	18,702
British American Tobacco - Malaysia	4,788	5,275
British American Tobacco - Uganda	3,864	2,020
Ceylon Tobacco Company - Sri Lanka	2,401	5,109
British American Tobacco - Singapore	1,698	391
British American Tobacco - South Africa	1,429	22
British American Tobacco - Australia	319	1,832
Brown & Williamson - U.S.A.	-	3,811
British American Tobacco - Ghana	-	460
British American Tobacco - Hungary	-	281
British American Tobacco - Switzerland	-	237
British American Tobacco - Indonesia	-	94
British American Tobacco - Bangladesh	-	77
GSD KL - Malaysia	-	4
	266,109	246,361

22.3 Workers' Profit Participation Fund

Balance at January 01	55,989	32,352
Allocation for the year	111,518	55,989
Interest on funds utilised in Company's business	986	1,208
Payment to the fund during the year	(56,975)	(33,560)
Balance at December 31	111,518	55,989

23. Short Term Finance - Secured

Short term finances are under mark-up arrangements with banks and are secured by hypothecation of stocks of raw materials and finished goods. The mark-up ranges between 4.75% and 12.34% (2004: 1.75% and 6.45%) per annum and is payable quarterly. Total facility available under mark-up arrangements amounts to Rs 2,380 million (2004: Rs 2,380 million) out of which the amount unavailed at the year end was Rs 1,979.338 million (2004: Rs 1,383.421 million). These facilities are renewable annually.

24. Issued, Subscribed and Paid-up Capital

230,357,068 ordinary shares of Rs 10 each fully paid in cash and 25,136,724 ordinary shares of Rs 10 each issued as fully paid bonus shares.	2,554,938	2,554,938
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British American Tobacco (Investments) Limited held 241,045,141 ordinary shares of Rs 10 each at December 31, 2005 (2004: 241,045,141 shares).

25. Deferred Taxation

The deferred tax liability of Rs 724,673 thousand (2004: Rs 624,475 thousand) represents tax liability related to temporary differences between carrying amount of fixed assets and the corresponding tax base.

26. Commitments and Contingencies

26.1 Letters of credits outstanding at December 31, 2005 were Rs 642,828 thousand (2004 : 447,679 thousand), out of which Rs 555,007 thousand (2004: 236,124 thousand) were hedged through forward foreign currency contracts with various banks.

	2005 Rs '000	2004 Rs '000
26.2 Rentals under lease agreements:		
Premises - not later than one year	41,653	40,131
- later than one year and not later than five years		
2007	16,213	21,585
2008	11,870	17,425
2009	9,130	11,870
2010	5,220	9,130
- later than five years	9,012	14,232

26.3 Claims not acknowledged as debt amounted to Rs 48,415 thousand (2004: Rs 69,168 thousand).

26.4 Guarantees issued by banks on behalf of the Company amounted to Rs 75,193 thousand (2004: Rs 60,543 thousand).

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27. Employees' Defined Benefit Funded Pension and Gratuity Schemes

The details of actuarial valuation carried out as at December 31, 2005 and December 31, 2004 are as follows:

Expense	2005		2004	
	Pension	Rs '000	Gratuity	
Service cost	20,030		14,009	
Interest cost	76,748		16,746	
Expected return on assets	(76,625)		(16,553)	
Actuarial (gains) / losses	-		-	
	20,153		14,202	
			27,461	24,688
Liability				
Balance at January 01	1,605		2,512	13,780
Charge for the year	20,153		14,202	27,461
Amount paid during the year	(20,153)		(14,202)	(39,636)
Special payment	-		-	-
				(60,177)
Balance at December 31	1,605		2,512	1,605
				2,512
Reconciliation				
Present value of defined benefit obligations	1,214,950		316,968	965,451
Less: fair value of plan assets	1,036,970		224,990	963,846
Less: unrecognised actuarial (gains) / losses	176,375		89,466	-
Liability recognised in the financial statements	1,605		2,512	1,605
				2,512
Actual return on plan assets	120,173		21,138	120,766
				24,196

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

	2005	2004
- Discount rate	9%	8%
- Expected rate of increase in salary level	10%	8%
- Expected yearly increase in post retirement pension	5%	3%
- Expected rate of return on plan assets	9%	8%

27.1 Plan assets comprise the following financial instruments

	Pension Rs '000	Gratuity Rs '000
Investment in equities	81,018	30,273
Investment in fixed-income securities	897,653	178,247
Cash and receivables	58,299	16,470
	1,036,970	224,990

27.2 Unrecognised actuarial gains / losses in excess of the 'corridor' (10% of the higher of the fair value of the plan assets or the present value of the defined benefit obligation) at the current reporting date are recognised in following years over the remaining working lives of employees participating in the defined benefit schemes, in accordance with provisions of IAS 19 - Employee Benefits.

	2005 Rs '000	2004 Rs '000
27.3 "Salaries, wages and benefits" as appearing in notes 3, 3.1, 4 and 5 include amounts in respect of the following:		
Provident fund	27,105	24,301
Pension fund	20,153	27,461
Gratuity fund	14,202	24,688
	61,460	76,450

28. Financial Instruments

28.1 Financial assets and liabilities

	2005 (Rs '000)			2004 (Rs '000)		
	Exposed to interest rate risk	Not exposed to interest rate risk	Total	Exposed to interest rate risk	Not exposed to interest rate risk	Total
Financial assets						
Maturity upto one year:						
Trade debts	-	2,894	2,894	-	12,486	12,486
Loans and advances	-	32,676	32,676	-	32,273	32,273
Other receivables	-	81,030	81,030	-	95,841	95,841
Cash and bank balances	8,446	49,163	57,609	7,246	31,955	39,201
Maturity after one year:						
Loans	-	17,782	17,782	-	16,324	16,324
Deposits	-	6,167	6,167	-	1,972	1,972
Total	8,446	189,712	198,158	7,246	190,851	198,097
Financial liabilities						
Maturity upto one year:						
Trade and other payables	-	1,345,158	1,345,158	-	976,035	976,035
Interest accrued	-	10,911	10,911	-	5,041	5,041
Short term finance	400,662	-	400,662	996,579	-	996,579
Total	400,662	1,356,069	1,756,731	996,579	981,076	1,977,655
Off balance sheet items						
Letters of credit	-	642,828	642,828	-	447,679	447,679
Bank guarantees	-	75,193	75,193	-	60,543	60,543
Total	-	718,021	718,021	-	508,222	508,222

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28.2 Credit risk

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

28.3 Interest rate risk

Financial liabilities include Rs 400,662 thousand (2004 : Rs 996,579 thousand) which are subject to floating interest ranging between 4.75% and 12.34% (2004 : 1.75% and 6.45%) per annum.

28.4 Foreign exchange risk

Financial assets of equivalent Rs 55,362 thousand (2004 : Rs 48,679 thousand) and financial liabilities of equivalent Rs 239,642 thousand (2004 : 223,056 thousand) were in foreign currency which were exposed to foreign currency risk. Foreign currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. Currently, the Company's foreign exchange risk exposure is restricted to bank balances and the amounts receivable from / payable to the foreign entities. Most of the Company's risk, emanating from Pak rupee / foreign currency parity, for foreign currency transactions is hedged through forward foreign currency contracts with various banks.

28.5 Fair value of financial assets and liabilities

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

29. Transactions with Related Parties

British American Tobacco (Investments) Limited holds 94.34 % (2004: 94.34%) shares of the Company at the year end. Therefore all the subsidiaries and associated undertakings of British American Tobacco (Investments) Limited are related parties of the Company. The related parties include directors, major shareholders, key management personnel and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivable and payable balances. The remuneration of the chief executive, directors, key management personnel and executives is disclosed in note 12 to the financial statements.

	2005 (Rs '000)						
	Purchase of goods	Purchase of services	Reimbursement of expenses	Royalty charge	Sale of goods	Sale of services	Receipts as reimbursement of expenses
Holding Company							
British American Tobacco – U.K.	37,285	121,429	5,989	237,687	-	23,573	-
Associated Companies							
British American Tobacco – Asia Pacific Hong Kong	-	35,699	2,388	-	-	2,520	50
British American Tobacco – Australia	-	408	-	-	-	574	82
British American Tobacco – Bangladesh	125,924	-	-	-	-	-	-
Ceylon Tobacco Company – Srilanka	-	1,440	19	-	275	2,122	-
British American Tobacco – Cambodia	44,015	-	-	-	-	-	-
British American Tobacco – Dubai	-	-	-	-	-	1,175	-
British American Tobacco – Germany	-	-	-	-	43,738	-	-
British American Tobacco – Indonesia	90,598	-	-	-	-	983	411
British American Tobacco – International	701	-	-	-	-	-	-
British American Tobacco – Korea	-	401	-	-	-	-	-
British American Tobacco – Malaysia	5,049	9,636	-	-	-	-	-
British American Tobacco – Nigeria	-	-	-	-	-	4,214	-
British American Tobacco – Russia	-	-	-	-	181,255	-	-
British American Tobacco – Poland	2,872	-	-	-	-	-	-
British American Tobacco – Singapore	183,830	1,726	-	-	30,524	545	-
Souza Cruz Overseas S. A. – Brazil	227,650	241	-	-	-	-	-
British American Tobacco – South Africa	-	844	-	-	-	-	-
British American Tobacco – Syria	-	-	-	-	-	310	-
British American Tobacco – Uganda	94,240	1,574	-	-	-	-	633
British American Tobacco – Uzbekistan	-	-	-	-	3,708	-	-
Distribution Services (Pvt) Ltd, Karachi	-	-	-	-	3,712,566	-	-
Shell Pakistan	-	1,683	-	-	-	-	-
PSO Pakistan	8,478	744	-	-	-	-	-

	2004 (Rs '000)						
	Purchase of goods	Purchase of services	Reimbursement of expenses	Royalty charge	Sale of goods	Sale of services	Receipts as reimbursement of expenses
Holding Company							
British American Tobacco – U.K.	81,239	121,343	940	219,827	31,532	1,859	-
Associated Companies							
British American Tobacco – Asia Pacific Hong Kong	-	24,740	-	-	-	1,549	-
British American Tobacco – Australia	-	-	1,151	-	-	-	-
British American Tobacco – Bangladesh	15,253	-	76	-	36	3,716	-
British American Tobacco – Benin	-	-	-	-	-	220	-
Brown & Williamsons	3,563	-	-	-	-	-	-
Ceylon Tobacco Company – Sri Lanka	334	3,467	-	-	1	1,045	-
British American Tobacco – Dubai	-	-	-	-	-	1,454	-
British American Tobacco – Germany	-	9,151	-	-	79,647	203	-
British American Tobacco – Indonesia	-	90	-	-	-	822	-
British American Tobacco – Korea	-	118	-	-	-	-	-
British American Tobacco – Malaysia	-	4,480	-	-	-	-	4
British American Tobacco – New Zealand	-	-	-	-	-	-	226
British American Tobacco – Nigeria	-	-	-	-	23,908	1,700	-
P T Rothmans	7,515	-	-	-	-	-	-
R J Reynolds	6,451	-	-	-	-	-	-
British American Tobacco – Singapore	-	-	155	-	8,113	3,035	-
Souza Cruz Overseas S.A. – Brazil	300,608	792	-	-	-	-	-
British American Tobacco – South Africa	-	22	-	-	-	-	-
British American Tobacco – Switzerland	-	-	237	-	-	-	-
Tobaco Fina Vander Elst S.A	9,743	-	-	-	-	-	-
British American Tobacco – Uganda	125	1,865	-	-	-	-	-
British American Tobacco – Uzbekistan	-	-	-	-	-	-	48
Distribution Services (Pvt) Ltd, Karachi	-	-	-	-	3,202,627	-	-
Shell Pakistan	-	2,928	-	-	-	-	-
PSO Pakistan	1,395	-	-	-	-	-	-

30. General

30.1 Capacity and production

Against an estimated manufacturing capacity of 33,114 (2004: 28,174) million cigarettes, actual production was 31,758 (2004: 27,001) million cigarettes. There was no production through any outside manufacturing source as actual production was sufficient to meet market demand.

30.2 Number of employees

Total number of employees as at December 31, 2005 was 1,818 (2004: 1,745).

30.3 Corresponding figures

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison. For more appropriate presentation, sales tax of Rs 3,413.146 million for the year ended December 31, 2004 has been shown as a deduction from sales which was previously reflected under cost of sales in note 3.

30.4 Date of authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on March 07, 2006 .



Aslam Khaliq
Chairman



Toh Ah Wah
Managing Director and CEO



Special Form of Proxy

I, _____
of _____

a member of Pakistan Tobacco Company Limited, hereby appoint _____
_____ of _____

or failing him _____ of _____

or failing him either of them, may in writing appoint any other person to act as my proxy at the Fifty-Ninth Annual General Meeting of the Company to be held on the April 20, 2006 and at any and every adjournment thereof.

As witness my hand this _____ day of _____ 2006.

Signed _____

Shareholder's Folio No. _____

Rs.5 REVENUE STAMP

Note:

1. The signature should agree with the specimen signature registered with the Company.
2. A proxy need not be a member of the Company.
3. Proxy Forms properly completed should be deposited at the office of the Company's Share Registrar, Ferguson Associates (Pvt.) Ltd., State Life Building 1-A, I.I. Chundrigar Road, Karachi not later than 48 hours before the time for holding the Meeting or adjourned Meeting and in default the instrument of proxy shall not be treated as valid.

For Beneficial Owners as per CDC List

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

- (i) Attested copies of 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. _____

