Annual Report for the year ended December 31, 2009

PAKISTAN TOBACCO COMPANY

...sailing

Sailing

... through the storm in 2009.

The waters were turbulent, the going was tough... yet we managed to sail through.

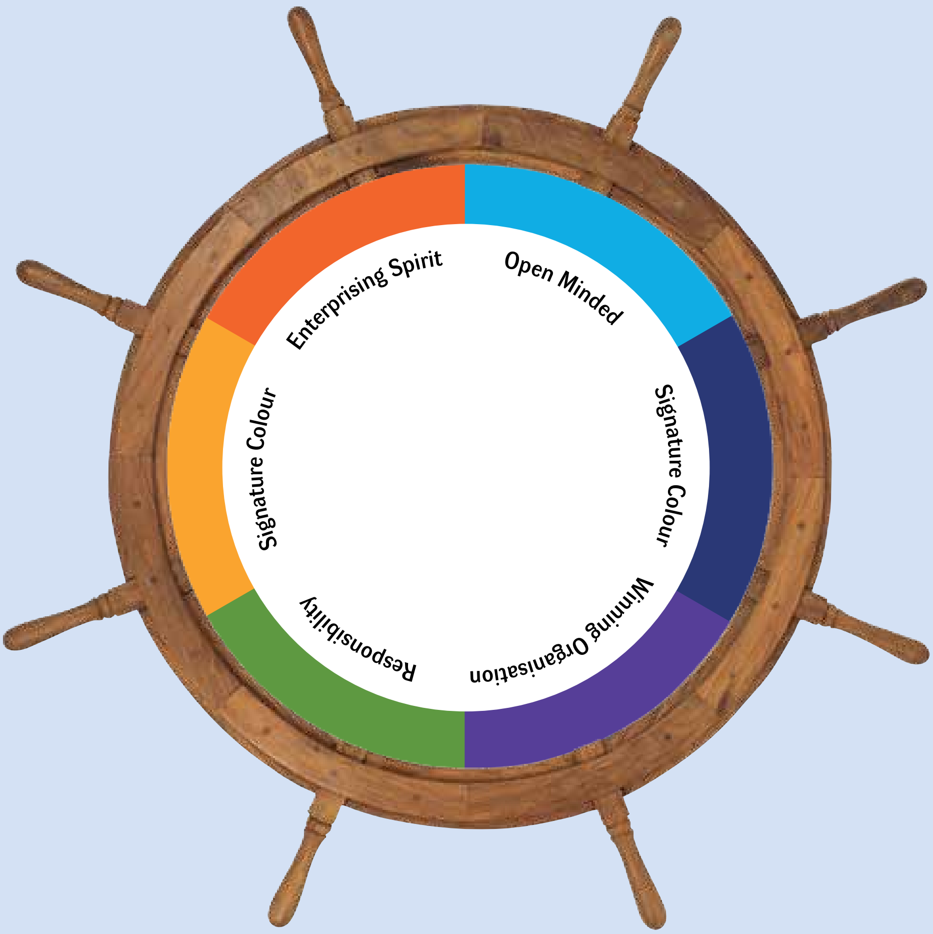
Efficient and improvised use of resources enabled us to come out of difficult times with strong financial results.

We remain well prepared for the challenges ahead.

"Despite all odds, we managed to deliver a good all round performance and posted growth in both market share and financial results, setting new standards of corporate excellence.

Underpinning this exceptional performance was smart cost management, continued focus on brands and people and most of all, continued support from our valued business partners and distributors, whose commitment has been key to the success of our business."

Nicholas Stewart Hales
Managing Director and CEO


Enterprising Spirit
Open Minded
Signature Colour
Winning Organisation
Responsibility
Signature Colour

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Corporate Information

Registered Office
Pakistan Tobacco Company Limited
Silver Square, Plot No. 15
F-11 Markaz, P.O. Box 2549
Islamabad - 44000.
Telephone: +92 (51) 2083200, 2083201
Fax: +92 (51) 2224216
Web: www.ptc.com.pk

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

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

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

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

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

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

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

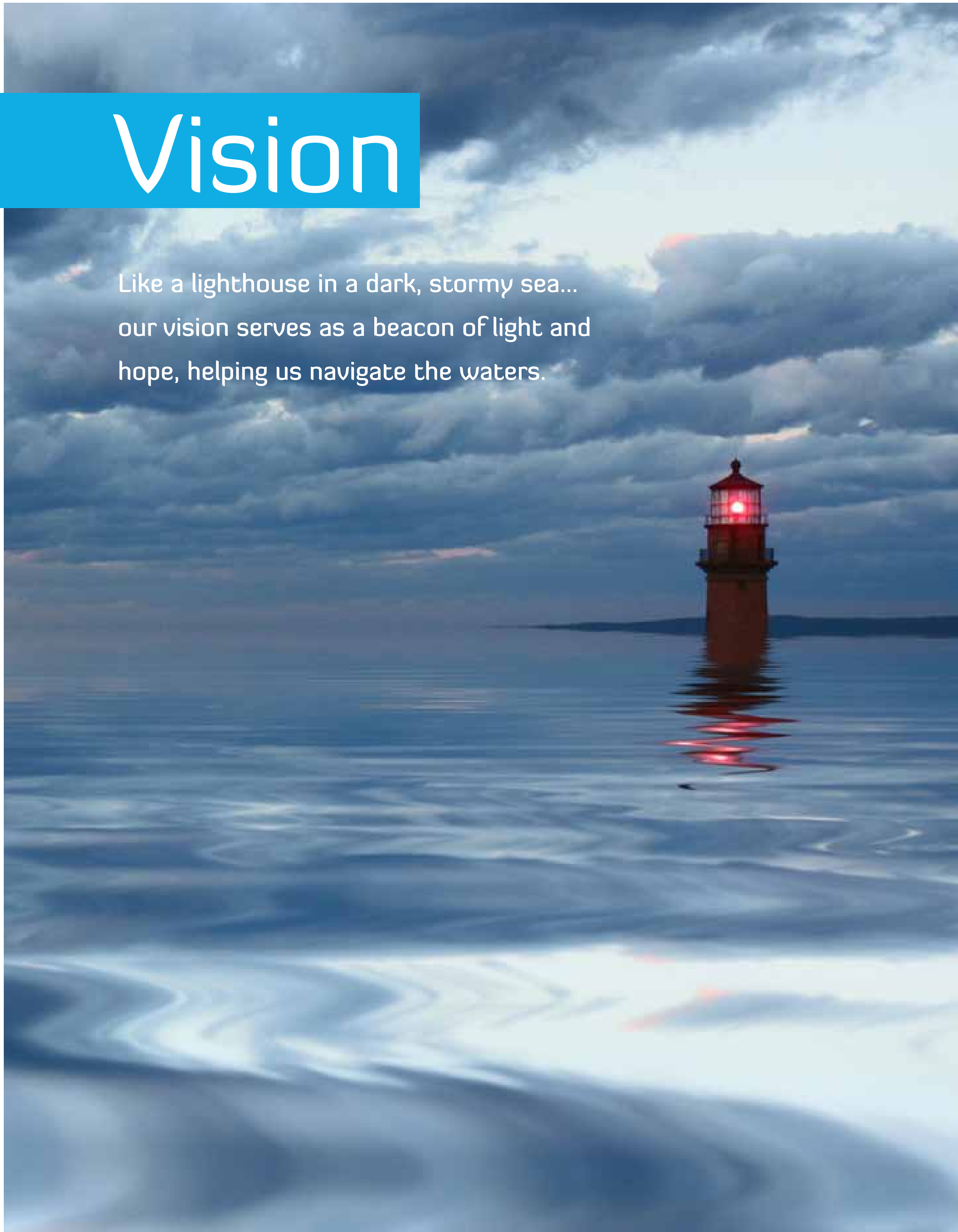
Central Punjab
128/129-G, Commercial Area
Phase-1, Defence Housing Authority
Lahore.
Telephone: +92 (42) 5899351-4
Fax: +92 (42) 5899356

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

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

Vision

Like a lighthouse in a dark, stormy sea...
our vision serves as a beacon of light and
hope, helping us navigate the waters.



Corporate Objectives

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

Our Vision
First Choice for Everyone.

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

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

Guiding Principles

We follow four guiding principles that represent:

- Strength from Diversity
- Open Minded
- Freedom through Responsibility
- Enterprising Spirit

Our Guiding Principles describe the organisation we are and the type of organisation we want to be. They represent the common values at the heart of our success.

Strength from Diversity
Strength from Diversity reflects the cultural mix within the Company and a work environment that respects employees' individual differences. It also reflects our vision of harnessing diversity – of people, cultures, viewpoints, brands, markets and ideas – to create opportunities and strengthen performance.
For this reason, we are interested in what will differentiate you from others – what makes you unique.

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

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

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

Business Principles

Our Company follows three fundamental Business Principles:

- Mutual Benefit
- Responsible Product Stewardship
- Good Corporate Conduct

Each principle is supported by a series of core beliefs, which are explained below:

Mutual Benefit

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

Core Beliefs

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

Responsible Product Stewardship

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

Core Beliefs

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

Good Corporate Conduct

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

Core Beliefs

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

The Board of Directors

Mueen Afzal, HI
Chairman and Non-Executive Director

Mueen Afzal graduated with Honours from Punjab University before going to Oxford University in 1963. He has held various prominent positions in Finance and Health Ministries. He has also served as the Secretary General, Finance and Economic Affairs. He is currently on the board of various reputed organisations and institutions. He joined the Board in 2003 and became the Chairman in 2007. He was awarded the Hilal-i-Imtiaz (HI) in 2002 for distinguished public service.

Nicholas Stewart Hales
Managing Director and CEO

Nicholas Hales started his career in the tobacco industry as a Trainee Salesman in the United Kingdom in 1989. Thereafter, he moved into general management and held numerous roles throughout the Sub-Sahara African Region. He also served as West and Central Africa Area Director for BAT covering 26 different markets. In 2007, he came to Bangladesh as the Managing Director and Chairman, from where he was appointed as the Managing Director and Chief Executive Officer of the Company.

Mobasher Raza
Deputy Managing Director and Finance Director

Mobasher Raza has been with the Company for the last 30 years. He joined the Company as a Management Trainee and has held various key positions in the Finance function within PTC as well as with other BAT Group Companies. His international assignments include Internal Auditor BAT UK, Finance Director Nigerian Tobacco Company Limited and Head of Finance Tvornica Duhana Zadar (BAT subsidiary in Croatia). In addition to his role as the Finance Director, he has been working as the Deputy Managing Director of the Company since 2006.

Ahmed Zeb
Supply Chain Director

Ahmed Zeb joined the Company as a Management Trainee in the Production Department in 1976. After holding various key positions in PTC, he was seconded to BAT Uganda in 1997 where he worked as Head of Operations and Projects for the East Africa cluster. From there he was posted to Sri Lanka (Ceylon Tobacco Company) as Operations Director. He returned to Pakistan in 2004 and was appointed as the Production Director. He joined the Board in 2005.

Feroze Ahmed
Strategy and Planning Director

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

Christopher Edward John Gooddy
Marketing Director

Chris graduated from business school in the UK and spent 3 years with Mars Confectionery in Southern England before joining BAT in 1990. Throughout his 19 years with the Group, he has held a number of marketing positions, working in the Far East, the Middle East, Southern Africa, Central Asia and Europe. In 2009, he moved to Pakistan from Hong Kong, joining the Company as the Marketing Director.

Tajamal Shah
Legal Director

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

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

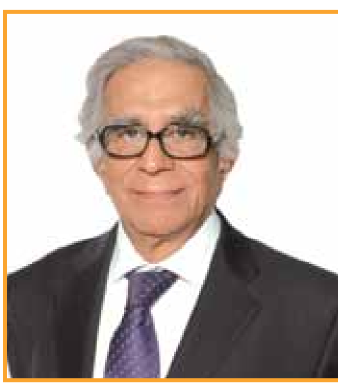
Lt. General (Retd.) Ali Kuli Khan hails from Peshawar and belongs to a renowned industrialist family. He was commissioned in the Pakistan Army in 1964. General Ali and his late father are the only examples in the Pakistan Army where both father and son have risen to the rank of Lieutenant Generals. Important assignments during his brilliant career were Commandant Staff College Quetta, Chief of the General Staff and Director General Military Intelligence. He currently sits on the board of various renowned companies.

Istaqbal Mehdi
Non-Executive Director

Mr. Istaqbal Mehdi has held executive positions in several national organisations such as the Chief, Experts Advisory Cell, Ministry of Industry and Production, and Senior Economist, Board of Industrial Management. He was an Advisor to the World Bank during the period 1969-72. He is currently on the boards of various companies. He has been the MD/CEO of Pak Kuwait. Prior to this role, he was the President of Zarai Taraqiati Bank of Pakistan.

Abid Niaz Hasan
Non-Executive Director

Abid Hasan has over 31 years of global experience in economic development, having worked for the World Bank from 1975-2006. Abid has been involved with countries in South and West Asia and the Asian Tiger economies, in the capacity of an advisor to different governments. He has managed various World Bank programmes. He also represented International Finance Corporation (IFC) on the boards of several companies that were financed by IFC.



Kunwar Idris
Non-Executive Director

Kunwar Idris joined the Civil Service of Pakistan in 1957 and retired in 1994 with a career spanning over 36 years. Besides holding administrative posts like Chief Secretary and Home Secretary Sind, he was also Secretary to the Government of Pakistan in the Ministries of Petroleum and Production. Since retirement from public service, he has been associated with the boards of various renowned companies of Pakistan. He is also the Chairman of Pakistan Automotive Manufacturers Association. He writes a weekly column on current affairs for DAWN.

Syed Asif Shah
Non-Executive Director

Syed Asif Shah graduated from London School of Economics in 1971 and joined the Civil Service of Pakistan in 1973 as an Officer of the District Management Group. During his career in the Government, he served on numerous key provincial posts like Secretary Health, Education and Industry for NWFP. After retiring in 2008 as the Federal Secretary of Commerce, he has been appointed as a Member of the Federal Public Service Commission of Pakistan. He joined the PTC Board in 2009.

Highlights

Just as the sun glimmers off the ocean surface creating a symphony of light... our achievements highlight the strength of our business.

Our Achievements

17% ▲ Gross Turnover

19% ▲ Government Levies

15% ▲ Net Turnover

13% ▲ Gross Profit

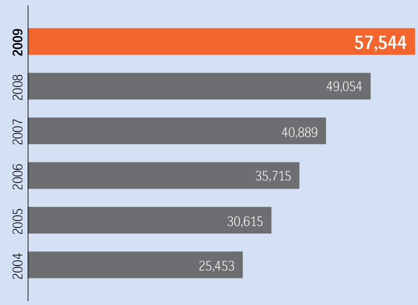
19% ▲ Operating Profit

▲ 19% Profit after Tax

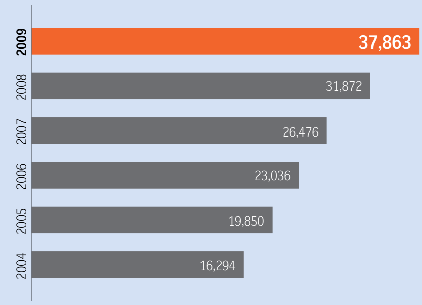
▲ 19% Earnings per Share

▲ 6% Property, Plant & Equipment

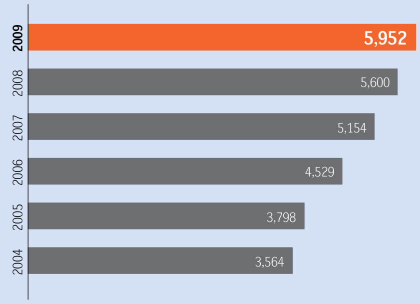
Gross Turnover
Rs (million)



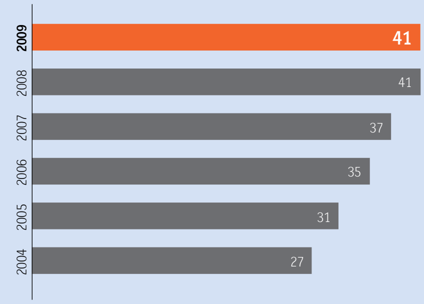
Government Levies
Rs (million)



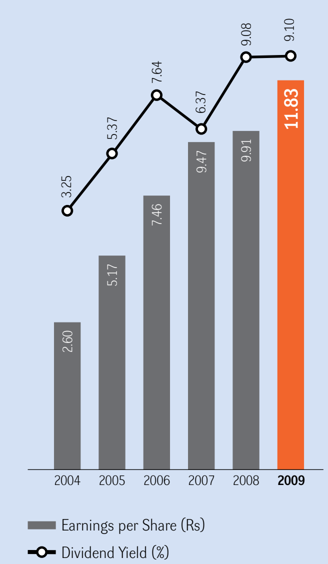
Property, Plant & Equipment
Rs (million)



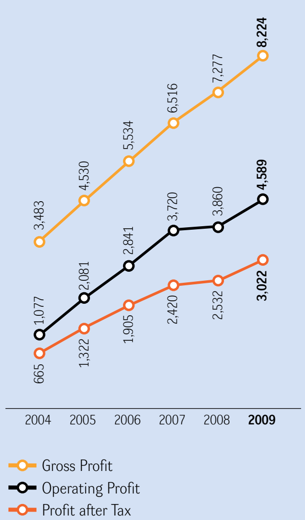
Volume
Sticks (billion)



Earnings Per Share and Dividend Yield



Gross, Operating and Profit after Tax
Rs (million)



Financial Highlights

		2009	2008	2007	2006	2005	2004
Profit and Loss							
Volume	Million Sticks	**41,183**	41,469	37,188	34,549	30,620	26,846
Gross Turnover	Rs million	**57,544**	49,054	40,889	35,715	30,615	25,453
Excise & Sales Tax	Rs million	**35,878**	30,181	24,846	21,824	18,862	15,880
Net Turnover	Rs million	**21,667**	18,872	16,043	13,891	11,753	9,573
Gross Profit	Rs million	**8,224**	7,277	6,516	5,534	4,530	3,483
Operating Profit	Rs million	**4,589**	3,860	3,720	2,841	2,081	1,077
Profit Before Tax	Rs million	**4,648**	3,894	3,725	2,861	2,082	1,056
Profit After Tax	Rs million	**3,022**	2,532	2,420	1,905	1,322	665
EBITDA	Rs million	**5,246**	4,455	4,257	3,323	2,508	1,468
Dividends	Rs million	**2,440**	2,466	2,529	1,405	946	511
Balance Sheet							
Paid up capital	Rs million	**2,555**	2,555	2,555	2,555	2,555	2,555
Shareholders' Funds	Rs million	**4,260**	3,608	3,705	4,139	3,639	3,263
Reserves	Rs million	**1,705**	1,053	1,150	1,584	1,084	708
Property, Plant & Equipment	Rs million	**5,952**	5,600	5,154	4,529	3,798	3,564
Net Current Assets /(Liabilities)	Rs million	**(614)**	(471)	(182)	423	532	297
Capital Employed	Rs million	**5,370**	5,184	5,003	4,984	4,364	3,887
Capital Expenditure during the year	Rs million	**1,045**	1,073	1,191	1,238	717	598
Long Term / Deferred Liabilities	Rs million	**1,110**	1,576	1,299	845	725	624
Investor Information							
Gross Profit Ratio	%	**14.29**	14.83	15.93	15.49	14.80	13.68
Earnings per Share After Tax	Rs	**11.83**	9.91	9.47	7.46	5.17	2.60
EBITDA Margin	%	**9.12**	9.08	10.41	9.30	8.19	5.77
Inventory Turnover Ratio		**2.33**	2.86	2.38	2.20	1.91	1.98
Fixed Assets Turnover Ratio		**9.67**	8.76	7.93	7.89	8.06	7.14
Total Assets Turnover Ratio		**4.71**	4.72	4.16	4.09	3.84	3.62
Break-up Value per Share	Rs	**16.67**	14.12	14.50	16.20	14.24	12.77
Market Value per Share at year end	Rs	**105**	106.30	155.50	72.00	68.95	61.50
Highest Market Value per Share during the year	Rs	**117**	161.00	198.30	80.00	77.00	61.50
Lowest Market Value per Share during the year	Rs	**52.9**	106.30	74.50	60.45	47.55	46.40
Price-Earning Ratio		**8.88**	10.73	16.42	9.66	13.33	23.62
Dividend per Share	Rs	**9.55**	9.65	9.90	5.50	3.70	2.00
Dividend Yield Ratio	%	**9.10**	9.08	6.37	7.64	5.37	3.25
Dividend Payout Ratio	%	**80.73**	97.38	104.50	73.75	71.56	76.82
Return on Capital Employed	%	**56.28**	48.84	48.37	38.22	30.29	17.11
Debt to Equity Ratio		**0.31**	0.16	0.28	0.31	0.11	0.31
Current Ratio		**0.91**	0.91	0.96	1.11	1.15	1.09
Interest Cover Ratio		**107.13**	150.68	144.65	103.81	82.48	50.66
Govt. Levies as a percentage of Turnover	%	**65.80**	64.97	64.75	64.50	64.84	64.02
Net Profit Margin	%	**5.25**	5.16	5.92	5.33	4.32	2.61
Return on Equity	%	**70.94**	70.18	65.33	46.02	36.32	20.39
Creditor Turnover		**8.03**	7.83	7.98	8.39	5.10	4.65
Operating Cycle	Days	**157**	128	153	166	191	184
Dividend Cover Ratio		**1.24**	1.03	0.96	1.36	1.40	1.30
Government Levies							
Customs, Excise Duties & Sales Tax	Rs million	**36,367**	30,525	25,213	22,069	19,129	16,086
Local Taxes and Other Duties	Rs million	**105**	101	94	87	87	71
Income Tax	Rs million	**1,391**	1,246	1,169	880	634	137

Horizontal Analysis

Balance Sheet

							Variance %					
(Rs. '000)	2004	2005	2006	2007	2008	2009	2004	05 Vs 04	06 Vs 05	07 Vs 06	08 Vs 07	09 Vs 08
Non Current Assets												
Property Plant & Equipment	3,564,407	3,798,190	4,529,366	5,154,326	5,599,758	5,952,108	100	6.56	19.25	13.80	8.64	6.29
Investment in Subsidiary Company	5,000	5,000	5,000	5,000	5,000	5,000	100	–	–	–	–	–
Long Term Loans	16,324	17,782	18,660	12,513	9,244	7,310	100	8.93	4.94	(32.94)	(26.12)	(20.92)
Long Term Deposits and Prepayments	4,433	11,365	8,424	13,025	41,172	19,915	100	156.37	(25.88)	54.62	216.10	(51.63)
Current Assets												
Stock-in-trade	3,074,052	3,780,931	3,790,853	3,998,181	4,059,063	5,765,367	100	23.00	0.26	5.47	1.52	42.04
Stores and spares	121,464	125,232	140,008	140,777	190,646	218,375	100	3.10	11.80	0.55	35.42	14.54
Trade debts	12,486	2,894	2,406	2,386	2,666	1,684	100	(76.82)	(16.86)	(0.83)	11.74	(36.83)
Loans and advances	32,273	32,676	12,205	38,580	65,917	48,598	100	1.25	(62.65)	216.10	70.86	(26.27)
Short term prepayments	36,003	31,987	72,235	64,887	105,728	72,483	100	(11.15)	125.83	(10.17)	62.94	(31.44)
Other receivables	119,126	104,791	92,360	229,891	246,675	88,147	100	(12.03)	(11.86)	148.91	7.30	(64.27)
Cash and bank balances	39,197	57,605	62,883	166,666	69,172	47,874	100	46.96	9.16	165.04	(58.50)	(30.79)
	3,434,601	4,136,116	4,172,950	4,641,368	4,739,867	6,242,528	100	20.42	0.89	11.23	2.12	31.70
	7,024,765	7,968,453	8,734,400	9,826,232	10,395,041	12,226,861	100	13.43	9.61	12.50	5.79	17.62
Share Capital & Reserves												
Share Capital	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938	100	–	–	–	–	–
Revenue Reserves	707,885	1,084,476	1,584,249	1,149,742	1,053,393	1,705,296	100	53.20	46.08	(27.43)	(8.38)	61.89
Non Current Liabilities												
Retirement Benefits	–	–	–	489,503	739,133	–	–	–	–	100	51.00	(100)
Deferred Taxation	624,475	724,673	845,004	809,109	836,939	1,109,847	100	16.05	16.60	(4.25)	3.44	32.61
Current Liabilities												
Trade and other payables	2,056,298	2,515,824	2,212,241	3,548,237	4,324,704	5,037,469	100	22.35	(12.07)	60.39	21.88	16.48
Accrued interest / mark-up	5,041	10,911	11,115	8,401	10,354	27,659	100	116.45	1.87	(24.42)	23.25	167.13
Short term running finance	996,579	400,662	1,293,141	1,038,550	572,397	1,300,837	100	(59.80)	222.75	(19.69)	(44.88)	127.26
Income tax liability	79,549	676,969	233,712	227,752	303,183	490,815	100	751.01	(65.48)	(2.55)	33.12	61.89
	3,137,467	3,604,366	3,750,209	4,822,940	5,210,638	6,856,780	100	14.88	4.05	28.60	8.04	31.59
	7,024,765	7,968,453	8,734,400	9,826,232	10,395,041	12,226,861	100	13.43	9.61	12.50	5.79	17.62

Profit and Loss Account

(Rs. '000)	2004	2005	2006	2007	2008	2009	2004	05 Vs 04	06 Vs 05	07 Vs 06	08 Vs 07	09 Vs 08
Gross turnover	25,452,634	30,615,062	35,715,451	40,889,275	49,053,928	57,544,309	100	20.28	16.66	14.49	19.97	17.31
Excise duties	12,466,912	14,758,558	16,991,172	19,311,946	23,351,734	27,654,345	100	18.38	15.13	13.66	20.92	18.43
Sales tax	3,413,146	4,103,324	4,833,285	5,534,452	6,829,699	8,223,439	100	20.22	17.79	14.51	23.40	20.41
Net turnover	9,572,576	11,753,180	13,890,994	16,042,877	18,872,495	21,666,525	100	22.78	18.19	15.49	17.64	14.80
Cost of sales	6,089,955	7,223,576	8,357,474	9,527,306	11,595,736	13,442,066	100	18.61	15.70	14.00	21.71	15.92
Gross Profit	3,482,621	4,529,604	5,533,520	6,515,571	7,276,759	8,224,459	100	30.06	22.16	17.75	11.68	13.02
Selling and distribution expenses	1,442,356	1,578,656	1,816,198	1,795,793	1,933,364	2,246,014	100	9.45	15.05	(1.12)	7.66	16.17
Administrative expenses	595,637	573,285	644,981	736,147	928,358	1,100,814	100	(3.75)	12.51	14.13	26.11	18.58
Other operating income	14,590	8,100	20,686	71,756	60,551	226,499	100	(44.48)	155.38	246.88	(15.62)	274.06
Other operating expenses	381,914	304,462	251,932	335,763	615,458	514,665	100	(20.28)	(17.25)	33.28	83.30	(16.38)
Operating profit	1,077,304	2,081,301	2,841,095	3,719,624	3,860,130	4,589,465	100	93.20	36.51	30.92	3.78	18.89
Finance income	–	26,317	47,402	30,878	59,600	102,826	–	100	80.12	(34.86)	93.02	72.53
Finance cost	21,265	25,554	27,824	25,928	26,013	43,802	100	20.17	8.88	(6.81)	0.33	68.39
Profit before income tax	1,056,039	2,082,064	2,860,673	3,724,574	3,893,717	4,648,489	100	97.16	37.40	30.20	4.54	19.38
Income tax expense	390,812	760,145	955,685	1,304,367	1,361,422	1,626,083	100	94.50	25.72	36.49	4.37	19.44
Profit for the year	665,227	1,321,919	1,904,988	2,420,207	2,532,295	3,022,406	100	98.72	44.11	27.05	4.63	19.35
Earnings per Share – basic and diluted (Rupees)	2.6	5.17	7.46	9.47	9.91	11.83	100	98.85	44.29	26.94	4.65	19.37

Vertical Analysis

Balance Sheet

							%					
(Rs. '000)	2004	2005	2006	2007	2008	2009	2004	05 Vs 04	06 Vs 05	07 Vs 06	08 Vs 07	09 Vs 08
Non Current Assets												
Property Plant & Equipment	3,564,407	3,798,190	4,529,366	5,154,326	5,599,758	5,952,108	50.74	47.67	51.86	52.45	53.87	48.68
Investment in Subsidiary Company	5,000	5,000	5,000	5,000	5,000	5,000	0.07	0.06	0.06	0.05	0.05	0.04
Long Term Loans	16,324	17,782	18,660	12,513	9,244	7,310	0.23	0.22	0.21	0.13	0.09	0.06
Long Term Deposits and Prepayments	4,433	11,365	8,424	13,025	41,172	19,915	0.06	0.14	0.10	0.13	0.40	0.16
Current Assets												
Stock-in-trade	3,074,052	3,780,931	3,790,853	3,998,181	4,059,063	5,765,367	43.76	47.45	43.40	40.69	39.05	47.15
Stores and spares	121,464	125,232	140,008	140,777	190,646	218,375	1.73	1.57	1.60	1.43	1.83	1.79
Trade debts	12,486	2,894	2,406	2,386	2,666	1,684	0.18	0.04	0.03	0.02	0.03	0.01
Loans and advances	32,273	32,676	12,205	38,580	65,917	48,598	0.46	0.41	0.14	0.39	0.63	0.40
Short term prepayments	36,003	31,987	72,235	64,887	105,728	72,483	0.51	0.40	0.83	0.66	1.02	0.59
Other receivables	119,126	104,791	92,360	229,891	246,675	88,147	1.70	1.32	1.06	2.34	2.37	0.72
Cash and bank balances	39,197	57,605	62,883	166,666	69,172	47,874	0.56	0.72	0.72	1.70	0.67	0.39
	3,434,601	4,136,116	4,172,950	4,641,368	4,739,867	6,242,528	48.89	51.91	47.78	47.23	45.60	51.06
	7,024,765	7,968,453	8,734,400	9,826,232	10,395,041	12,226,861	100	100	100	100	100	100
Share Capital & Reserves												
Share Capital	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938	36.37	32.06	29.25	26.00	24.58	20.90
Revenue Reserves	707,885	1,084,476	1,584,249	1,149,742	1,053,393	1,705,296	10.08	13.61	18.14	11.70	10.13	13.95
Non Current Liabilities												
Retirement Benefits	–	–	–	489,503	739,133	–	–	–	–	4.98	7.11	0.00
Deferred Taxation	624,475	724,673	845,004	809,109	836,939	1,109,847	8.89	9.09	9.67	8.23	8.05	9.08
Current Liabilities												
Trade and other payables	2,056,298	2,515,824	2,212,241	3,548,237	4,324,704	5,037,469	29.27	31.57	25.33	36.11	41.60	41.20
Accrued interest / mark-up	5,041	10,911	11,115	8,401	10,354	27,659	0.07	0.14	0.13	0.09	0.10	0.23
Short term running finance	996,579	400,662	1,293,141	1,038,550	572,397	1,300,837	14.19	5.03	14.81	10.57	5.51	10.64
Income tax liability	79,549	676,969	233,712	227,752	303,183	490,815	1.13	8.50	2.68	2.32	2.92	4.01
	3,137,467	3,604,366	3,750,209	4,822,940	5,210,638	6,856,780	44.66	45.23	42.94	49.08	50.13	56.08
	7,024,765	7,968,453	8,734,400	9,826,232	10,395,041	12,226,861	100	100	100	100	100	100

Profit and Loss Account

Net turnover	9,572,576	11,753,180	13,890,994	16,042,877	18,872,495	21,666,525	100	100	100	100	100	100
Cost of sales	6,089,955	7,223,576	8,357,474	9,527,306	11,595,736	13,442,066	63.62	61.46	60.16	59.39	61.44	62.04
Gross Profit	3,482,621	4,529,604	5,533,520	6,515,571	7,276,759	8,224,459	36.38	38.54	39.84	40.61	38.56	37.96
Selling and distribution expenses	1,442,356	1,578,656	1,816,198	1,795,793	1,933,364	2,246,014	15.07	13.43	13.07	11.19	10.24	10.37
Administrative expenses	595,637	573,285	644,981	736,147	928,358	1,100,814	6.22	4.88	4.64	4.59	4.92	5.08
Other operating income	14,590	8,100	20,686	71,756	60,551	226,499	0.15	0.07	0.15	0.45	0.32	1.05
Other operating expenses	381,914	304,462	251,932	335,763	615,458	514,665	3.99	2.59	1.81	2.09	3.26	2.38
Operating profit	1,077,304	2,081,301	2,841,095	3,719,624	3,860,130	4,589,465	11.25	17.71	20.45	23.19	20.45	21.18
Finance income	–	26317	47,402	30,878	59,600	102,826	0.00	0.22	0.34	0.19	0.32	0.47
Finance cost	21,265	25,554	27,824	25,928	26,013	43,802	0.22	0.22	0.20	0.16	0.14	0.20
Profit before income tax	1,056,039	2,082,064	2,860,673	3,724,574	3,893,717	4,648,489	11.03	17.71	20.59	23.22	20.63	21.45
Income tax expense	390,812	760,145	955,685	1,304,367	1,361,422	1,626,083	4.08	6.47	6.88	8.13	7.21	7.51
Profit for the year	665,227	1,321,919	1,904,988	2,420,207	2,532,295	3,022,406	6.95	11.25	13.71	15.09	13.42	13.95

Summary of Cash Flows

(Rs in million)	2009	2008	2007	2006	2005	2004
Cash flows from Operating Activities	2,545	4,316	3,546	1,711	2,273	1,637
Cash flows from Investing Activities	(860)	(978)	(1,151)	(1,201)	(674)	(560)
Cash flows from Financing Activities	(2,435)	(2,969)	(2,036)	(1,398)	(985)	(748)
(Decrease)/Increase in Cash and Cash Equivalents	(750)	369	358	(887)	614	329
Beginning Cash and Cash Equivalents	(503)	(872)	(1,230)	(343)	(957)	(1,287)
Ending Cash and Cash Equivalents	(1,253)	(503)	(872)	(1,230)	(343)	(958)
Cash and Cash Equivalents comprise						
Cash and Bank Balances	48	69	167	63	58	39
Short Term Borrowings	(1,301)	(572)	(1,039)	(1,293)	(401)	(997)
	(1,253)	(503)	(872)	(1,230)	(343)	(958)

Financial Calendar

2009

1st Quarter Results issued on	April 22, 2009
2nd Quarter Results issued on	August 21, 2009
3rd Quarter Results issued on	October 20, 2009
Recommendation of Annual Results by the BOD	March 12, 2010
63rd Annual General Meeting scheduled for	April 20, 2010

2008

1st Quarter Results issued on	April 24, 2008
2nd Quarter Results issued on	August 19, 2008
3rd Quarter Results issued on	October 21, 2008
Recommendation of Annual Results by the BOD	March 20, 2009
62nd Annual General Meeting held on	April 23, 2009

Analysis of Quarterly Results

(Rs in million)	2009 1Q	2009 2Q	2009 3Q	2009 4Q	2008 1Q	2008 2Q	2008 3Q	2008 4Q
Balance Sheet								
Non Current Assets								
Property Plant and Equipment	5,490	5,550	5,646	5,952	5,289	5,412	5,436	5,600
Investment in Subsidiary Company	5	5	5	5	5	5	5	5
Long Term Loans	8	10	9	7	12	11	10	9
Long Term Deposits and Prepayments	26	18	22	20	13	13	8	41
Current Assets								
Stock–in–trade	3,668	2,641	6,528	5,765	3,457	2,476	4,710	4,059
Stores and spares	202	266	255	218	190	235	234	191
Trade debts	3	6	2	2	2	2	3	3
Loans, advances, short term prepayments and other receivables	507	405	270	209	357	293	269	418
Short Term Deposits	1,127	1,533	–	–	655	282	–	–
Cash and bank balances	216	160	386	48	295	275	184	69
	5,723	5,011	7,441	6,243	4,956	3,563	5,400	4,740
Current Liabilities								
Trade and other payables	4,495	3,625	5,631	5,037	4,916	3,213	4,567	4,325
Accrued interest / mark–up	8	–	8	28	12	3	10	10
Short term running finance	236	–	729	1,301	86	3	520	572
Income tax liability	448	812	818	491	441	632	564	303
	5,187	4,437	7,186	6,857	5,455	3,851	5,661	5,211
Net Current Assets / (Liabilities)	536	574	255	(614)	(499)	(288)	(261)	(471)
Non Current Liabilities								
Retirement Benefits	789	739	739	–	–	–	–	739
Deferred Taxation	814	810	801	1,110	965	986	1,048	837
	1,603	1,549	1,540	1,110	965	986	1,048	1,576
Net Assets	4,462	4,608	4,397	4,260	3,855	4,167	4,150	3,608
Share Capital & Reserves								
Share Capital	2,555	2,555	2,555	2,555	2,555	2,555	2,555	2,555
Revenue Reserves	1,907	2,053	1,842	1,705	1,300	1,612	1,595	1,053
	4,462	4,608	4,397	4,260	3,855	4,167	4,150	3,608
Profit and Loss Account								
Gross Turnover	14,047	16,616	11,540	15,341	11,835	12,643	11,045	13,531
Excise Duties	6,573	7,752	5,790	7,539	5,691	6,070	5,239	6,352
Sales tax	2,010	2,368	1,650	2,195	1,602	1,712	1,580	1,936
Net Turnover	5,464	6,496	4,100	5,607	4,542	4,861	4,226	5,243
Cost of sales	3,378	3,823	2,545	3,696	2,629	2,964	2,588	3,415
Gross Profit	2,086	2,673	1,554	1,911	1,914	1,897	1,638	1,828
Selling and distribution expenses	431	514	440	861	318	431	485	699
Administrative expenses	234	289	325	253	205	245	299	179
Other operating income	3	36	21	166	–	17	15	29
Other operating expenses	108	167	66	174	109	104	117	285
	776	1,006	852	1,454	632	797	916	1,193
Operating profit	1,316	1,739	744	790	1,282	1,134	752	692
Finance income	10	68	20	5	3	33	14	10
Finance cost	8	1	8	27	10	–	7	9
Finance (cost) / income – net	2	67	12	(22)	(7)	33	7	1
Profit before income tax	1,318	1,806	756	768	1,275	1,167	759	693
Income tax expense	464	626	264	272	446	408	265	242
Profit for the year	854	1,180	492	496	829	759	494	450

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Third Annual General Meeting ("the Meeting") of Pakistan Tobacco Company Limited ("the Company") will be held at Silver Square, Plot No.15, F-11 Markaz, Islamabad on Tuesday, 20th April, 2010 at 11.00 a.m. to transact the following business:-

A. Ordinary Business:

1. To receive, consider and adopt the audited Accounts for the year ended 31st December, 2009, and the Report of the Directors and Auditors thereon.

2. To approve the Final Dividend as recommended by the Board.

3. To appoint Auditors and to fix their remuneration.

4. To elect nine directors as fixed by the Board for a period of three years commencing 20th April, 2010 (close of business). The names of the retiring directors are Mr. Mueen Afzal, Mr. Nicholas Stewart Hales, Mr. Mobasher Raza, Mr. Ahmed Zeb, Mr. Feroze Ahmed, Mr. Christopher Edward John Gooddy, Mr. Tajamal Shah, Lt. Gen. (Retd.) Ali Kuli Khan Khattak, Mr. Istaqbal Mehdi, Mr. Kunwar Idris, Mr. Abid Niaz Hasan and Syed Asif Shah.

B. Special Business

1. To approve fixation of the number of Directors at 09 as recommended by the Board of Directors instead of the previous number which was 12.

By order of the Board

Islamabad:
March 29, 2010

Ayesha Rafique
Company Secretary

Notes:

(1) The Share Transfer Books of the Company will be closed from 14th April, 2010 to 20th April, 2010, both days inclusive. Transfers received in order at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.1-A, 1st Floor, I. I. Chundrigar Road, Karachi at the close of business on 13th April, 2010, will be in time to be entitled to vote and for the entitlement of dividend.

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

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

A) In Person:

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

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

B) By Proxy:

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

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

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

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

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

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

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

The following statement annexed to the Notice of the Sixty Third Annual General Meeting of the Company to be held on 20th April, 2010 sets out the material facts concerning the special business to be transacted at the Meeting.

Note 1

The Board of Directors have recommended for approval by the shareholders the fixation of the number of Directors at 09 instead of the previous number which was 12.

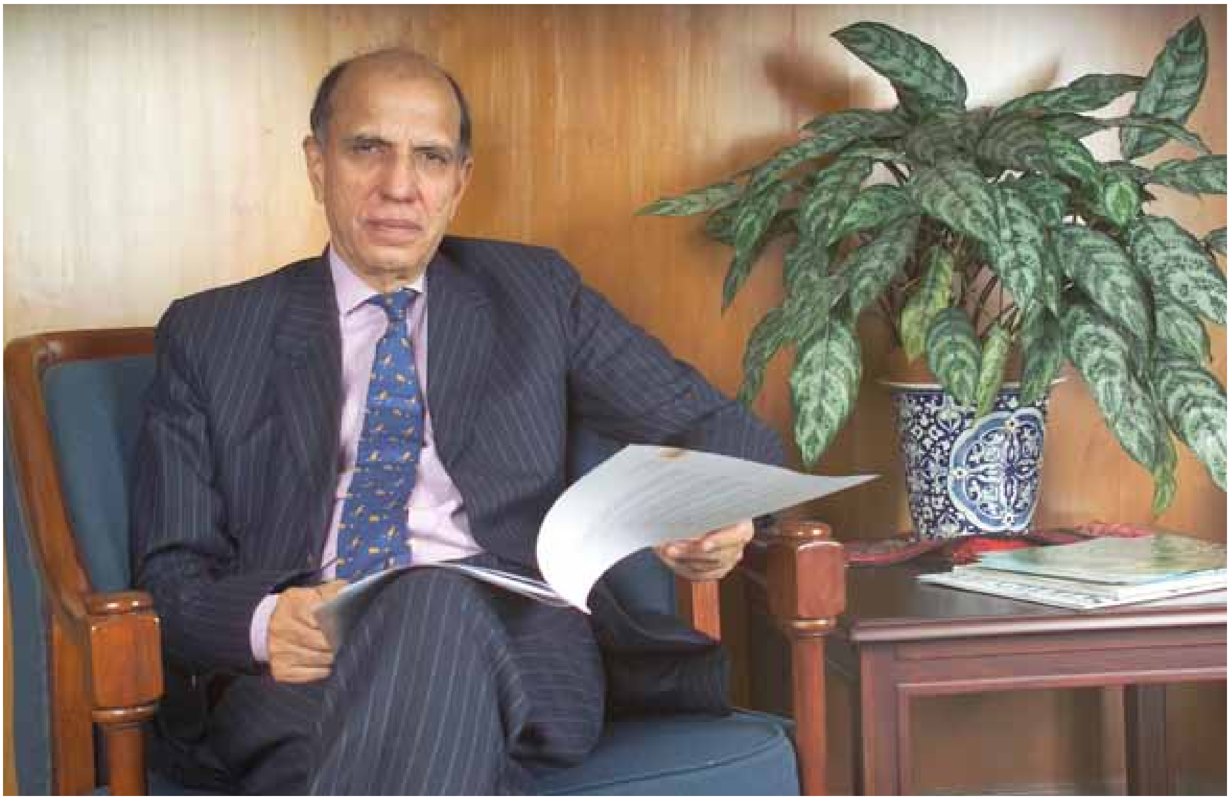
For this purpose the following Special Resolution will be moved at the Meeting:-

"RESOLVED THAT the number of Directors be fixed at 09 as recommended by the Board of Directors instead of the previous number which was 12."

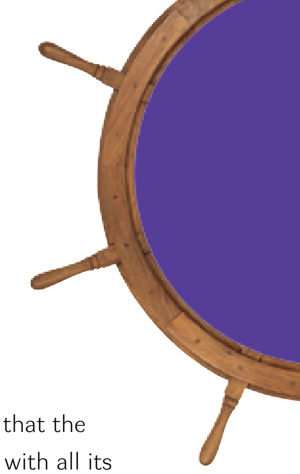
Performance

Our sterling performance has been enabled through synchronised teamwork and dedication to shared goals and objectives.

Chairman's Message



Along with the rest of the country, Pakistan Tobacco Company faced a turbulent year in 2009. Law and order situation as well as infrastructure issues, both impacted the Company's ability to operate with efficiency and effectiveness. Despite these concerns, **the Company managed to maintain its performance and post impressive growth,** to which the corporate results are a testimony.



With increased profits and share of the market, the Company cemented its market leadership position. This was made possible only through the will and ability of our people to perform, and perform well, even in tough external circumstances. This winning culture was the driving factor behind the smooth transition achieved between working from temporary head office locations for the first six months of the year, to a new custom built Head Office in June 2009, without affecting business in any way.

It was particularly satisfying to find that PTC continued to win accolades from the corporate sector in Pakistan, as well as from within the British American Tobacco, the multinational group with presence in more than 180 countries around the world. This is a matter of immense pride for every employee of the Company.

We felt proud to receive the 26th Award for Corporate Management Excellence from the Management Association of Pakistan (MAP) this year. This was our second consecutive award by MAP since 2008.

The past year witnessed a continuation of the global economic recession, with more countries in our neighbourhood taking the hit. In Pakistan, the situation was all the more acute due to the steep devaluation of Rupee versus major international currencies. Viewed against the backdrop of continued unrest along the northwestern border and the Frontier province, where one of our factories and tobacco leaf growing areas are located, this made for a volatile brew for the business.

Moving with the reality of our times, the Company decided to expand its leaf footprint into the Punjab province for the first time in many years. It is now engaged in active trials of tobacco farming and curing in the Punjab.

Retaining its competitive edge in the market, the Company undertook a pack change on its flagship brand, Gold Leaf. It also moved aggressively to plug the perceived gaps in the low segment by launching brands at appropriate price points.

The Company's business encompasses a range of stakeholders from tobacco farmers, workmen on the shop floor, sales staff, business partners and those who service the demand in the retail market. It also includes the Government that is open to constructive dialogue on all issues related to our value chain as well as its own revenue generation targets.

To this end, we published our first ever 'Stakeholder Report' in 2009, focusing on the most material issues to the business. These included Tobacco Farming, Illicit Trade and Marketing Freedoms and Limitations. We believe that the Company's relationship with all its stakeholders is bound by trust and a positive attitude.

In 2009, the Company focused on the following operational targets:

- Sustaining volumes
- Posting profit growth
- Retaining market competitiveness
- Continued focus on productivity savings
- Good corporate governance
- Environment, Health & Safety

More than ever, the society today expects companies to work towards broader goals beyond the shareholders' value, and to demonstrate support for the communities they operate in. We remain firmly committed to tapping into all possible opportunities while operating in an increasingly difficult and unpredictable business environment.

Mueen Afzal
Chairman

Managing Director's Review

Ladies & Gentlemen,

I am pleased to report that 2009 was another year of good performance for Pakistan Tobacco Company. **It was a difficult year in which our business faced immense challenges on many fronts** due to a sluggish economy, volatile security situation, increasing regulation and high excise led price increases, that resulted in heavy downtrading in the market to the tax evading sector.

Despite all odds however, we managed to deliver a good all round performance and posted growth not only in terms of higher market share, but also with better financial results, while leading the way in many other areas in pursuance of our goal to set new standards of corporate excellence.

We demonstrated the robustness of our business continuity plans by making a smooth and seamless transition from our makeshift offices to a new purpose built Head Office. This was all made possible due to the commitment and shared vision of our employees, coupled with strong focus on processes.

The new Head Office is equipped with state of the art facilities and technology. These include open plan office space, ample meeting rooms and a tele-presence suite which helps us communicate across the globe in a more efficient and economic way.

This office is also equipped with the latest available security systems to safeguard our people and assets from any potential security hazards.

With sales of 41.2 billion sticks during the year, we further **consolidated our market leadership,** growing share by 1.2 percentage points to 48.5%.

We managed to **increase profitability with a 18.9% higher operating profit** while profits before and after tax also grew by 19.4% each. All this was achieved in a year of increasing Government duties, flattening sales and rising cost pressures due to inflation, energy costs and security related expenditure.

Contributions to the Government revenue stood at an unprecedented Rs. 38 billion, higher vs. 2008 by 18.8%.

Noteworthy is the fact that our leaf operations were severely affected in the wake of Government's action against the insurgency in Swat and Buner. Our leaf team made extraordinary efforts to mitigate its impact on our business and purchased a record quantity of leaf.

Underpinning this exceptional performance was smart cost management, continued focus on brands and people, and most of all, continued support from our valued business partners and distributors, whose commitment has been key to the success of our business.

Our Brands

Our brand portfolio is central to the continued success of our business. We have a **balanced and well diversified portfolio** with strong offers in all consumer relevant price segments.

The strength and resilience of our portfolio is evident from the fact that we have managed to grow market share even in 2009, a time of severe economic turmoil and aggressive price increases.

Our efforts for continued superiority and competitive edge on this front during the year included the launch of a new brand 'Wills Kings', limited edition products, innovative packaging and targeted consumer promotions. All our key brands have registered growth during the year.

Dunhill, fuelled by the introduction of the new bevelled edge panel pack and distribution expansion, strengthened its position by registering growth in market share as well as sales vs. 2008. Similarly, **Benson & Hedges** continued its strong growth trend, posting higher sales as well as growth in market share.

2009 was an important year for **John Player Gold Leaf** as we took the biggest initiative on this brand in the last 10 years. The new modern JPGL pack is seen to drive modernity and premium in the brand, and has been well accepted by both consumers and retailers.

Despite being burdened by successive price increases in a recession period, **JPGL proved to be highly resilient,** leveraging its immense heritage and equity to deliver value to its consumers.

Capstan by Pall Mall again performed strongly in 2009, continuing to be the leading brand in medium price segment. A consumer promotion 'Move on with Pall Mall' and the introduction of an innovative limited edition 'Pop Up' pack are amongst few of the key brand initiatives which were successfully implemented during the year.

Gold Flake created history by achieving the No. 1 brand status in Pakistan. Key to Gold Flake's success is a great product backed up by effective consumer focused innovation, strength of communication and excellent distribution. Gold Flake is well positioned for continued growth in 2010 and beyond.

Wills Kings was launched in July to defend PTC's position in the very low price segment. Extensive retailer support and consumer communication were central to its success. The brand managed to capture 2.7 % market share within five months of its introduction.

Our People

The changing expectations of talent combined with increasing competition for top talent, remains a challenge for us.

At Pakistan Tobacco Company, we are fortunate to have been equipped with a persuasive and magnetic Global Employer Brand. Preparations for one of our largest talent initiatives 'Battle of Minds' (BoM) were already underway when the Global Employer Brand initiative was rolled out at the start of the year. This enabled PTC to launch the Global Employer Brand together with the rollout of PTC's one of a kind, student competition targeting best universities across the country.

The unique branding of the BoM engagement sessions generated a great deal of interest among this key segment of our target audience. Its success was reflected by high attendance and participation from students at each university and the four fold improvement in the number of applications in 2009 as compared to last year.

Demand for our highly developed local talent remained high and during 2009, we sent 10 of our people for long and short term assignments to various Operating Companies of the British American Tobacco Group, around the globe.

Business Process Re-engineering

PTC successfully completed a number of Business Process Re-engineering projects in different areas of the Company in 2009. Initiatives such as project vector and lean manufacturing project have resulted in significant improvements in our supply chain processes while productivity initiatives have helped us contain costs.

The Enterprise Programme Office (EPO) played a vital role in all such initiatives by managing and tracking these projects centrally, in keeping with the principles of international project management standards and methodologies.

One of the year's high points was the 26th Award by the Management Association of Pakistan (MAP) in recognition of our continued focus on having sound management practices and policies, supported by robust and effective systems. This was our second consecutive award by MAP since 2008.

Moreover, the joint body of Institute of Cost and Management Accountants and Institute of Chartered Accountants of Pakistan, awarded runner up prize in the 'Miscellaneous' category to our 2008 Annual Report, recognising our efforts to provide quality information to all the stakeholders while ensuring compliance with Companies Ordinance, Code of Corporate Governance and International Financial Reporting Standards.

Environment, Health and Safety

PTC has always been on the forefront to bring about continuous improvement in the field of Environment, Health & Safety within the organisation. We take pride in achieving highest EH&S standards in the BAT Asia Pacific Region, which show our commitment towards maintaining high benchmark in EH&S.

The Company has taken numerous initiatives in the field of energy conservation, air emissions, waste management, water use and discharge management, not only to comply with the environmental regulations but also to reduce the impacts of its operations on the environment and its surrounding communities.

We have recently completed a Biodiversity Risk and Opportunity Assessment in our leaf and factory areas in collaboration with biodiversity partners, which is a step forward to embed biodiversity in our business for the preservation of our eco-system.

Recognising our efforts in the area of EH&S, our parent company, British American Tobacco awarded us with two EH&S Excellence awards during the year: one for usage of sustainable clean technology and the other for water recycling.

It is indeed a source of pride for us, notwithstanding the fact that we have been winning this award consecutively for the last five years.

Corporate Social Responsibility

In the midst of the prevailing uncertainty in the country on the economic as well as security front, it has been a big challenge to maintain large scale Corporate Social Responsibility (CSR) programmes, especially when they are concentrated in NWFP, which has been most affected by the ongoing war on terror.

Keeping in view the real challenges faced by our teams operating in these areas, we have now refined our CSR strategy with focus on two key areas: Afforestation and Mobile Doctors Unit. Of these, Afforestation will remain our flagship project.

An important development during the year was our signing of a MoU with the National Highway Authority (NHA) under the Ministry of Communications, for provision of 2 million saplings over the next three years for plantation along the Islamabad Peshawar M1 Motorway. We plan to expand this programme over the coming year by moving into various areas of the Punjab.

Whereas for the past many years, we operated our Mobile Doctors Units to treat patients in underprivileged areas, we were not able to run them during 2009 as per schedule, due to the volatile security situation prevailing in the province. Similarly, unlike previous years, we were not able to hold all of our scheduled medical camps, free eye camps and diabetic screenings in the NWFP (in partnership with various organisations such as Merck and Layton Rahmatulla Benevolent Trust), due to the prevalent security situation there.

We are well aware of the challenges of operating in the 'field' in the current scenario and remain committed, against all odds, to deliver to our utmost capability. I commend the efforts of my team in the year past, and am confident that despite some testing times ahead, we will continue to make all possible meaningful contributions that make a difference in the life of the communities we work with.

Illicit Sector

The Government came up with stretching revenue targets for the tobacco industry after the last federal budget.

The market witnessed an increasing trend in the local duty not paid segment during 2009, post heavy excise led price increases by the legitimate players. Smuggled and duty not paid products are widely available throughout the country.

We urge the Government to be cognisant of this situation and intensify its actions to curb the menace of tax evaded sector, which is not only the biggest threat to viability of the legitimate players, but also a large source of revenue loss for the Government.

We remain fully committed to this cause and resolve to continue our efforts in supporting the Government in all its actions for the establishment of a level playing field.

Outlook

In summary, PTC has performed well in the face of many challenges and risks during the year.

It has not only improved its profitability and market share, but also maintained its credentials as a socially responsible corporate citizen.

Key to all these successes was a winning team, comprising of our employees and valued business partners, all of whose efforts were focused towards achieving our vision of being the 'first choice for everyone'.

I take this opportunity to express my sincere gratitude to all our employees and valued business partners, whose dedication, commitment, resourcefulness and excellent teamwork were the main contributors for our success during 2009.

The times ahead hold many challenges for our business and its growth in terms of financial performance as well as sales and market share growth.

We foresee testing times ahead with issues such as inflation driven cost escalation, precarious security situation, price increases and the ever growing threat from the tax evaded sector in an increasingly regulated and downtrading market, where enforcement remains weak.

We however, remain steadfast in our resolve to continue progress on the path of long term shareholder value creation through sustainable growth of our business, while staying focused on the security and well being of our people and assets, both of which are vital for running our business.

Nicholas Stewart Hales
Managing Director and CEO

Directors' Review

The Directors are pleased to present the 63rd Annual Report along with the audited financial statements of the Company for the year ended December 31, 2009.

The Company delivered strong performance, registering growth in revenue and profit while strengthening its position as the market leader, despite the difficult operating environment. The year 2009 was very challenging, marked with volatile security concerns, acute power shortages, an increase in Government duties (excise) and a sharp rise in costs driven by inflation and rupee devaluation.

Business Performance

Given below are the key financial highlights for 2009 versus last year.

	(Rs in million)		
	2009	2008	Increase
Gross Turnover	57,544	49,054	17%
Gross Profit	8,224	7,277	13%
Operating Profit	4,589	3,860	19%
Profit before Tax	4,648	3,894	19%
Profit after Tax	3,022	2,532	19%
Earnings per Share - EPS (Rs)	11.83	9.91	19%

Business environment changed significantly in the latter half of the year when the Company had to take a **significant increase in the prices of its products due to increase in excise duty** by the Government in the Federal Budget 2009-10.

This triggered large scale downtrading to low cost illicit brands. The tax evading sector thus gained volume at the cost of legitimate players. Moreover, increase in raw material costs and higher energy expenses due to acute electricity shortage as well as the rising prices of utilities, continued to escalate the cost base of the Company.

Sharp focus on internal controls, spend efficacy and operational efficiencies helped the Company post a healthy growth in its financial parameters, as shown in the table above.

Sales Performance

Operating in a tough economic and security environment, Pakistan Tobacco Company delivered sales of 41.2 billion cigarettes for the year.

The Company grew sales value by 14.8% while volume was down by 0.7% vs. last year. Volume was lower primarily due to the high excise led price increases that resulted in downtrading to the illicit sector.

The Company however, maintained its leadership position and outperformed the competition in all key segments of the market.

Dunhill, our premium offer, experienced 133% growth over last year. The new 'Panel Pack' introduction has been received with great enthusiasm by consumers and retailers alike. This has established Dunhill as a distinct premium offer in the market.

We also introduced a new and modern pack for our flagship brand, **John Player Gold Leaf,** which further strengthened the brand's future market position.

Capstan by Pall Mall continued to perform well in the medium price segment, despite the launch of various competitor offers in this category. The brand's international heritage was leveraged to provide consumers unique and innovative ways to interact with the brand.

Gold Flake maintained its leadership in the low price segment. The brand was further strengthened with the launch of a new line extension, **Gold Flake Special,** aimed at offering more choice to consumers looking for a smoother taste.

Wills Kings was launched in the low price segment to defend our market share, as downtrading accelerated after the high excise led price increase in June 2009. The brand has performed exceedingly well, achieving just under 3% market share within five months of its launch.

Contribution to the National Exchequer

Despite the adverse change in operating conditions and its impact on our sales volume, the Company's contribution to the exchequer continues to grow, with 2009 being higher by 19% over last year. The Company paid a total of **Rs. 38 billion in 2009** in the form of Federal Excise Duty, Sales Tax, Custom Duties and Income Tax.

Cost of Sales

The adverse economic situation continued to exert pressure on the cost base of the Company. Material prices increased significantly due to high inflation and rupee devaluation. Moreover, severe power outages forced extensive usage of generators, which combined with the increase in utility prices, drove up the energy costs. The Company mitigated the effects of such factors through better resource management along with various cost control initiatives.

Operating and Other Costs

High excise led price increases combined with consumers' declining purchasing power due to the adverse economic situation in the country, triggered downtrading to the low cost illicit sector.

In order to defend its market position, the Company invested heavily in its brands and their distribution in an attempt to reverse the declining market demand. Selling and distribution expenses in 2009 were therefore, 16% higher than last year.

The Company aspires to attract and retain high quality people by offering career advancement opportunities and competitive remuneration packages. The importance it attaches to its valuable human resource is evident from the fact that the Company continued to offer competitive remuneration packages to its employees during the year, despite tough operating conditions.

In a significant step to ensure that its people operate in a conducive and world class work environment, the Company established a new state of the art Head Office building in Islamabad. This, along with inflation, increased our administrative expenses by 19% as compared to 2008.

Appropriation of Profits

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

(Rs in million)

	2009	2008
Operating Profit	4,589	3,860
Profit after Tax	3,022	2,532
Accumulated Profit brought forward	1,053	1,150
Actuarial Gains / (Losses) taken to Equity (net of tax)	69	(163)
Profit available for appropriation	4,144	3,519
Appropriations:		
Final Dividend 2008 @ 23% (2007:39%)	588	997
1st Interim Dividend 2009 @ 17.5% (2008:17.5%)	447	447
2nd Interim Dividend 2009@ 27.5% (2008:20%)	702	511
3rd Interim Dividend 2009 @ 27.5% (2008: 20%)	702	511
Un-appropriated Profit carried forward	1,705	1,053

The Company received an insurance claim against damage to its previous Head Office building due to the Marriott bomb blast in 2008, resulting in an extraordinary increase in 'other operating income'.

Improved cash management during the year, combined with higher interest rates, helped the Company post a significant increase in its finance income during the year versus same period last year.

Cash Flows

Stagnant volume coupled with higher contribution to national exchequer and increase in material costs (mainly leaf), resulted in a significant increase in the Company's inventories.

The Company also continued to make strategic investments in machinery for capacity building and technology improvement. There was thus a net decrease in cash and cash equivalents of Rs. 750 million versus 2008.

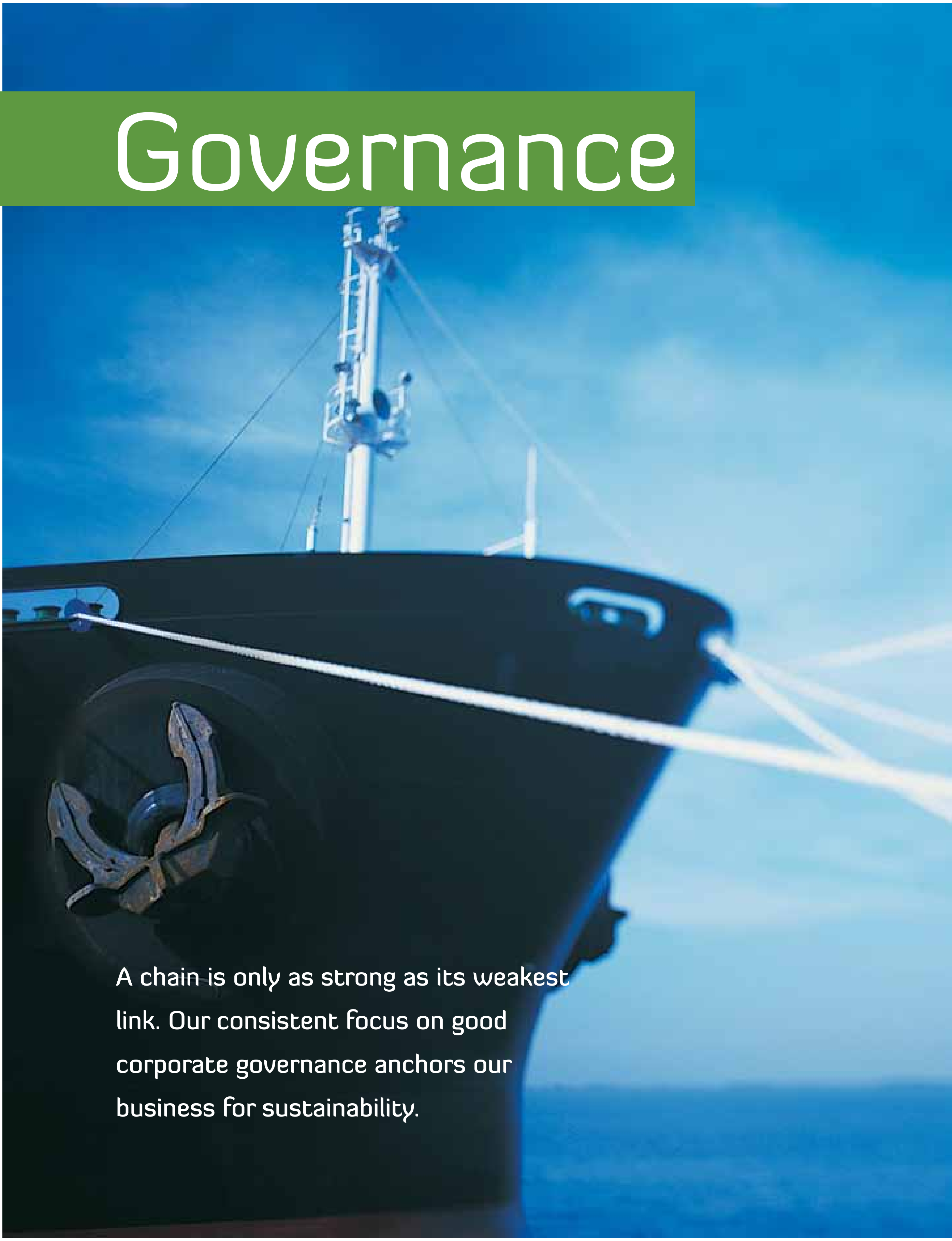
Plant Modernisation

The Company invested Rs. 1 billion in property, plant and equipment to increase productivity and to improve the quality of its products. Such investments are essential to ensure that the Company has the latest machinery and optimisation techniques embedded in its processes to adhere to international Environment, Health and Safety standards.

Dividend

Based on the performance of the Company, the Board is pleased to propose a final dividend of Rs. 4.75 (2008: Rs. 2.30) per share in respect of the financial year ended December 31, 2009, over and above the three interim dividends paid out during the year. This final dividend will be subject to the approval of shareholders in their meeting scheduled for 20th April 2010.

Governance



A chain is only as strong as its weakest link. Our consistent focus on good corporate governance anchors our business for sustainability.

Good Corporate Governance

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

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

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

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

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

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

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

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

h) All major Government levies in the normal course of business, payable as at December 31, 2009, have been cleared subsequent to the year end.

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

j) Values of investments in employees' retirement funds based on latest audited accounts for the year ended December 31, 2008 are as follows:

	(Rs in million)
Management Provident Fund	**296**
Staff Pension Funds	**1,783**
Employees' Provident Fund	**413**
Employees' Gratuity Fund	**455**

The Board

The Board comprises of six Non-Executive Directors and six Executive Directors. The positions of Chairman and CEO are kept separate in line with good governance practice.

Changes in the Board

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

Mr. Ben Willem Fourie and Mirza Rehan Baig resigned as Directors from the Board of the Company with effect from 19th May, 2009. The casual vacancies created by the resignations were filled in by appointing Mr. Tajamal Shah and Mr. Christopher Edward John Gooddy on the Board with effect from 20th May, 2009.

Mr. Toh Ah Wah resigned as the Director of the Company with effect from 20th August, 2009 and was replaced by Syed Asif Shah on the Board with effect from 20th August, 2009.

Board of Directors' Meetings

During the year 2009, five meetings of the Board of Directors were held on 20th March, 22nd April, 21st August, 20th October and 15th December. Attendances are detailed below:

Name of Director	No. of meetings attended
1. Mueen Afzal Chairman & Non-Executive Director	05
2. Nicholas Stewart Hales Managing Director & Chief Executive Officer	05
3. Mobasher Raza Deputy Managing Director & Finance Director	05
4. Ahmed Zeb Supply Chain Director	04
5. Feroze Ahmed Strategy and Planning Director	03
6. Christopher Edward John Gooddy Marketing Director	03
7. Tajamal Shah Legal Director	03
8. Lt. Gen. Ali Kuli Khan Khattak Non-Executive Director	04
9. Istaqbal Mehdi Non-Executive Director	05
10. Kunwar Idris Non-Executive Director	05
11. Abid Niaz Hasan Non-Executive Director	04
12. Syed Asif Shah Non-Executive Director	02

Board Committees

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

Audit Committee

The Audit Committee is a committee of the Board of Directors that assists the Board in the manner provided in the Code of Corporate Governance issued by the SECP and forming part of the Listing Regulations of the Stock Exchanges in Pakistan.

The Audit Committee of Pakistan Tobacco Company comprises of the following six Non-Executive Directors:

Abid Niaz Hasan (Chairman)
Lt. Gen. (Retd.) Ali Kuli Khan Khattak
Syed Asif Shah
Istaqbal Mehdi
Kunwar Idris
Mueen Afzal

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

The Committee held four meetings during the year in which the External Auditors were present to assist the committee on matters relating to financial accounts and reporting. The quarterly, half yearly and annual accounts of the Company along with any public announcements relating to them, were reviewed and recommended by the Committee before the Board's approval.

Such reviews extend to major areas of judgement reflected in the accounts, significant adjustments resulting from the audit of accounts, the going concern assumption, changes in accounting policies and practices, compliance with applicable accounting standards, compliance with listing regulations and other statutory and regulatory requirements.

The Audit Committee functions within the scope of the Terms of Reference approved by the Board which determine the roles and responsibilities of the Committee and reflect the requirements of the Code of Corporate Governance.

The role and responsibilities of the Audit Committee include determining appropriate measures to safeguard the Company's assets and reviewing quarterly, half yearly and annual financial statements of the Company and preliminary announcements of results before approval by the Board and their publication.

It also includes the reviewing of the Company's statement on internal control systems prior to their approval by the Board, reviewing the External Auditors' letter to the management and its response thereto, ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective.

Its role and responsibility includes considering major findings of internal audit and management's responses thereto, monitoring compliance with the best practices of corporate governance and instituting special projects and investigations on any matter deemed appropriate by the Committee or desired by the Board.

The Audit Committee assists the Board of Directors in monitoring the framework of managing business risks and internal controls. The Committee seeks assurance on the measures taken by the management in identification, evaluation and mitigation of relevant business risks.

It also monitors the performance of the Internal Audit Department which adopts a risk based approach for planning and conducting business process audits consistent with the Company's established work practices. The scope and extent of internal audit, including the annual Internal Audit Plan, are reviewed and approved by the Committee which also regularly monitors the progress.

While the External Auditors independently determine their plan of audit, the Committee is informed of their progress and especially in regard to issues stated in their letters to management and responses received. Without interfering with the independence of the External and Internal Auditors, the Committee encourages coordination between them in the discharge of their respective functions.

The Committee recommends to the Board the appointment of the External Auditors and their engagement terms based on the Committee's review of their performance and value provided to the Company.

Auditors

Statutory Audit for the Company for the financial year ended December 31, 2009 has been concluded and the Auditors have issued their Audit Reports on the Company's financial

statements, consolidated financial statements and the 'Statement of Compliance with the Code of Corporate Governance'.

The Auditors, Messrs. A. F. Ferguson & Co. shall retire at the conclusion of annual general meeting, and they have indicated their willingness to continue as Auditors. They have confirmed achieving satisfactory rating by the Institute of Chartered Accountants of Pakistan (ICAP) and compliance with the Guide-lines on the Code of Ethics of the International Federation of Accountants (IFAC) as adopted by ICAP.

The Board proposes their reappointment as Auditors for the financial year ending December 31, 2010 on the recommendation of the Audit Committee.

Shareholding

The pattern of shareholding as at 31st December 2009 along with disclosure as required under Code of Corporate Governance is annexed.

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

Holding Company

British American Tobacco (Investments) Limited incorporated in the United Kingdom holds 94.6 % of the shares of the company.

Consolidated Financial Statements

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

Environment, Health and Safety

The Company has always ensured that standards of Environment, Health and Safety are not only adhered to but are surpassed.

The Company's efforts were recognised by the Parent Company which awarded it the **EH&S Excellence Awards for sustainable cleaning technology and water recycling.**

The Company has taken up numerous initiatives in the field of energy conservation, air emissions, waste management and water use and discharge management.

Corporate Social Responsibility

Corporate Social Responsibility plays a pivotal role in the operations of the Company. It is a clear expression of its commitment to serve the community through transparent and responsible business practices.

The CSR programme is focused on three themes - Civic Life, Empowerment and Sustainability.

To empower the general population, we have established 7 Learning Resource Centres in NWFP which are affiliated with the Skill Development Council in the Department of Labour and Welfare. So far, 4307 students have graduated from these centres. In partnership with The Citizens Foundation, we have also sponsored two schools, one in Bherkund inaugurated in 2009, and the other in Nowshera.

To improve civic life, we have installed 18 water filtration plants across NWFP. This has greatly helped in providing clean drinking water for the communities we work with. In 2009, around 1500 people benefited from this facility daily.

We are also providing health care facilities through 9 Mobile Doctors Units with seven male and two lady doctors. **In 2009, 7000 patients were being treated monthly.**

Also in 2009, we completed our project, in collaboration with Earthquake Reconstruction & Rehabilitation Authority (ERRA), of making a Basic Health Unit near Muzaffarabad, Azad Jammu and

Kashmir. The same will now be handed over to the Government of Azad Jammu and Kashmir so that the locals of this area can benefit from the facility.

In order to promote sustainable development, the Company has been at the forefront with its afforestation programme. **We have distributed more than 52 million saplings to date.** In 2009 alone, we distributed almost 3.2 million saplings. We also collaborated with the National Highway Authority (NHA) to plant 0.6 million trees on the Islamabad-Peshawar M1 Motorway during the monsoon plantation season.

Our 2009 CSR related expenditure amounted to Rs. 28 million which was spent on afforestation, donations to internally displaced persons, health services and educational scholarships.

Business Challenges and Future Outlook

Despite various initiatives of the Government, illicit trade continues to remain the biggest challenge to the organised sector.

The legitimate players had to take aggressive price increases during the year because of the increase in excise duties and Government's requirement for enhanced revenue. This resulted in decline in volume for the tax paying segment while the illicit trade benefited.

While the Government and the legitimate industry have taken several initiatives to reduce illicit trade, enforcement continues to be a major challenge. The Company will continue to push for and support the Government to increase its efforts to curb this menace.

Buying leaf from NWFP will remain a significant challenge in future because of the volatile security situation. Robust contingency plans are in place to safeguard the leaf supply and mitigate the impact of any untoward incident that may threaten to disrupt our normal operations.

Though the process of global financial recovery has started, there are still doubts about its pace and sustainability. The Company needs to **remain focused on innovation, effectiveness and keeping its costs under check** to ensure sustainable profitability.

The Company is confident that with creativity, commitment and dedication, it will continue to deliver shareholder value.

The Directors highly commend the efforts of the management and staff, farmers, suppliers and distributors, whose support and commitment is crucial to the Company's performance and growth.

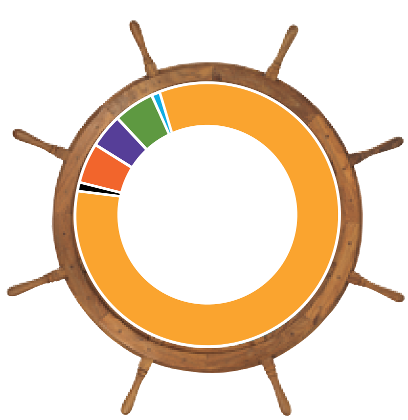
Mueen Afzal
Chairman

Nicholas Stewart Hales
Managing Director and CEO

Statement of Value Generated and Distributed

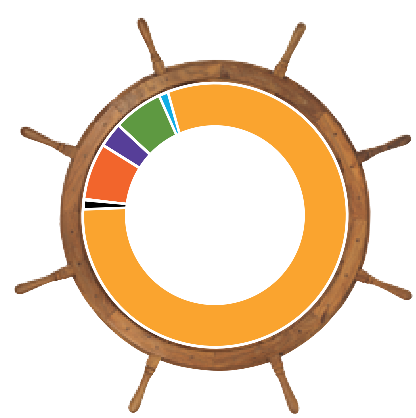
	(Rs in million)		(Rs in million)	
	2009	%	2008	%
Value Generation				
Revenues	57,874		49,174	
Material, Services and Other Costs	13,762		12,075	
Value added	44,112		37,099	
Value Distribution				
Government Levies	37,863	85.83	31,872	85.91
Dividends	2,440	5.53	2,466	6.65
Employee Remuneration	2,428	5.50	2,223	5.99
Retained within Business	1,309	2.97	497	1.34
Corporate Social Responsibility	28	0.06	15	0.04
Finance Cost	44	0.10	26	0.07
	44,112	100.00	37,099	100.00

Value Distribution
2009



- Government Levies 85.83%
- Dividends 5.53%
- Employee Remuneration 5.50%
- Retained within Business 2.97%
- Corporate Social Responsibility 0.06%
- Finance Cost 0.10%

Value Distribution
2008



- Government Levies 85.91%
- Dividends 6.65%
- Employee Remuneration 5.99%
- Retained within Business 1.34%
- Corporate Social Responsibility 0.04%
- Finance Cost 0.07%

Board Committees

1. Executive Committee of the Board (ExCo)

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

2. Board Compensation Committee

The Committee is responsible to recommend to the Board the remuneration and benefits of Managing Director, Executive & Non-Executive Directors, Head of all functions, Chief Financial Officer, Company Secretary and the Head of Internal Audit.

3. Audit Committee

The Audit Committee assists the Board of Directors in management of business risks, internal controls and the conduct of business in an economically sound and ethical manner and also in line with Code of Corporate Governance principles.

Audit Committee also reviews the Company's Corporate Social Responsibility (CSR) initiatives and their alignment with Statement of Business Principles.

4. Share Transfer Committee

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

Name	The Board	Executive Committee of the Board	Board Compensation Committee	Audit Committee	Share Transfer Committee
Executive Directors					
Nicholas Stewart Hales	●	●	●		●
Mobasher Raza	●	●			●
Christopher Edward John Gooddy	●	●			
Ahmed Zeb	●	●			
Feroze Ahmed	●	●			
Tajamal Shah	●	●			
Non-Executive Directors					
Mueen Afzal	●		●	●	
Lt. Gen. (Retd) Ali Kuli Khan Khattak	●		●	●	
Abid Niaz Hasan	●			●	
Istaqbal Mehdi	●			●	
Kunwar Idris	●			●	
Syed Asif Shah	●			●	
Key Management Personnel					
Murali Thanabalan		●	○		
Naveed A. Ahmad		●			●
Shaiful Bahari Mahpar		●			
Ayesha Rafique	○	○			○
Other Management Personnel					
Faisal Saif				○	

Member ● Secretary ○

Pattern of Shareholding
As at December 31, 2009

No. of Shareholders	Categories				Total Shares
1,483	From	1	To	100	51,596
1,374	From	101	To	500	405,331
476	From	501	To	1,000	348,471
438	From	1,001	To	5,000	986,456
62	From	5,001	To	10,000	460,135
19	From	10,001	To	15,000	239,378
15	From	15,001	To	20,000	273,238
16	From	20,001	To	25,000	380,657
8	From	25,001	To	30,000	222,499
2	From	35,001	To	40,000	75,500
1	From	40,001	To	45,000	43,880
3	From	45,001	To	50,000	149,300
1	From	50,001	To	55,000	55,000
4	From	55,001	To	60,000	233,700
3	From	60,001	To	65,000	186,571
1	From	65,001	To	70,000	70,000
2	From	70,001	To	75,000	142,091
1	From	75,001	To	80,000	75,870
1	From	100,001	To	105,000	102,800
1	From	110,001	To	115,000	112,100
1	From	115,001	To	120,000	117,975
1	From	130,001	To	135,000	131,000
1	From	135,001	To	140,000	138,700
1	From	140,001	To	145,000	142,100
1	From	155,001	To	160,000	156,700
1	From	160,001	To	165,000	164,973
1	From	165,001	To	170,000	167,633
2	From	185,001	To	190,000	376,320
1	From	205,001	To	210,000	205,150
1	From	220,001	To	225,000	221,000
1	From	230,001	To	235,000	234,909
1	From	295,001	To	300,000	296,900
1	From	360,001	To	365,000	364,600
1	From	400,001	To	405,000	401,800
1	From	440,001	To	445,000	441,900
1	From	505,001	To	510,000	507,000
1	From	535,001	To	540,000	535,200
1	From	700,001	To	705,000	702,911
1	From	795,001	To	800,000	798,282
1	From	1,835,001	To	1,840,000	1,835,243
1	From	1,890,001	To	1,895,000	1,893,782
1	From	241,045,001	To	241,050,000	241,045,141
3,934					255,493,792

	No. of Shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	3,739,820
Directors, CEO and their spouse and minor children	6,839
Executives	234
Public Sector companies and corporations	702,911
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, Modaraba and Mutual Funds	3,185,994
Others	1,236,430
Individuals	4,778,141
	255,493,792

Categories of Shareholders	Number	Shares Held	%
Directors, CEO and their spouse and minor children	6	6,839	0.0
Executives	4	234	0.0
Associated Companies, Undertakings and Related Parties	2	241,843,423	94.7
Investment Companies	4	3,739,820	1.5
Modarabas & Mutual Funds	12	1,901,275	0.7
Insurance Companies	7	1,021,516	0.4
Public Sector Companies and Corporations	1	702,911	0.3
Financial Institutions	12	263,203	0.1
Individuals	3,821	4,778,141	1.9
Others	65	1,236,430	0.5
Total	3,934	255,493,792	100.0

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

Statement of Compliance

with the Code of Corporate Governance

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

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes five independent non-executive directors and one non-executive director representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies, occurred on the Board on 19th May and 20th August 2009, were filled within a period of 30 days from the creation of the vacancy.
5. The Company has prepared a 'Standards of Business Conduct', which has been signed by all the directors, management and Business Support Officers of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
10. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an audit committee. It comprises of six members, of whom all are non-executive directors including the chairman of the committee.
15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. The Board has set-up an effective internal audit function manned by suitable qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full time basis.
17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. The related party transactions have been placed before the audit committee and approved by the Board of Directors to comply with the requirements of listing regulations of the Karachi Stock Exchange (Guarantee) Limited.
20. We confirm that all other material principles contained in the Code have been complied with.

Nicholas Stewart Hales
Managing Director and CEO

Statement of Compliance

with the Best Practices on Transfer Pricing for the year ended December 31, 2009

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

Nicholas Stewart Hales
Managing Director and CEO

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Review Report to the Members

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pakistan Tobacco Company Limited to comply with the Listing Regulations of the respective 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

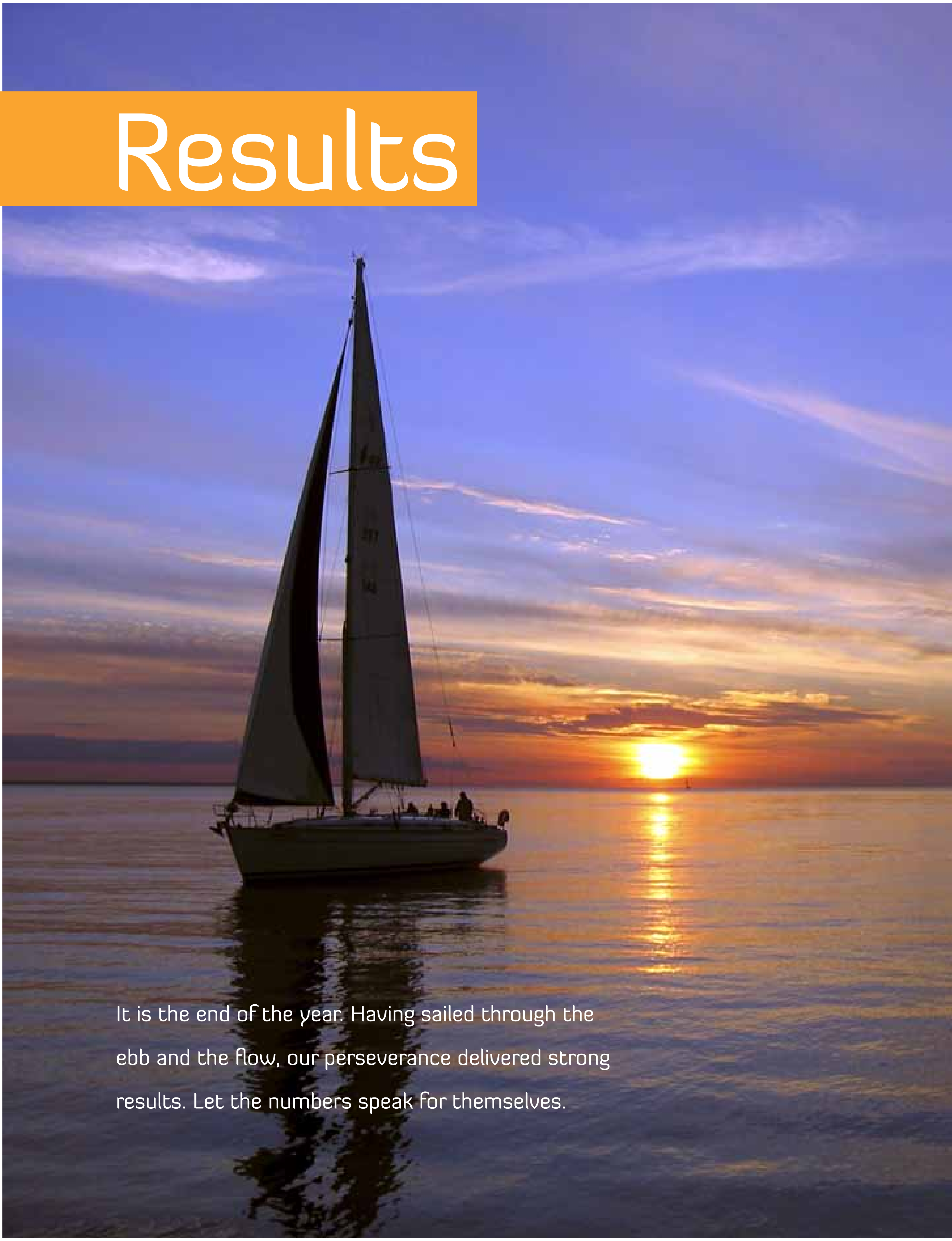
Further, Sub - Regulation (xiii a) of Listing Regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2009.

Chartered Accountants
Islamabad
Date: March 12, 2010

Engagement partner: Sohail M Khan

Results



It is the end of the year. Having sailed through the ebb and the flow, our perseverance delivered strong results. Let the numbers speak for themselves.

Pakistan Tobacco Company Limited

Financial Statements

for the year ended December 31, 2009

Auditor's Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2009 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion

- **(i)** the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 3.1 with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2009 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and

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

AFFerguson

Chartered Accountants
Islamabad
Date: March 12, 2010

Engagement partner: Sohail M Khan

Profit and Loss Account

for the year ended December 31, 2009

	Note	2009 Rs '000	2008 Rs '000
Gross turnover		57,544,309	49,053,928
Excise duties		27,654,345	23,351,734
Sales tax		8,223,439	6,829,699
Net turnover		21,666,525	18,872,495
Cost of sales	7	13,442,066	11,595,736
Gross profit		8,224,459	7,276,759
Selling and distribution expenses	8	2,246,014	1,933,364
Administrative expenses	9	1,100,814	928,358
Other operating income	10	226,499	60,551
Other operating expenses	11	514,665	615,458
		3,634,994	3,416,629
Operating profit		4,589,465	3,860,130
Finance income		102,826	59,600
Finance cost		43,802	26,013
Finance income – net		59,024	33,587
Profit before income tax		4,648,489	3,893,717
Income tax expense	12	1,626,083	1,361,422
Profit for the year		3,022,406	2,532,295
Earnings per share – basic and diluted (Rupees)	13	11.83	9.91

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Statement of Comprehensive Income

for the year ended December 31, 2009

	Note	2009 Rs '000	2008 Rs '000
Profit for the year		3,022,406	2,532,295
Other comprehensive income / (loss) for the year:			
Actuarial gains / (losses) on defined benefit pension and gratuity plans	27	106,865	(250,970)
Tax (charge) / credit related to actuarial gains / (losses) on defined benefit plans	12	(37,402)	87,840
Other comprehensive income/ (loss) for the year		69,463	(163,130)
Total comprehensive income for the year		3,091,869	2,369,165

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Balance Sheet

as at December 31, 2009

	Note	2009 Rs '000	2008 Rs '000
Non current assets			
Property, plant and equipment	15	5,952,108	5,599,758
Long term investment in subsidiary company	16	5,000	5,000
Long term loans	17	7,310	9,244
Long term deposits and prepayments	18	19,915	41,172
Current assets			
Stock–in–trade	19	5,765,367	4,059,063
Stores and spares	20	218,375	190,646
Trade debts	21	1,684	2,666
Loans and advances	22	48,598	65,917
Short term prepayments		72,483	105,728
Other receivables	23	88,147	246,675
Cash and bank balances	24	47,874	69,172
		6,242,528	4,739,867
Current liabilities			
Trade and other payables	25	5,037,469	4,324,704
Accrued interest / mark–up		27,659	10,354
Short term running finance	26	1,300,837	572,397
Current income tax liability		490,815	303,183
		6,856,780	5,210,638
Net current liabilities		(614,252)	(470,771)
Non current liabilities			
Retirement benefits	27	–	(739,133)
Deferred income tax liability	28	(1,109,847)	(836,939)
Net assets		4,260,234	3,608,331
Share capital and reserves			
Share capital	29	2,554,938	2,554,938
Revenue reserves		1,705,296	1,053,393
		4,260,234	3,608,331
Contingencies and commitments	30		

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Cash Flow Statement

for the year ended December 31, 2009

	2009 Rs '000	2008 Rs '000
Cash flows from operating activities		
Cash receipts from customers	57,548,393	48,988,209
Cash paid to Government for Federal excise duty, Sales tax and other levies	(35,968,367)	(29,499,997)
Cash paid to suppliers	(14,063,572)	(11,225,963)
Finance cost paid	(26,497)	(24,060)
Cash paid as royalty	(328,191)	(294,714)
Cash paid to employees and retirement funds	(3,076,180)	(2,138,229)
Income tax paid	(1,202,945)	(1,170,321)
Other cash payments	(337,273)	(318,864)
	2,545,368	4,316,061
Cash flows from investing activities		
Additions in property, plant and equipment	(1,044,938)	(1,073,365)
Proceeds from disposal of property, plant and equipment	82,423	35,366
Finance income received	102,826	59,600
	(859,689)	(978,399)
Cash flows from financing activities		
Dividends paid	(2,435,417)	(2,969,003)
(Decrease)/Increase in cash and cash equivalents	(749,738)	368,659
Cash and cash equivalents at beginning of year	(503,225)	(871,884)
Cash and cash equivalents at end of year	(1,252,963)	(503,225)
Cash and cash equivalents comprise:		
Cash and bank balances	47,874	69,172
Short term running finance	(1,300,837)	(572,397)
	(1,252,963)	(503,225)

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Statement of Changes in Equity

as at December 31, 2009

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2008	2,554,938	1,149,742	3,704,680
Comprehensive income:			
Profit for the year	–	2,532,295	2,532,295
Other comprehensive income for the year	–	(163,130)	(163,130)
Total Comprehensive income for the year	–	2,369,165	2,369,165
Transactions with owners:			
Final dividend of Rs 3.90 per share relating to the year ended December 31, 2007	–	(996,426)	(996,426)
1st Interim dividend of Rs 1.75 per share relating to the year ended December 31, 2008	–	(447,114)	(447,114)
2nd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008	–	(510,987)	(510,987)
3rd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008	–	(510,987)	(510,987)
Total transactions with owners	–	(2,465,514)	(2,465,514)
Balance at January 1, 2009	2,554,938	1,053,393	3,608,331
Comprehensive income:			
Profit for the year	–	3,022,406	3,022,406
Other comprehensive income for the year	–	69,463	69,463
Total Comprehensive income for the year	–	3,091,869	3,091,869
Transactions with owners:			
Final dividend of Rs 2.30 per share relating to the year ended December 31, 2008	–	(587,636)	(587,636)
1st Interim dividend of Rs 1.75 per share relating to the year ended December 31, 2009	–	(447,114)	(447,114)
2nd Interim dividend of Rs 2.75 per share relating to the year ended December 31, 2009	–	(702,608)	(702,608)
3rd Interim dividend of Rs 2.75 per share relating to the year ended December 31, 2009	–	(702,608)	(702,608)
Total transactions with owners	–	(2,439,966)	(2,439,966)
Balance at December 31, 2009	2,554,938	1,705,296	4,260,234

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

1. The Company and its operations

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

2. Statement of compliance

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

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

3. Adoption of new and revised standards and interpretations

3.1 Changes in accounting policies and disclosures

(i) IAS 1 (revised), 'Presentation of financial statements' - effective January 1, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a Statement of Comprehensive Income (SOCI). As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the SOCI.

(ii) IFRS 8, 'Operating segments' - effective January 1, 2009. IFRS 8 replaces IAS 14 'Segment Reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard did not have any impact on the Company's financial statements for the year since there is a single operating segment which is reported consistent with the internal reporting provided to the chief operating decision-maker.

(iii) IFRIC 13, 'Customer loyalty programmes' - effective July 1, 2008, the interpretation clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or the right to free products), the arrangement is a multiple element arrangement and the consideration from the customer is to be allocated between the components of the arrangement and related revenue is required to be deferred until such time as the award credits are redeemed. The adoption of this interpretation did not have any significant impact on the Company's financial statements for the year.

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

		Effective for periods beginning on or after
IFRS 1	First time adoption of International Financial reporting standards	July 1, 2009
IFRS 2	Share based payments	July 1, 2009
IFRS 3	Business Combinations	July 1, 2009
IFRS 5	Non-current assets held for sale and discontinued operations	July 1, 2009
IFRS 9	Financial instruments	January 1, 2013
IAS 17	Leases	January 1, 2010
IAS 24	Related party disclosures	January 1, 2011
IAS 32	Financial instruments: Presentation	January 1, 2010
IAS 38	Intangible assets	July 1, 2009
IAS 39	Financial instruments: Recognition and measurement	June 30, 2009
IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	January 1, 2011
IFRIC 17	Distributions of non-cash assets to owners	July 1, 2009
IFRIC 18	Transfers of Assets from Customers	July 1, 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010

The Management anticipates that adoption of above standards, amendments and interpretations in future periods will have no material impact on the Company's financial statements except for additional disclosures.

4. Summary of significant accounting policies

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

4.1 Basis of measurement

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

4.2 Segment reporting

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

4.3 Functional and presentation currency

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

4.4 Foreign currency transactions and translation

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

4.5 Revenue recognition

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

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

(a) Sale of goods

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

(b) Income on bank deposits

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

(c) Others

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

4.6 Taxation

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

(a) Current

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

(b) Deferred

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

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

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

4.7 Provisions

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

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

4.8 Contingent assets

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

4.9 Contingent liabilities

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

4.10 Employee benefits

(a) Retirement benefit plans

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

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

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

The Company operates:

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

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

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

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

(b) Termination benefits

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

(c) Medical benefits

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

(d) Bonus plans

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

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

4.11 Operating leases

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

4.12 Property, plant and equipment

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

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

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

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

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

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

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

4.13 Impairment of non-financial assets

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

4.14 Long term investment in subsidiary company

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

4.15 Stock-in-trade

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

4.16 Stores and spares

Stores and spares are stated at lower of cost and net realizable value. Cost is determined using weighted average method. Items in transit are valued at cost comprising invoice value and other related charges incurred upto the balance sheet date.

4.17 Financial assets

4.17.1 Classification

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

i) Held to maturity

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

(ii) Loans and receivables

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

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

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

(iv) Available-for-sale financial assets

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

4.17.2 Recognition and measurement

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

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

4.17.3 Impairment

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

4.18 Trade debts

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

4.19 Trade and other payables

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

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

4.20 Borrowings

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

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

4.21 Dividend distribution

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

4.22 Cash and cash equivalents

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

4.23 Offsetting

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

5. Financial risk management

5.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Great Britain Pound Sterling (GBP). Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/payable from/to the foreign entities and outstanding letters of credit.

At December 31 2009, if the functional currency had weakened/strengthened by 10% against foreign currencies, with all other variables held constant, the profit after taxation for the year would have been lower/higher by Rs 10.45 million (2008: Rs 3.26 million).

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

Financial liabilities include balances of Rs 1,300,837 thousand (2008: Rs 572,397 thousand) which are subject to interest rate risk. Applicable interest rates for financial liabilities have been indicated in respective notes.

At balance sheet date, if interest rates had been 1% higher/lower, with all other variables held constant, profit after taxation for the year would have been Rs 8.46 million (2008: Rs 3.72 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

	Rating			Rs (million)	
Counterparty	**Short term**	**Long term**	**Rating Agency**	**2009**	**2008**
MCB Bank Limited	A1+	AA+	PACRA	17.03	23.18
The Royal Bank of Scotland Limited	A1+	AA	PACRA	-	14.39
Deutsche Bank AG	P-1	Aa1	Moody's	15.80	-
Citibank N.A.	P-1	A1	Moody's	12.77	17.76
Habib Bank Limited	A-1+	AA+	JCR-VIS	0.90	7.08
National Bank of Pakistan	A-1+	AAA	JCR-VIS	0.73	5.33
Standard Chartered Bank Limited	A-1+	AA+	JCR-VIS	-	0.73
				47.23	68.47

Trade debts, loans and advances and other receivables amounting to Rs 160.96 million (2008: Rs 337.69 million) do not include any amounts which are past due or impaired.

(c) Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2009, the Company had Rs 2,399 million unutilised borrowing facilities from financial institutions and Rs 48 million cash and bank balances. Further, the Company also has strong financial support from its holding company. Based on the above, inspite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low.

5.2 Capital risk management

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

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

5.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

6. Critical accounting estimates and judgements

(a) Income taxes

The Company recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (note 4.6) is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

(b) Retirement benefits

Actuarial valuation of gratuity and pension contributions (note 4.10) requires use of certain assumptions related to future periods including increase in remuneration, expected long term return on plan assets and the discount rate used to convert future cash flows to current values.

(c) Property, plant and equipment

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

Notes to the Financial Statements

for the year ended December 31, 2009

	2009 Rs '000	2008 Rs '000
7. Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	3,574,582	3,515,552
Raw material purchases and expenses – note 7.1	11,789,122	8,591,376
Closing stock of raw materials and work in process	(4,915,788)	(3,574,582)
	10,447,916	8,532,346
Government taxes and levies		
Customs duty and surcharges	459,905	317,002
Provincial and municipal taxes and other duties	104,546	100,873
Excise duty on royalty	29,242	26,706
	593,693	444,581
	11,041,609	8,976,927
Royalty	331,902	306,162
Production overheads		
Salaries, wages and benefits	1,068,601	1,093,823
Stores, spares and machine repairs	405,709	375,347
Fuel and power	243,909	203,205
Insurance	22,091	18,673
Repairs and maintenance	92,755	83,890
Postage, telephone and stationery	10,189	9,301
Information technology	60,760	67,845
Depreciation	452,019	418,739
Stock written off	3,225	14,409
Provision for stock	20,533	–
Stores and spares written off	10,002	5,117
Sundries	43,860	24,150
	2,433,653	2,314,499
Cost of goods manufactured	13,807,164	11,597,588
Cost of finished goods		
Opening stock	484,481	482,629
Closing stock	(849,579)	(484,481)
	(365,098)	(1,852)
Cost of sales	13,442,066	11,595,736
7.1 Raw material purchases and expenses		
Materials	10,954,093	7,936,445
Salaries, wages and benefits	385,584	303,599
Stores, spares and machine repairs	158,645	111,896
Fuel and power	102,131	75,374
Property rentals	30,677	26,190
Insurance	2,511	3,109
Repairs and maintenance	1,110	701
Postage, telephone and stationery	5,199	4,235
Depreciation	99,677	96,307
Sundries	49,495	33,520
	11,789,122	8,591,376

	2009 Rs '000	2008 Rs '000
8. Selling and distribution expenses		
Salaries, wages and benefits	368,604	306,208
Selling expenses	1,503,693	1,249,080
Freight	206,820	199,655
Repairs and maintenance	73,245	72,543
Postage, telephone and stationery	7,401	8,032
Travelling	32,905	44,843
Property rentals	7,717	8,784
Insurance	7,579	7,577
Stock written off	351	677
Depreciation	37,699	35,965
	2,246,014	1,933,364
9. Administrative expenses		
Salaries, wages and benefits	604,903	519,728
Fuel and power	12,802	10,126
Property rentals	83,547	40,126
Insurance	4,069	2,990
Repairs and maintenance	40,731	40,743
Postage, telephone and stationery	13,922	16,145
Legal and professional charges	14,494	13,998
Donations – note 9.1	7,010	4,565
Information technology	135,568	105,541
Travelling	61,042	81,893
Depreciation	67,369	43,832
Directors' fee	150	170
Auditor's remuneration and expenses – note 9.2	7,090	5,403
Sundries	48,117	43,098
	1,100,814	928,358

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

	2009 Rs '000	2008 Rs '000
9.2 Auditor's remuneration and expenses include:		
– Statutory audit fee	1,070	950
– Group reporting, special certifications, audit of consolidated accounts, staff retirement benefit funds and review of half yearly accounts	2,410	2,330
– Tax services	3,276	1,837
– Out-of-pocket expenses	334	286
	7,090	5,403
10. Other operating income		
Gain on disposal of operating fixed assets	46,599	15,916
Income from associated company	20,540	10,616
Insurance claim for Evacuee trust damages	135,694	–
Insurance refund and material claim	16,808	–
Foreign exchange gain	–	29,261
Miscellaneous	6,858	4,758
	226,499	60,551

		2009 Rs '000	2008 Rs '000
11.	**Other operating expenses**		
	Workers' Profit Participation Fund	249,650	209,115
	Workers' Welfare Fund	94,867	79,464
	Bank charges and fees	34,317	27,311
	Head Office relocation expenses	123,583	18,602
	Restructuring cost	5,322	267,326
	Receivable from BAT Bangladesh written off	6,284	–
	Foreign exchange loss	480	–
	Operating fixed assets and capital work in progress written off	–	13,640
	Interest on Workers' Profit Participation Fund	162	–
		514,665	615,458
12.	**Income tax expense**		
	Current – for the year	1,603,302	1,246,221
	Deferred – for the year	22,781	115,201
		1,626,083	1,361,422

12.1 Effective tax rate reconciliation:

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

	2009 %	2008 %
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.05	0.01
Income taxed at different rate	(0.11)	(0.01)
Others	0.04	(0.04)
Average effective tax rate	34.98	34.96

		2009 Rs '000	2008 Rs '000
12.2	**Tax on items directly charged / (credited) to SOCI**		
	Current tax (credit) on defined benefit plans	(212,725)	(469)
	Deferred tax charge / (credit) on defined benefit plans	250,127	(87,371)
		37,402	(87,840)

		2009	2008
13.	**Earnings per share**		
	Profit after tax (Rs '000)	3,022,406	2,532,295
	Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
	Earnings per share – Basic (Rs)	11.83	9.91

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

14. Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Executive Directors		Executives				Total	
					Key management personnel		Other executives			
	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
Managerial remuneration	45,178	59,058	61,551	43,890	97,952	107,910	326,558	285,913	531,239	496,771
Corporate bonus	9,917	15,336	45,389	28,080	77,014	42,893	90,654	100,850	222,974	187,159
Leave fare assistance	1,122	582	1,259	950	3,982	2,679	3,873	1,947	10,236	6,158
Housing and utilities	7,211	6,317	13,958	9,103	31,949	32,190	142,392	120,909	195,510	168,519
Medical expenses	102	–	3,612	632	6,838	3,069	21,661	14,337	32,213	18,038
Post employment benefits	11,359	7,590	15,603	4,955	39,620	23,582	157,233	95,578	223,815	131,705
	74,889	88,883	141,372	87,610	257,355	212,323	742,371	619,534	1,215,987	1,008,350
Number of persons	1	1	5	3	24	22	243	211	273	237

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

14.2 The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to six (2008: seven) non-executive directors of the Company amounted to Rs 3,364 thousand (2008: Rs 3,114 thousand).

	2009 Rs '000	2008 Rs '000
15. Property, plant and equipment		
Operating assets – note 15.1	5,483,038	5,412,917
Capital work in progress – note 15.2	469,070	186,841
	5,952,108	5,599,758

15.1 Operating assets

	Free-hold land Rs '000	Buildings on free-hold land Rs '000	Buildings on leasehold land Rs '000	Private railway sidings Rs '000	Plant and machinery Rs '000	Office and household equipment Rs '000	Furniture and fittings Rs '000	Vehicles Rs '000	Total Rs '000
At January 1, 2008									
Cost	6,834	496,550	25,566	349	6,503,801	331,662	65,658	498,965	7,929,385
Accumulated depreciation	–	(114,502)	(13,564)	(323)	(2,332,046)	(215,579)	(50,685)	(309,927)	(3,036,626)
Net book amount at January 1, 2008	6,834	382,048	12,002	26	4,171,755	116,083	14,973	189,038	4,892,759
Year ended December 31, 2008									
Net book amount at January 1, 2008	6,834	382,048	12,002	26	4,171,755	116,083	14,973	189,038	4,892,759
Additions	–	22,344	166	–	880,197	76,571	1,121	160,048	1,140,447
Disposals	–	–	–	–	(1,538)	(6,470)	(7,564)	(9,874)	(25,446)
Depreciation charge	–	(14,517)	(473)	–	(456,095)	(39,527)	(1,946)	(82,285)	(594,843)
Net book amount at December 31, 2008	6,834	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,412,917
At January 1, 2009									
Cost	6,834	518,894	25,712	349	7,371,451	366,904	27,063	596,634	8,913,841
Accumulated Depreciation	–	(129,019)	(14,017)	(323)	(2,777,132)	(220,247)	(20,479)	(339,707)	(3,500,924)
Net book amount at January 1, 2009	6,834	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,412,917
Year ended December 31, 2009									
Net book amount at January 1, 2009	6,834	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,412,917
Additions	–	3,403	–	–	416,114	133,842	71,312	138,038	762,709
Disposals	–	–	–	–	(7,335)	(6,625)	(1,530)	(20,334)	(35,824)
Depreciation charge	–	(15,100)	(457)	–	(495,473)	(49,029)	(3,369)	(93,336)	(656,764)
Net book amount at December 31, 2009	6,834	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,483,038
At December 31, 2009									
Cost	6,834	522,297	25,712	349	7,751,713	451,141	83,377	613,930	9,455,353
Accumulated depreciation	–	(144,119)	(14,474)	(323)	(3,244,088)	(226,296)	(10,380)	(332,635)	(3,972,315)
Net book amount at December 31, 2009	6,834	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,483,038

		2009 Rs '000	2008 Rs '000
15.2	**Capital work in progress**		
	Civil works and buildings	–	11,535
	Plant and machinery	413,708	128,807
	Advances to suppliers	55,362	46,499
		469,070	186,841
15.3	**Depreciation charge has been allocated as follows:**		
	Cost of sales	452,019	418,739
	Raw material purchases and expenses	99,677	96,307
	Selling and distribution expenses	37,699	35,965
	Administrative expenses	67,369	43,832
		656,764	594,843

15.4 Details of property, plant and equipment disposals, having book value of Rs 50,000 or more are as follows:

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
Plant and machinery				
– by negotiation	23,680	17,383	18,321	Ceylon Tobacco Company – Srilanka
Office and household equipment				
– by auction	685	69	10	Bahadur Khan & Co – Nowshera
– as per Company's policy	81	53	56	Dilshan Ranasinghe – Employee
Computer equipment				
– by auction	4,170	457	61	Bahadur Khan & Co – Nowshera
– by insurance claim	559	363	559	EFU General Insurance Company
	88	69	104	EFU General Insurance Company
Vehicles				
– as per Company's policy	745	75	75	Mohammad Ahsan – Employee
	746	75	75	Mazhar Shaheen – Employee
	746	75	75	Mohammad Ayaz – Employee
	746	75	65	Hassan Moonis – Employee
	746	75	111	Hina Nuruddin – Employee
	845	422	576	Syed Ali – Employee
	845	369	490	Faraz Aslam – Ex Employee
	845	211	363	Attique Aslam – Ex Employee
	845	106	329	Waseem Hayat – Employee
	845	194	364	Khurram Javed – Employee
	885	111	322	Mohammad Uzair – Employee
	969	363	577	Syed Omar – Employee
	980	388	475	Qindeel Azeem – Employee
	1,024	102	157	Amjad Ali – Employee
	1,309	518	469	Ayesha Rafique – Employee
	1,370	714	833	Mohammad Haroon Khan – Employee
	1,353	930	935	Asma Farooq – Ex Employee
	1,774	1,231	1,233	Shah Mansoor – Employee
	5,000	2,604	2,224	Ali Naseer – Employee

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
– by auction	537	54	320	Imran Khan–Wah Cantt. Rawalpindi
	585	59	408	Abid Hussain – Islamabad
	640	64	268	Syed Shahid Razi – Karachi
	739	74	750	Rizwan Mazhar – Rawalpindi
	746	75	791	Syed Wajid Ali – Islamabad
	746	75	726	Khurram Mehboob – Rawalpindi
	746	75	753	Raja M. Zahoor – Rawalpindi
	758	76	652	M.Akram Qureshi – Rawalpindi
	835	83	786	Syed Ali Raza – Islamabad
	835	83	718	Haji Rehmat Ali – Attock
	845	176	731	Sohrab Ali – Rawalpindi
	859	86	573	Khan Jamal – Karachi
	860	86	645	M. Kamran Khan – Karachi
	860	86	661	Shahid Ullah Jan – Charsaddah
	879	88	643	Syed Shabbir Ghous – Rawalpindi
	885	92	876	Raja M. Masood – Rawalpindi
	885	184	816	Syed Mohsin Ali – Islamabad
	885	92	873	M. Akram Qureshi – Rawalpindi
	885	92	848	M. Ayub Butt – Islamabad
	885	92	866	Khanzada – Islamabad
	999	100	576	Akbar Ali – Peshawar
	1,014	101	560	Usama Danish – Islamabad
	1,024	102	780	Khurram Mehboob – Rawalpindi
	1,024	102	765	Wilayat Khan – Rawalpindi
	1,169	117	761	Habib Ahmed – Islamabad
	1,179	118	790	Rafiq Ahmed – Rawalpindi
	1,679	168	655	Tanveer Afzal – Rawalpindi
	1,800	180	766	Haji Akbar Ali – Islamabad
	2,225	223	872	Mehboob Alam – Rawalpindi
	2,225	223	855	Faiyaz Ahmed – Wah
	2,225	223	882	Habib Ur Rehman – Rawalpindi
	2,350	235	992	Zafar Ali Janjua – Islamabad
	4,150	415	2,000	Sohrab Ali – Rawalpindi
– by insurance claim	74	59	69	New Hampshire Insurance Company Limited
	404	76	290	–do–
	428	258	380	–do–
	435	281	390	–do–
	1,014	718	890	–do–
	1,915	439	1,340	–do–
	95,109	32,962	57,176	

16. Long term investment in subsidiary company – at cost

This represents 500,001 (2008: 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 (2008: Rs 10 per share) based on audited accounts for the year ended December 31, 2009.

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

	2009 Rs '000	2008 Rs '000
17. Long term loans – unsecured, considered good		
Related parties		
Key management personnel	487	524
Others		
Executives	6,629	8,590
Other employees	4,313	4,780
	10,942	13,370
	11,429	13,894
Less: Receivable within one year	4,119	4,650
	7,310	9,244

17.1 Reconciliation of loans:

	Executives				Other employees		Total	
	Key management personnel		Other executives					
	2009 Rs'000	2008 Rs'000	2009 Rs'000	2008 Rs'000	2009 Rs'000	2008 Rs'000	2009 Rs'000	2008 Rs'000
Balance as at January 1	524	470	8,590	11,863	4,780	6,099	13,894	18,432
Disbursements	–	351	2,410	2,083	2,775	1,998	5,185	4,432
Repayments	37	297	4,371	5,356	3,242	3,317	7,650	8,970
Balance as at December 31	487	524	6,629	8,590	4,313	4,780	11,429	13,894

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

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

	2009 Rs '000	2008 Rs '000
Key management personnel	630	673
Other executives	8,819	12,415
	9,449	13,088

		2009 Rs '000	2008 Rs '000
18.	**Long term deposits and prepayments**		
	Security deposits	15,219	13,187
	Prepayments	4,696	27,985
		19,915	41,172
19.	**Stock-in-trade**		
	Raw materials	4,679,602	3,363,648
	Raw materials in transit	219,120	183,180
	Work in process	37,599	27,754
	Finished goods	849,579	484,481
		5,785,900	4,059,063
	Provision for damaged raw materials	(20,533)	–
		5,765,367	4,059,063
20.	**Stores and spares**		
	Stores	1,656	1,518
	Machine spares	214,025	187,133
	Machine spares in transit	2,694	1,995
		218,375	190,646
21.	**Trade debts**		
	Considered good	1,684	2,666
	Considered doubtful	2,405	2,322
		4,089	4,988
	Provision for doubtful debts	(2,405)	(2,322)
		1,684	2,666
22.	**Loans and advances – unsecured, considered good**		
	Related parties		
	Loans to key management personnel – note 17	141	172
	Advances due from key management personnel	1,192	1,446
	Others		
	Loans to executives and other employees – note 17	3,978	4,478
	Advances due from executives and other employees – note 22.1	24,107	24,599
	Advances due from others	19,180	35,222
		48,598	65,917

22.1 Includes Rs 13,847 thousand (2008: Rs 11,934 thousand) due from executives of the Company.

	2009 Rs '000	2008 Rs '000
23. Other receivables		
Related parties – unsecured		
Due from holding company / associated companies – note 23.1	21,336	61,587
Due from subsidiary company	20,021	24,835
Employees' provident fund	3,241	48,653
Others		
Margin against guarantees	6,617	81,057
Claims	26,634	22,757
Others	10,298	7,786
	88,147	246,675
23.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. – UK	5,796	5,005
Associated Companies		
BAT Asia–Pacific Region Ltd – Hong Kong	–	36,893
BAT SAA Services (Private) Limited – Pakistan	9,785	10,616
BAT Western Europe Area – Netherland	1,190	–
BAT Marketing (Singapore) Ltd	849	–
BAT Vietnam Ltd – Vietnam	640	324
Ceylon Tobacco Company Plc – Sri Lanka	627	780
BAT Equatorial Africa Area Ltd – Kenya	626	–
BAT Indonesia	492	–
Rothmans Far East B.V – South Korea	423	343
PT Export Leaf Indonesia – Indonesia	344	299
BAT (Taiwan) Ltd – Taiwan	306	266
BAT (Singapore) Pte Ltd – Singapore	258	233
BAT Bangladesh Co. Ltd – Bangladesh	–	5,895
BAT Aspac Service Centre – Malaysia	–	819
BAT China Ltd – China	–	114
	21,336	61,587
24. Cash and bank balances		
Deposit accounts	14,133	16,748
Current accounts		
Local currency	8,771	18,362
Foreign currency	23,725	32,159
	46,629	67,269
Cash in transit	598	1,199
Cash in hand	647	704
	47,874	69,172

	2009 Rs '000	2008 Rs '000
25. Trade and other payables		
Related parties – unsecured		
Due to holding company / associated companies – note 25.1	221,814	204,614
Others		
Creditors	843,428	646,602
Federal excise duty – note 25.2	2,604,744	2,176,647
Sales tax	601,057	528,318
Tobacco excise duty / Tobacco development cess – note 25.3	66,783	64,509
Accrued liabilities	163,786	254,605
Other employee benefits – note 25.4	317,769	306,673
Retirement benefits – note 27	59,407	–
Management provident fund	–	3,325
Staff pension fund – defined contribution	471	662
Workers' Profit Participation Fund	3,650	2,099
Workers' Welfare Fund	105,464	88,470
Advances from customers	6,274	7,292
Security deposits	14,133	16,748
Unpaid and unclaimed dividend	28,689	24,140
	5,037,469	4,324,704

	2009 Rs '000	2008 Rs '000
25.1 The amount due to holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. – UK	102,577	102,584
Associated Companies		
BAT Asia-Pacific Region Ltd – Hong Kong	79,905	81,856
BAT ASPAC – Malaysia	21,774	–
BAT (Singapore) Pte Ltd – Singapore	13,830	2,833
Ceylon Tobacco Company Plc – Sri Lanka	2,696	3,126
BAT Nigeria Ltd – Nigeria	756	–
BAT (Malaysia) Berhad – Malaysia	202	523
BAT SA Ltd – South Africa	74	–
BAT Bangladesh Co. Ltd – Bangladesh	–	10,413
BAT FZ LLC – Dubai	–	2,236
BAT Australia Ltd EFT – Australia	–	638
Nobleza Picardo – Argentina	–	253
BAT Switzerland SA – Switzerland	–	86
C.A Cigarrera Bigott – Venezuela	–	66
	221,814	204,614

		2009 Rs '000	2008 Rs '000
25.2	**Federal excise duty**		
	Balance as at January 1	2,176,647	1,665,499
	Payment to the Government during the year	(27,255,490)	(22,867,292)
	Charge for the year	27,683,587	23,378,440
	Balance as at December 31	2,604,744	2,176,647
25.3	**Tobacco excise duty / Tobacco development cess:**		
	Balance as at January 1	64,509	63,474
	Payment to the Government during the year	(65,655)	(63,971)
	Charge for the year	67,929	65,006
	Balance as at December 31	66,783	64,509
25.4	**Other employee benefits**		
	Balance as at January 1	306,673	293,903
	Payment to employees during the year	(248,231)	(248,255)
	Charge for the year	259,327	261,025
	Balance as at December 31	317,769	306,673

Other employee benefits represent bonus to eligible employees.

26. Short term running finance - secured

(a) Short term running finance

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 3,700 million (2008: Rs 2,800 million), out of which the amount unavailed at the year end was Rs 2,399 million (2008: Rs 2,228 million). These facilities are secured by hypothecation of stock-in-trade amounting to Rs 4,444 million (2008: Rs 3,734 million). The mark-up ranges between 11.89% and 17.50% (2008: 9.87% and 17%) per annum and is payable quarterly. The facilities are renewable on annual basis.

(b) Non-funded finance facilities

The Company also has non-funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 2,500 million (2008: Rs 1,545 million) and Rs 340 million (2008: Rs 235 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 972 million (2008: Rs 617 million) and Rs 182 million (2008: Rs 118 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2008: Rs 285 million).

		2009 Rs '000	2008 Rs '000
27.	**Retirement benefits**		
	Staff pension fund	14,206	536,808
	Employees gratuity fund	45,201	202,325
		59,407	739,133

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2009 using the projected unit credit method. Details of the defined benefit plans are:

		Defined benefit pension plan		Defined benefit gratuity plan	
		2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
(a)	**The amounts recognised in the balance sheet:**				
	Present value of defined benefit obligations	2,100,232	1,769,557	586,297	460,720
	Fair value of plan assets	(2,086,026)	(1,232,749)	(541,096)	(258,395)
	Net liability	14,206	536,808	45,201	202,325
(b)	**Movement in the liability recognized in the balance sheet is as follows:**				
	Balance as at January 1	536,808	336,498	202,325	153,005
	Charge for the year - profit & loss	185,128	88,474	63,797	39,834
	(Credit)/ Charge for the year - SOCI	(121,681)	185,689	14,816	65,281
	Payments during the year	(586,049)	(73,853)	(235,737)	(55,795)
	Balance as at December 31	14,206	536,808	45,201	202,325
(c)	**The amounts recognised in the profit and loss account:**				
	Net current service cost	43,423	54,767	22,034	25,425
	Interest on obligation	266,023	171,858	68,245	48,720
	Expected return on plan assets	(124,318)	(138,151)	(26,482)	(34,311)
		185,128	88,474	63,797	39,834

(d) The aggregate amounts recognised in the statement of comprehensive income are as follows:

	2009 Rs '000	2008 Rs '000
Defined benefit pension plan	121,681	185,689
Defined benefit gratuity plan	(14,816)	65,281
	106,865	250,970

The cumulative actuarial losses charged in the SOCI in respect of both retirement benefit funds are Rs 644,607 thousand (2008: Rs 751,472 thousand) before tax.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
(e)	**Changes in the present value of defined benefit obligation:**				
	Present value of defined benefit obligation as at Jan 1	1,769,557	1,704,382	460,720	490,379
	Current service cost	43,423	54,767	22,034	25,425
	Interest cost	266,023	171,858	68,245	48,720
	Actuarial losses/ (gains)	65,280	(119,638)	52,427	(1,942)
	Contribution by plan participants	27,733	24,528	–	–
	Recovery against secondees	5,561	11,047	2,410	3,026
	Benefits paid	(77,345)	(77,387)	(19,539)	(104,888)
	Present value of defined benefit obligation as at Dec 31	2,100,232	1,769,557	586,297	460,720
(f)	**Changes in the fair value of plan assets:**				
	Fair value of plan assets as at Jan 1	1,232,749	1,367,884	258,395	337,374
	Expected return	124,318	138,151	26,482	34,311
	Actuarial gains/ (losses)	186,961	(305,327)	37,611	(67,223)
	Contribution by plan participants	27,733	24,528	–	–
	Recovery against secondees	5,561	11,047	2,410	3,026
	Contributions by employer	586,049	73,853	235,737	55,795
	Benefits paid	(77,345)	(77,387)	(19,539)	(104,888)
	Fair value of plan assets as at Dec 31	2,086,026	1,232,749	541,096	258,395
	Actual return on plan assets	290,529	(195,225)	66,482	(30,580)

During the year 2010 the Company expects to contribute Rs 58.042 million and Rs 32.494 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
(g)	**The major categories of plan assets:**				
	Investment in equities	98,511	49,604	30,544	14,999
	Investment in bonds	1,972,530	741,272	505,750	163,810
	Cash and cash equivalents	14,985	441,873	4,802	79,586
		2,086,026	1,232,749	541,096	258,395
(h)	**Significant actuarial assumptions at the balance sheet date:**				
	Discount rate	13%	15%	13%	15%
	Expected return on plan assets	13%	10%	13%	10%
	Future salary increases	16%	17%	16%	17%
	Future pension increases	9%	11%	–	–

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

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

		2009 Rs '000	2008 Rs '000	2007 Rs '000	2006 Rs '000	2005 Rs '000
(i)	**Amounts for the current and previous four years:**					
	Defined Benefit Pension Plan					
	Present value of defined benefit obligation	(2,100,232)	(1,769,557)	(1,704,382)	(1,413,319)	(1,214,950)
	Fair value of plan assets	2,086,026	1,232,749	1,367,884	1,202,614	1,036,970
	Deficit	(14,206)	(536,808)	(336,498)	(210,705)	(177,980)
	Experience adjustments on plan liabilities	(83,719)	(63,120)	(122,206)	(97,267)	(73,958)
	Experience adjustments on plan assets	166,211	(333,376)	12,878	(27,420)	43,548
	Defined Benefit Gratuity Plan					
	Present value of defined benefit obligation	(586,297)	(460,720)	(490,379)	(388,407)	(316,968)
	Fair value of plan assets	541,096	258,395	337,374	270,997	224,990
	Deficit	(45,201)	(202,325)	(153,005)	(117,410)	(91,978)
	Experience adjustments on plan liabilities	(63,208)	(73,527)	(46,209)	(39,159)	(43,111)
	Experience adjustments on plan assets	40,000	(64,891)	152	(7,230)	4,585

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

	2009 Rs '000	2008 Rs '000
Provident Fund	49,364	42,597
Pension Fund	185,128	88,474
Gratuity Fund	63,797	39,834
	298,289	170,905

28. Deferred income tax liability

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

	2009 Rs '000	2008 Rs '000
The offset amounts are as follows:		
Deferred tax assets	10,231	258,697
Deferred tax liabilities	1,120,078	1,095,636
Deferred tax liability (net)	1,109,847	836,939
The gross movement on deferred income tax account is as follows:		
At January 1	836,939	809,109
Charge for the year - profit and loss account	22,781	115,201
Charge for the year - statement of comprehensive income - note 12.2	250,127	(87,371)
At December 31	1,109,847	836,939

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

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

	2009 Rs '000	2008 Rs '000
Balance as at January 1	258,697	171,326
Credit for the year - profit and loss account	1,661	-
Charge for the year - statement of comprehensive income - note 12.2	(250,127)	87,371
Balance as at December 31	10,231	258,697

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

	2009 Rs '000	2008 Rs '000
Balance as at January 1	1,095,636	980,435
Charge for the year - profit and loss account	24,442	115,201
Balance as at December 31	1,120,078	1,095,636

29. Share capital

29.1 Authorized share capital

2009 (Number of shares)	2008 (Number of shares)		2009 Rs '000	2008 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

29.2 Issued, subscribed and paid-up capital

2009 (Number of shares)	2008 (Number of shares)		2009 Rs '000	2008 Rs '000
230,357,068	230,357,068	Cash	2,303,571	2,303,571
25,136,724	25,136,724	Bonus shares	251,367	251,367
255,493,792	255,493,792		2,554,938	2,554,938

British American Tobacco (Investments) Limited held 241,045,141 (2008: 241,045,141) ordinary shares at the year end.

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

30. Contingencies and commitments

30.1 Contingencies

	2009 Rs '000	2008 Rs '000
(a) Claims and guarantees		
(i) Claims against the Company not acknowledged as debt	113,436	87,688
(ii) Guarantees issued by banks on behalf of the Company	181,637	118,008

(b) Litigation

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

30.2 Commitments

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

	2009 Rs '000	2008 Rs '000
– due not later than one year	65,587	26,770
– due later than one year and not later than five years		
within 2 years	89,833	67,275
within 3 years	19,184	96,109
within 4 years	17,325	29,321
within 5 years	7,576	28,744
– due later than five years	20,433	9,241

(b) Letters of credit outstanding at December 31, 2009 were Rs 971,528 thousand (2008: Rs 616,502 thousand).

31. Financial instruments

Financial assets and liabilities

	Loans and receivables 2009 Rs '000	Loans and receivables 2008 Rs '000
Financial assets		
Maturity up to one year:		
Trade debts	1,684	2,666
Loans and advances	48,598	65,917
Other receivables		
Local Currency	76,596	195,704
Foreign Currency	11,551	50,971
Cash and bank balances		
Local Currency	24,149	37,013
Foreign Currency	23,725	32,159
Maturity after one year:		
Loans	7,310	9,244
Security deposits	15,219	13,187
	208,832	406,861

	Other financial liabilities 2009 Rs '000	Other financial liabilities 2008 Rs '000
Financial liabilities		
Maturity up to one year:		
Federal excise duty and sales tax payable	3,205,801	2,704,965
Other trade payables		
Local Currency	1,629,389	1,480,888
Foreign Currency	196,005	131,559
Accrued interest / mark-up	27,659	10,354
Short term running finance	1,300,837	572,397
	6,359,691	4,900,163

32. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2008: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT-IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Company. Such entities are also referred to as 'BAT' in these financial statements. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is given in note 14 to the financial statements.

	2009 Rs '000	2008 Rs '000
Purchase of goods and services from		
Holding company	177,382	243,813
Associated companies	1,770,892	629,419
Sale of goods and services to		
Holding company	3,824	5,105
Associated companies	149,671	54,812
Royalty charge from		
Holding company	331,902	306,162
Expenses reimbursed to		
Holding company	–	19
Associated companies	219	1,057
Expenses reimbursed by		
Holding company	–	263
Associated companies	1,699	1,704
Subsidiary company	572	328
Contribution to retirement benefit funds by the Company	298,289	170,905

33. Post balance sheet event

Final dividend in respect of the year ended December 31, 2009 of Rs 4.75 (2008: Rs 2.30) per share amounting to a total dividend of Rs 1,213,596 thousand (2008: 587,636 thousand) has been proposed, over and above the interim dividends of Rs 7.25 (2008: Rs 5.75) per share paid during the year, out of the revenue reserves at the Board of Directors meeting held on March 12, 2010. These financial statements do not reflect this proposed dividend.

34. General

34.1 Capacity and production

Against an estimated manufacturing capacity of 48,111 million (2008: 43,991 million) cigarettes, actual production was 41,973 million (2008: 41,159 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

34.2 Number of employees

Total number of employees as at December 31, 2009 was 1,573 (2008: 1,655).

34.3 Corresponding figures

i) Reclassification of bank charges of Rs 34,317 (2008: Rs 27,311) from finance cost to other operating expenses.

ii) Federal excise duty on royalty amounting to Rs 29,242 (2008: Rs 26,706) shown as cost of sales. Previously this was shown as reduction from gross turnover.

34.4 Date of authorization

These financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on March 12, 2010.

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Pakistan Tobacco Company Limited

Consolidated Financial Statements

for the year ended December 31, 2009

Auditor's Report to the Members on Consolidated Financial Statements

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Pakistan Tobacco Company Limited (the Company) and its subsidiary company, Phoenix (Private) Limited as at December 31, 2009 and the related consolidated Profit and Loss Account, consolidated Statement of Comprehensive Income, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of the Company and its subsidiary company. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of the Company and its subsidiary company as at December 31, 2009 and the results of their operations for the year then ended.

Chartered Accountants
Islamabad
Date: March 12, 2010

Engagement partner: Sohail M Khan

Consolidated Profit and Loss Account

for the year ended December 31, 2009

	Note	2009 Rs '000	2008 Rs '000
Gross turnover		57,544,309	49,053,928
Excise duties		27,654,345	23,351,734
Sales tax		8,223,439	6,829,699
Net turnover		21,666,525	18,872,495
Cost of sales	7	13,442,066	11,595,736
Gross profit		8,224,459	7,276,759
Selling and distribution expenses	8	2,246,014	1,933,364
Administrative expenses	9	1,100,814	928,358
Other operating income	10	226,499	60,551
Other operating expenses	11	514,665	615,458
		3,634,994	3,416,629
Operating profit		4,589,465	3,860,130
Finance income		102,826	59,600
Finance cost		43,802	26,013
Finance income - net		59,024	33,587
Profit before income tax		4,648,489	3,893,717
Income tax expense	12	1,626,083	1,361,422
Profit for the year		3,022,406	2,532,295
Earnings per share - basic and diluted (Rupees)	13	11.83	9.91

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2009

	Note	2009 Rs '000	2008 Rs '000
Profit for the year		3,022,406	2,532,295
Other comprehensive income / (loss) for the year:			
Actuarial gains / (losses) on defined benefit pension and gratuity plans	26	106,865	(250,970)
Tax (charge) / credit related to actuarial gains / (losses) on defined benefit plans	12	(37,402)	87,840
Other comprehensive income/ (loss) for the year		69,463	(163,130)
Total comprehensive income for the year		3,091,869	2,369,165

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Consolidated Balance Sheet

As at December 31, 2009

	Note	2009 Rs '000	2008 Rs '000
Non current assets			
Property, plant and equipment	15	5,977,156	5,629,615
Long term loans	16	7,310	9,244
Long term deposits and prepayments	17	19,915	41,172
Current assets			
Stock-in-trade	18	5,765,367	4,059,063
Stores and spares	19	218,375	190,646
Trade debts	20	1,684	2,666
Loans and advances	21	48,598	65,917
Short term prepayments		72,483	105,728
Other receivables	22	68,126	221,841
Cash and bank balances	23	47,874	69,176
		6,222,507	4,715,037
Current liabilities			
Trade and other payables	24	5,037,496	4,324,731
Accrued interest / mark-up		27,659	10,354
Short term running finance	25	1,300,837	572,397
Current income tax liability		490,815	303,183
		6,856,807	5,210,665
Net current liabilities		(634,300)	(495,628)
Non current liabilities			
Retirement benefits	26	–	(739,133)
Deferred income tax liability	27	(1,109,847)	(836,939)
Net assets		4,260,234	3,608,331
Share capital and reserves			
Share capital	28	2,554,938	2,554,938
Revenue reserves		1,705,296	1,053,393
		4,260,234	3,608,331
Contingencies and commitments	29		

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Consolidated Cash Flow Statement

for the year ended December 31, 2009

	2009 Rs '000	2008 Rs '000
Cash flows from operating activities		
Cash receipts from customers	57,548,393	48,988,209
Cash paid to Government for Federal excise duty, Sales tax and other levies	(35,968,367)	(29,499,997)
Cash paid to suppliers	(14,063,572)	(11,225,963)
Finance cost paid	(26,497)	(24,060)
Cash paid as royalty	(328,191)	(294,714)
Cash paid to employees and retirement funds	(3,076,180)	(2,138,229)
Income tax paid	(1,202,945)	(1,170,321)
Other cash payments	(336,705)	(318,536)
	2,545,936	4,316,389
Cash flows from investing activities		
Additions in property, plant and equipment	(1,045,510)	(1,073,693)
Proceeds from disposal of property, plant and equipment	82,423	35,366
Finance income received	102,826	59,600
	(860,261)	(978,727)
Cash flows from financing activities		
Dividends paid	(2,435,417)	(2,969,003)
(Decrease)/Increase in cash and cash equivalents	(749,742)	368,659
Cash and cash equivalents at beginning of year	(503,221)	(871,880)
Cash and cash equivalents at end of year	(1,252,963)	(503,221)
Cash and cash equivalents comprise:		
Cash and bank balances	47,874	69,176
Short term running finance	(1,300,837)	(572,397)
	(1,252,963)	(503,221)

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Consolidated Statement of Changes in Equity

as at December 31, 2009

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2008	2,554,938	1,149,742	3,704,680
Comprehensive income:			
Profit for the year	–	2,532,295	2,532,295
Other comprehensive income for the year	–	(163,130)	(163,130)
Total Comprehensive income for the year	–	2,369,165	2,369,165
Transactions with owners:			
Final dividend of Rs 3.90 per share relating to the year ended December 31, 2007	–	(996,426)	(996,426)
1st Interim dividend of Rs 1.75 per share relating to the year ended December 31, 2008	–	(447,114)	(447,114)
2nd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008	–	(510,987)	(510,987)
3rd Interim dividend of Rs 2.00 per share relating to the year ended December 31, 2008	–	(510,987)	(510,987)
Total transactions with owners	–	(2,465,514)	(2,465,514)
Balance at January 1, 2009	2,554,938	1,053,393	3,608,331
Comprehensive income:			
Profit for the year	–	3,022,406	3,022,406
Other comprehensive income for the year	–	69,463	69,463
Total Comprehensive income for the year	–	3,091,869	3,091,869
Transactions with owners:			
Final dividend of Rs 2.30 per share relating to the year ended December 31, 2008	–	(587,636)	(587,636)
1st Interim dividend of Rs 1.75 per share relating to the year ended December 31, 2009	–	(447,114)	(447,114)
2nd Interim dividend of Rs 2.75 per share relating to the year ended December 31, 2009	–	(702,608)	(702,608)
3rd Interim dividend of Rs 2.75 per share relating to the year ended December 31, 2009	–	(702,608)	(702,608)
Total transactions with owners	–	(2,439,966)	(2,439,966)
Balance at December 31, 2009	2,554,938	1,705,296	4,260,234

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

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

1. The Group and its operations

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

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

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

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

2. Statement of compliance

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

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

3. Adoption of new and revised standards and interpretations

3.1 Changes in accounting policies and disclosures

(i) IAS 1 (revised), 'Presentation of financial statements' – effective January 1, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a Statement of Comprehensive Income (SOCI). As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated SOCI.

(ii) IFRS 8, 'Operating segments' - effective January 1, 2009. IFRS 8 replaces IAS 14 'Segment Reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard did not have any impact on the Group's financial statements for the year since there is a single operating segment which is reported consistent with the internal reporting provided to the chief operating decision-maker.

(iii) IFRIC 13, 'Customer loyalty programmes' - effective July 1, 2008, the interpretation clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or the right to free products), the arrangement is a multiple element arrangement and the consideration from the customer is to be allocated between the components of the arrangement and related revenue is required to be deferred until such time as the award credits are redeemed. The adoption of this interpretation did not have any significant impact on the Group's financial statements for the year.

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

		Effective for periods beginning on or after
IFRS 1	First time adoption of International Financial reporting standards	July 1, 2009
IFRS 2	Share based payments	July 1, 2009
IFRS 3	Business Combinations	July 1, 2009
IFRS 5	Non–current assets held for sale and discontinued operations	July 1, 2009
IFRS 9	Financial instruments	January 1, 2013
IAS 17	Leases	January 1, 2010
IAS 24	Related party disclosures	January 1, 2011
IAS 32	Financial instruments: Presentation	January 1, 2010
IAS 38	Intangible assets	July 1, 2009
IAS 39	Financial instruments: Recognition and measurement	June 30, 2009
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	January 1, 2011
IFRIC 17	Distributions of non–cash assets to owners	July 1, 2009
IFRIC 18	Transfers of Assets from Customers	July 1, 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010

The Management anticipates that adoption of above standards, amendments and interpretations in future periods will have no material impact on the Group's consolidated financial statements except for additional disclosures.

4. Summary of significant accounting policies

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

4.1 Basis of measurement

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

4.2 Consolidation - Subsidiaries

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

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

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

4.3 Segment reporting

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

4.4 Functional and presentation currency

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

4.5 Foreign currency transactions and translation

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

4.6 Revenue recognition

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

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

(a) Sale of goods

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

(b) Income on bank deposits

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

(c) Others

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

4.7 Taxation

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

(a) Current

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

(b) Deferred

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

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

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

4.8 Provisions

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

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

4.9 Contingent assets

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

4.10 Contingent liabilities

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

4.11 Employee benefits

(a) Retirement benefit plans

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

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

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

The Group operates:

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

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

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

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

(b) Termination benefits

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

(c) Medical benefits

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

(d) Bonus plans

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

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

4.12 Operating leases

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

4.13 Property, plant and equipment

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

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

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

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

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

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

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

4.14 Impairment of non-financial assets

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

4.15 Stock-in-trade

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

4.16 Stores and spares

Stores and spares are stated at lower of cost and net realizable value. Cost is determined using weighted average method. Items in transit are valued at cost comprising invoice value and other related charges incurred upto the balance sheet date.

4.17 Financial assets

4.17.1 Classification

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

(i) Held to maturity

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

(ii) Loans and receivables

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

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

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

(iv) Available-for-sale financial assets

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

4.17.2 Recognition and measurement

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

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

4.17.3 Impairment

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

4.18 Trade debts

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

4.19 Trade and other payables

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

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

4.20 Borrowings

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

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

4.21 Dividend distribution

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

4.22 Cash and cash equivalents

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

4.23 Offsetting

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

5. Financial risk management

5.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Great Britain Pound Sterling (GBP). Currently, the Group's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/payable from/to the foreign entities and outstanding letters of credit.

At December 31 2009, if the functional currency had weakened/strengthened by 10% against foreign currencies, with all other variables held constant, the profit after taxation for the year would have been lower/higher by Rs 10.45 million (2008: Rs 3.26 million).

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

Financial liabilities include balances of Rs 1,300,837 thousand (2008: Rs 572,397 thousand) which are subject to interest rate risk. Applicable interest rates for financial liabilities have been indicated in respective notes.

At balance sheet date, if interest rates had been 1% higher/lower, with all other variables held constant, profit after taxation for the year would have been Rs 8.46 million (2008: Rs 3.72 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

	Rating			Rs (million)	
Counterparty	Short term	Long term	Rating Agency	2009	2008
MCB Bank Limited	A1+	AA+	PACRA	17.03	23.18
The Royal Bank of Scotland Limited	A1+	AA	PACRA	–	14.39
Deutsche Bank AG	P–1	Aa1	Moody's	15.80	–
Citibank N.A.	P–1	A1	Moody's	12.77	17.76
Habib Bank Limited	A–1+	AA+	JCR–VIS	0.90	7.08
National Bank of Pakistan	A–1+	AAA	JCR–VIS	0.73	5.33
Standard Chartered Bank Limited	A–1+	AA+	JCR–VIS	–	0.73
				47.23	68.47

Trade debts, loans and advances and other receivables amounting to Rs 140.94 million (2008: Rs 312.86 million) do not include any amounts which are past due or impaired.

(c) Liquidity risk

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

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2009, the Group had Rs 2,399 million unutilised borrowing facilities from financial institutions and Rs 48 million cash and bank balances. Further, the Group also has strong financial support from its holding company. Based on the above, inspite the fact that the Group is in a negative working capital position at the year end, management believes the liquidity risk to be low.

5.2 Capital risk management

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

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

5.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

6. Critical accounting estimates and judgements

(a) Income taxes

The Group recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (note 4.7) is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

(b) Retirement benefits

Actuarial valuation of gratuity and pension contributions (note 4.11) requires use of certain assumptions related to future periods including increase in remuneration, expected long term return on plan assets and the discount rate used to convert future cash flows to current values.

(c) Property, plant and equipment

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2009

		2009 Rs '000	2008 Rs '000
7.	**Cost of sales**		
	Raw material consumed		
	Opening stock of raw materials and work in process	3,574,582	3,515,552
	Raw material purchases and expenses – note 7.1	11,789,122	8,591,376
	Closing stock of raw materials and work in process	(4,915,788)	(3,574,582)
		10,447,916	8,532,346
	Government taxes and levies		
	Customs duty and surcharges	459,905	317,002
	Provincial and municipal taxes and other duties	104,546	100,873
	Excise duty on royalty	29,242	26,706
		593,693	444,581
		11,041,609	8,976,927
	Royalty	331,902	306,162
	Production overheads		
	Salaries, wages and benefits	1,068,601	1,093,823
	Stores, spares and machine repairs	405,709	375,347
	Fuel and power	243,909	203,205
	Insurance	22,091	18,673
	Repairs and maintenance	92,755	83,890
	Postage, telephone and stationery	10,189	9,301
	Information technology	60,760	67,845
	Depreciation	452,019	418,739
	Stock written off	3,225	14,409
	Provision for stock	20,533	–
	Stores and spares written off	10,002	5,117
	Sundries	43,860	24,150
		2,433,653	2,314,499
	Cost of goods manufactured	13,807,164	11,597,588
	Cost of finished goods		
	Opening stock	484,481	482,629
	Closing stock	(849,579)	(484,481)
		(365,098)	(1,852)
	Cost of sales	13,442,066	11,595,736

		2009 Rs '000	2008 Rs '000
7.1	**Raw material purchases and expenses**		
	Materials	10,954,093	7,936,445
	Salaries, wages and benefits	385,584	303,599
	Stores, spares and machine repairs	158,645	111,896
	Fuel and power	102,131	75,374
	Property rentals	30,677	26,190
	Insurance	2,511	3,109
	Repairs and maintenance	1,110	701
	Postage, telephone and stationery	5,199	4,235
	Depreciation	99,677	96,307
	Sundries	49,495	33,520
		11,789,122	8,591,376

		2009 Rs '000	2008 Rs '000
8.	**Selling and distribution expenses**		
	Salaries, wages and benefits	368,604	306,208
	Selling expenses	1,503,693	1,249,080
	Freight	206,820	199,655
	Repairs and maintenance	73,245	72,543
	Postage, telephone and stationery	7,401	8,032
	Travelling	32,905	44,843
	Property rentals	7,717	8,784
	Insurance	7,579	7,577
	Stock written off	351	677
	Depreciation	37,699	35,965
		2,246,014	1,933,364
9.	**Administrative expenses**		
	Salaries, wages and benefits	604,903	519,728
	Fuel and power	12,802	10,126
	Property rentals	83,547	40,126
	Insurance	4,069	2,990
	Repairs and maintenance	40,731	40,743
	Postage, telephone and stationery	13,922	16,145
	Legal and professional charges	14,494	13,998
	Donations – note 9.1	7,010	4,565
	Information technology	135,568	105,541
	Travelling	61,042	81,893
	Depreciation	67,369	43,832
	Directors' fee	150	170
	Auditor's remuneration and expenses – note 9.2	7,090	5,403
	Sundries	48,117	43,098
		1,100,814	928,358

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

		2009 Rs '000	2008 Rs '000
9.2	**Auditor's remuneration and expenses include:**		
	– Statutory audit fee	1,070	950
	– Group reporting, special certifications, audit of consolidated accounts, staff retirement benefit funds and review of half yearly accounts	2,410	2,330
	– Tax services	3,276	1,837
	– Out-of-pocket expenses	334	286
		7,090	5,403
10.	**Other operating income**		
	Gain on disposal of operating fixed assets	46,599	15,916
	Income from associated company	20,540	10,616
	Insurance claim for Evacuee trust damages	135,694	–
	Insurance refund and material claim	16,808	–
	Foreign exchange gain	–	29,261
	Miscellaneous	6,858	4,758
		226,499	60,551

		2009 Rs '000	2008 Rs '000
11.	**Other operating expenses**		
	Workers' Profit Participation Fund	249,650	209,115
	Workers' Welfare Fund	94,867	79,464
	Bank charges and fees	34,317	27,311
	Head Office relocation expenses	123,583	18,602
	Restructuring cost	5,322	267,326
	Receivable from BAT Bangladesh written off	6,284	–
	Foreign exchange loss	480	–
	Operating fixed assets and capital work in progress written off	–	13,640
	Interest on Workers' Profit Participation Fund	162	–
		514,665	615,458
12.	**Income tax expense**		
	Current – for the year	1,603,302	1,246,221
	Deferred – for the year	22,781	115,201
		1,626,083	1,361,422

12.1 Effective tax rate reconciliation:

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

	2009 %	2008 %
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.05	0.01
Income taxed at different rate	(0.11)	(0.01)
Others	0.04	(0.04)
Average effective tax rate	34.98	34.96

		2009 Rs '000	2008 Rs '000
12.2	**Tax on items directly charged / (credited) to SOCI**		
	Current tax (credit) on defined benefit plans	(212,725)	(469)
	Deferred tax charge / (credit) on defined benefit plans	250,127	(87,371)
		37,402	(87,840)

		2009	2008
13.	**Earnings per share**		
	Profit after tax (Rs '000)	3,022,406	2,532,295
	Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
	Earnings per share – Basic (Rs)	11.83	9.91

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

14. Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Executive Directors		Executives				Total	
					Key management personnel		Other executives			
	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
Managerial remuneration	45,178	59,058	61,551	43,890	97,952	107,910	326,558	285,913	531,239	496,771
Corporate bonus	9,917	15,336	45,389	28,080	77,014	42,893	90,654	100,850	222,974	187,159
Leave fare assistance	1,122	582	1,259	950	3,982	2,679	3,873	1,947	10,236	6,158
Housing and utilities	7,211	6,317	13,958	9,103	31,949	32,190	142,392	120,909	195,510	168,519
Medical expenses	102	–	3,612	632	6,838	3,069	21,661	14,337	32,213	18,038
Post employment benefits	11,359	7,590	15,603	4,955	39,620	23,582	157,233	95,578	223,815	131,705
	74,889	88,883	141,372	87,610	257,355	212,323	742,371	619,534	1,215,987	1,008,350
Number of persons	1	1	5	3	24	22	243	211	273	237

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

14.2 The aggregate amounts charged in the consolidated financial statements of the year for remuneration including all benefits to six (2008: seven) non–executive directors of the Company amounted to Rs 3,364 thousand (2008: Rs 3,114 thousand).

	2009 Rs '000	2008 Rs '000
15. Property, plant and equipment		
Operating assets – note 15.1	5,486,402	5,416,281
Capital work in progress – note 15.2	490,754	213,334
	5,977,156	5,629,615

15.1 Operating assets

	Free-hold land Rs '000	Buildings on free-hold land Rs '000	Buildings on leasehold land Rs '000	Private railway sidings Rs '000	Plant and machinery Rs '000	Office and household equipment Rs '000	Furniture and fittings Rs '000	Vehicles Rs '000	Total Rs '000
At January 1, 2008									
Cost	10,198	496,550	25,566	349	6,503,801	331,662	65,658	498,965	7,932,749
Accumulated depreciation	-	(114,502)	(13,564)	(323)	(2,332,046)	(215,579)	(50,685)	(309,927)	(3,036,626)
Net book amount at January 1, 2008	10,198	382,048	12,002	26	4,171,755	116,083	14,973	189,038	4,896,123
Year ended December 31, 2008									
Net book amount at January 1, 2008	10,198	382,048	12,002	26	4,171,755	116,083	14,973	189,038	4,896,123
Additions	-	22,344	166	-	880,197	76,571	1,121	160,048	1,140,447
Disposals	-	-	-	-	(1,538)	(6,470)	(7,564)	(9,874)	(25,446)
Depreciation charge	-	(14,517)	(473)	-	(456,095)	(39,527)	(1,946)	(82,285)	(594,843)
Net book amount at December 31, 2008	10,198	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,416,281
At January 1, 2009									
Cost	10,198	518,894	25,712	349	7,371,451	366,904	27,063	596,634	8,917,205
Accumulated Depreciation	-	(129,019)	(14,017)	(323)	(2,777,132)	(220,247)	(20,479)	(339,707)	(3,500,924)
Net book amount at January 1, 2009	10,198	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,416,281
Year ended December 31, 2009									
Net book amount at January 1, 2009	10,198	389,875	11,695	26	4,594,319	146,657	6,584	256,927	5,416,281
Additions	-	3,403	-	-	416,114	133,842	71,312	138,038	762,709
Disposals	-	-	-	-	(7,335)	(6,625)	(1,530)	(20,334)	(35,824)
Depreciation charge	-	(15,100)	(457)	-	(495,473)	(49,029)	(3,369)	(93,336)	(656,764)
Net book amount at December 31, 2009	10,198	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,486,402
At December 31, 2009									
Cost	10,198	522,297	25,712	349	7,751,713	451,141	83,377	613,930	9,458,717
Accumulated depreciation	-	(144,119)	(14,474)	(323)	(3,244,088)	(226,296)	(10,380)	(332,635)	(3,972,315)
Net book amount at December 31, 2009	10,198	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,486,402

		2009 Rs '000	2008 Rs '000
15.2	**Capital work in progress**		
	Civil works and buildings	21,684	24,096
	Plant and machinery	413,708	142,737
	Advances to suppliers	55,362	46,501
		490,754	213,334
15.3	**Depreciation charge has been allocated as follows:**		
	Cost of sales	452,019	418,739
	Raw material purchases and expenses	99,677	96,307
	Selling and distribution expenses	37,699	35,965
	Administrative expenses	67,369	43,832
		656,764	594,843

15.4 Details of property, plant and equipment disposals, having book value of Rs 50,000 or more are as follows:

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
Plant and machinery				
– by negotiation	23,680	17,383	18,321	Ceylon Tobacco Company – Srilanka
Office and household equipment				
– by auction	685	69	10	Bahadur Khan & Co – Nowshera
– as per Company's policy	81	53	56	Dilshan Ranasinghe – Employee
Computer equipment				
– by auction	4,170	457	61	Bahadur Khan & Co – Nowshera
– by insurance claim	559	363	559	EFU General Insurance Company
	88	69	104	EFU General Insurance Company
Vehicles				
– as per Company's policy	745	75	75	Mohammad Ahsan – Employee
	746	75	75	Mazhar Shaheen – Employee
	746	75	75	Mohammad Ayaz – Employee
	746	75	65	Hassan Moonis – Employee
	746	75	111	Hina Nuruddin – Employee
	845	422	576	Syed Ali – Employee
	845	369	490	Faraz Aslam – Ex Employee
	845	211	363	Attique Aslam – Ex Employee
	845	106	329	Waseem Hayat – Employee
	845	194	364	Khurram Javed – Employee
	885	111	322	Mohammad Uzair – Employee
	969	363	577	Syed Omar – Employee
	980	388	475	Qindeel Azeem – Employee
	1,024	102	157	Amjad Ali – Employee
	1,309	518	469	Ayesha Rafique – Employee
	1,370	714	833	Mohammad Haroon Khan – Employee
	1,353	930	935	Asma Farooq – Ex Employee
	1,774	1,231	1,233	Shah Mansoor – Employee
	5,000	2,604	2,224	Ali Naseer – Employee

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
– by auction	537	54	320	Imran Khan–Wah Cantt. Rawalpindi
	585	59	408	Abid Hussain – Islamabad
	640	64	268	Syed Shahid Razi – Karachi
	739	74	750	Rizwan Mazhar – Rawalpindi
	746	75	791	Syed Wajid Ali – Islamabad
	746	75	726	Khurram Mehboob – Rawalpindi
	746	75	753	Raja M. Zahoor – Rawalpindi
	758	76	652	M.Akram Qureshi – Rawalpindi
	835	83	786	Syed Ali Raza – Islamabad
	835	83	718	Haji Rehmat Ali – Attock
	845	176	731	Sohrab Ali – Rawalpindi
	859	86	573	Khan Jamal – Karachi
	860	86	645	M. Kamran Khan – Karachi
	860	86	661	Shahid Ullah Jan – Charsaddah
	879	88	643	Syed Shabbir Ghous – Rawalpindi
	885	92	876	Raja M. Masood – Rawalpindi
	885	184	816	Syed Mohsin Ali – Islamabad
	885	92	873	M. Akram Qureshi – Rawalpindi
	885	92	848	M. Ayub Butt – Islamabad
	885	92	866	Khanzada – Islamabad
	999	100	576	Akbar Ali – Peshawar
	1,014	101	560	Usama Danish – Islamabad
	1,024	102	780	Khurram Mehboob – Rawalpindi
	1,024	102	765	Wilayat Khan – Rawalpindi
	1,169	117	761	Habib Ahmed – Islamabad
	1,179	118	790	Rafiq Ahmed – Rawalpindi
	1,679	168	655	Tanveer Afzal – Rawalpindi
	1,800	180	766	Haji Akbar Ali – Islamabad
	2,225	223	872	Mehboob Alam – Rawalpindi
	2,225	223	855	Faiyaz Ahmed – Wah
	2,225	223	882	Habib Ur Rehman – Rawalpindi
	2,350	235	992	Zafar Ali Janjua – Islamabad
	4,150	415	2,000	Sohrab Ali – Rawalpindi
– by insurance claim	74	59	69	New Hampshire Insurance Company Limited
	404	76	290	–do–
	428	258	380	–do–
	435	281	390	–do–
	1,014	718	890	–do–
	1,915	439	1,340	–do–
	95,109	32,962	57,176	

	2009 Rs '000	2008 Rs '000
16. Long term loans – unsecured, considered good		
Related parties		
Key management personnel	487	524
Others		
Executives	6,629	8,590
Other employees	4,313	4,780
	10,942	13,370
	11,429	13,894
Less: Receivable within one year	4,119	4,650
	7,310	9,244

16.1 Reconciliation of loans:

	Executives				Other employees		Total	
	Key management personnel		Other executives					
	2009 Rs'000	2008 Rs'000	2009 Rs'000	2008 Rs'000	2009 Rs'000	2008 Rs'000	2009 Rs'000	2008 Rs'000
Balance as at January 1	524	470	8,590	11,863	4,780	6,099	13,894	18,432
Disbursements	–	351	2,410	2,083	2,775	1,998	5,185	4,432
Repayments	37	297	4,371	5,356	3,242	3,317	7,650	8,970
Balance as at December 31	487	524	6,629	8,590	4,313	4,780	11,429	13,894

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

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

	2009 Rs '000	2008 Rs '000
Key management personnel	630	673
Other executives	8,819	12,415
	9,449	13,088

		2009 Rs '000	2008 Rs '000
17.	**Long term deposits and prepayments**		
	Security deposits	15,219	13,187
	Prepayments	4,696	27,985
		19,915	41,172
18.	**Stock-in-trade**		
	Raw materials	4,679,602	3,363,648
	Raw materials in transit	219,120	183,180
	Work in process	37,599	27,754
	Finished goods	849,579	484,481
		5,785,900	4,059,063
	Provision for damaged raw materials	(20,533)	–
		5,765,367	4,059,063
19.	**Stores and spares**		
	Stores	1,656	1,518
	Machine spares	214,025	187,133
	Machine spares in transit	2,694	1,995
		218,375	190,646
20.	**Trade debts**		
	Considered good	1,684	2,666
	Considered doubtful	2,405	2,322
		4,089	4,988
	Provision for doubtful debts	(2,405)	(2,322)
		1,684	2,666
21.	**Loans and advances – unsecured, considered good**		
	Related parties		
	Loans to key management personnel – note 16	141	172
	Advances due from key management personnel	1,192	1,446
	Others		
	Loans to executives and other employees – note 16	3,978	4,478
	Advances due from executives and other employees – note 21.1	24,107	24,599
	Advances due from others	19,180	35,222
		48,598	65,917

21.1 Includes Rs 13,847 thousand (2008: Rs 11,934 thousand) due from executives of the Group.

	2009 Rs '000	2008 Rs '000
22. Other receivables		
Related parties – unsecured		
Due from holding company / associated companies – note 22.1	21,336	61,587
Employees' provident fund	3,241	48,653
Others		
Margin against guarantees	6,617	81,057
Claims	26,634	22,757
Others	10,298	7,786
	68,126	221,841
22.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. – UK	5,796	5,005
Associated Companies		
BAT Asia–Pacific Region Ltd – Hong Kong	–	36,893
BAT SAA Services (Private) Limited – Pakistan	9,785	10,616
BAT Western Europe Area – Netherland	1,190	–
BAT Marketing (Singapore) Ltd	849	–
BAT Vietnam Ltd – Vietnam	640	324
Ceylon Tobacco Company Plc – Sri Lanka	627	780
BAT Equatorial Africa Area Ltd – Kenya	626	–
BAT Indonesia	492	–
Rothmans Far East B.V – South Korea	423	343
PT Export Leaf Indonesia – Indonesia	344	299
BAT (Taiwan) Ltd – Taiwan	306	266
BAT (Singapore) Pte Ltd – Singapore	258	233
BAT Bangladesh Co. Ltd – Bangladesh	–	5,895
BAT Aspac Service Centre – Malaysia	–	819
BAT China Ltd – China	–	114
	21,336	61,587
23. Cash and bank balances		
Deposit accounts	14,133	16,748
Current accounts		
Local currency	8,771	18,366
Foreign currency	23,725	32,159
	46,629	67,273
Cash in transit	598	1,199
Cash in hand	647	704
	47,874	69,176

	2009 Rs '000	2008 Rs '000
24. Trade and other payables		
Related parties – unsecured		
Due to holding company / associated companies – note 24.1	221,814	204,614
Others		
Creditors	843,455	646,629
Federal excise duty – note 24.2	2,604,744	2,176,647
Sales tax	601,057	528,318
Tobacco excise duty / Tobacco development cess – note 24.3	66,783	64,509
Accrued liabilities	163,786	254,605
Other employee benefits – note 24.4	317,769	306,673
Retirement benefits – note 26	59,407	–
Management provident fund	–	3,325
Staff pension fund – defined contribution	471	662
Workers' Profit Participation Fund	3,650	2,099
Workers' Welfare Fund	105,464	88,470
Advances from customers	6,274	7,292
Security deposits	14,133	16,748
Unpaid and unclaimed dividend	28,689	24,140
	5,037,496	4,324,731
24.1 The amount due to holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. – UK	102,577	102,584
Associated Companies		
BAT Asia–Pacific Region Ltd – Hong Kong	79,905	81,856
BAT ASPAC – Malaysia	21,774	–
BAT (Singapore) Pte Ltd – Singapore	13,830	2,833
Ceylon Tobacco Company Plc – Sri Lanka	2,696	3,126
BAT Nigeria Ltd – Nigeria	756	–
BAT (Malaysia) Berhad – Malaysia	202	523
BAT SA Ltd – South Africa	74	–
BAT Bangladesh Co. Ltd – Bangladesh	–	10,413
BAT FZ LLC – Dubai	–	2,236
BAT Australia Ltd EFT – Australia	–	638
Nobleza Picardo – Argentina	–	253
BAT Switzerland SA – Switzerland	–	86
C.A Cigarrera Bigott – Venezuela	–	66
	221,814	204,614

		2009 Rs '000	2008 Rs '000
24.2	**Federal excise duty**		
	Balance as at January 1	2,176,647	1,665,499
	Payment to the Government during the year	(27,255,490)	(22,867,292)
	Charge for the year	27,683,587	23,378,440
	Balance as at December 31	2,604,744	2,176,647
24.3	**Tobacco excise duty / Tobacco development cess:**		
	Balance as at January 1	64,509	63,474
	Payment to the Government during the year	(65,655)	(63,971)
	Charge for the year	67,929	65,006
	Balance as at December 31	66,783	64,509
24.4	**Other employee benefits**		
	Balance as at January 1	306,673	293,903
	Payment to employees during the year	(248,231)	(248,255)
	Charge for the year	259,327	261,025
	Balance as at December 31	317,769	306,673

Other employee benefits represent bonus to eligible employees.

25. Short term running finance - secured

(a) Short term running finance

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 3,700 million (2008: Rs 2,800 million), out of which the amount unavailed at the year end was Rs 2,399 million (2008: Rs 2,228 million). These facilities are secured by hypothecation of stock-in-trade amounting to Rs 4,444 million (2008: Rs 3,734 million). The mark-up ranges between 11.89% and 17.50% (2008: 9.87% and 17%) per annum and is payable quarterly. The facilities are renewable on annual basis.

(b) Non-funded finance facilities

The Group also has non-funded financing facilities available with banks, which include facility to avail letter of credit and letter of guarantee. The aggregate facility of Rs 2,500 million (2008: Rs 1,545 million) and Rs 340 million (2008: Rs 235 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 972 million (2008: Rs 617 million) and Rs 182 million (2008: Rs 118 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2008: Rs 285 million).

		2009 Rs '000	2008 Rs '000
26.	**Retirement benefits**		
	Staff pension fund	14,206	536,808
	Employees gratuity fund	45,201	202,325
		59,407	739,133

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2009 using the projected unit credit method. Details of the defined benefit plans are:

		Defined benefit pension plan		Defined benefit gratuity plan	
		2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
(a)	**The amounts recognised in the balance sheet:**				
	Present value of defined benefit obligations	2,100,232	1,769,557	586,297	460,720
	Fair value of plan assets	(2,086,026)	(1,232,749)	(541,096)	(258,395)
	Net liability	14,206	536,808	45,201	202,325
(b)	**Movement in the liability recognized in the balance sheet is as follows:**				
	Balance as at January 1	536,808	336,498	202,325	153,005
	Charge for the year - profit & loss	185,128	88,474	63,797	39,834
	(Credit)/ Charge for the year - SOCI	(121,681)	185,689	14,816	65,281
	Payments during the year	(586,049)	(73,853)	(235,737)	(55,795)
	Balance as at December 31	14,206	536,808	45,201	202,325
(c)	**The amounts recognised in the profit and loss account:**				
	Net current service cost	43,423	54,767	22,034	25,425
	Interest on obligation	266,023	171,858	68,245	48,720
	Expected return on plan assets	(124,318)	(138,151)	(26,482)	(34,311)
		185,128	88,474	63,797	39,834

(d) **The aggregate amounts recognised in the statement of comprehensive income are as follows:**

	2009 Rs '000	2008 Rs '000
Defined benefit pension plan	121,681	185,689
Defined benefit gratuity plan	(14,816)	65,281
	106,865	250,970

The cumulative actuarial losses charged in the consolidated SOCI in respect of both retirement benefit funds are Rs 644,607 thousand (2008: Rs 751,472 thousand) before tax.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
(e)	**Changes in the present value of defined benefit obligation:**				
	Present value of defined benefit obligation as at Jan 1	1,769,557	1,704,382	460,720	490,379
	Current service cost	43,423	54,767	22,034	25,425
	Interest cost	266,023	171,858	68,245	48,720
	Actuarial losses/ (gains)	65,280	(119,638)	52,427	(1,942)
	Contribution by plan participants	27,733	24,528	–	–
	Recovery against secondees	5,561	11,047	2,410	3,026
	Benefits paid	(77,345)	(77,387)	(19,539)	(104,888)
	Present value of defined benefit obligation as at Dec 31	2,100,232	1,769,557	586,297	460,720
(f)	**Changes in the fair value of plan assets:**				
	Fair value of plan assets as at Jan 1	1,232,749	1,367,884	258,395	337,374
	Expected return	124,318	138,151	26,482	34,311
	Actuarial gains/ (losses)	186,961	(305,327)	37,611	(67,223)
	Contribution by plan participants	27,733	24,528	–	–
	Recovery against secondees	5,561	11,047	2,410	3,026
	Contributions by employer	586,049	73,853	235,737	55,795
	Benefits paid	(77,345)	(77,387)	(19,539)	(104,888)
	Fair value of plan assets as at Dec 31	2,086,026	1,232,749	541,096	258,395
	Actual return on plan assets	290,529	(195,225)	66,482	(30,580)

During the year 2010 the Group expects to contribute Rs 58.042 million and Rs 32.494 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2009 Rs '000	2008 Rs '000	2009 Rs '000	2008 Rs '000
(g)	**The major categories of plan assets:**				
	Investment in equities	98,511	49,604	30,544	14,999
	Investment in bonds	1,972,530	741,272	505,750	163,810
	Cash and cash equivalents	14,985	441,873	4,802	79,586
		2,086,026	1,232,749	541,096	258,395
(h)	**Significant actuarial assumptions at the balance sheet date:**				
	Discount rate	13%	15%	13%	15%
	Expected return on plan assets	13%	10%	13%	10%
	Future salary increases	16%	17%	16%	17%
	Future pension increases	9%	11%	–	–

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

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

		2009 Rs '000	2008 Rs '000	2007 Rs '000	2006 Rs '000	2005 Rs '000
(i)	**Amounts for the current and previous four years:**					
	Defined Benefit Pension Plan					
	Present value of defined benefit obligation	(2,100,232)	(1,769,557)	(1,704,382)	(1,413,319)	(1,214,950)
	Fair value of plan assets	2,086,026	1,232,749	1,367,884	1,202,614	1,036,970
	Deficit	(14,206)	(536,808)	(336,498)	(210,705)	(177,980)
	Experience adjustments on plan liabilities	(83,719)	(63,120)	(122,206)	(97,267)	(73,958)
	Experience adjustments on plan assets	166,211	(333,376)	12,878	(27,420)	43,548
	Defined Benefit Gratuity Plan					
	Present value of defined benefit obligation	(586,297)	(460,720)	(490,379)	(388,407)	(316,968)
	Fair value of plan assets	541,096	258,395	337,374	270,997	224,990
	Deficit	(45,201)	(202,325)	(153,005)	(117,410)	(91,978)
	Experience adjustments on plan liabilities	(63,208)	(73,527)	(46,209)	(39,159)	(43,111)
	Experience adjustments on plan assets	40,000	(64,891)	152	(7,230)	4,585

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

	2009 Rs '000	2008 Rs '000
Provident Fund	49,364	42,597
Pension Fund	185,128	88,474
Gratuity Fund	63,797	39,834
	298,289	170,905

27. Deferred income tax liability

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

	2009 Rs '000	2008 Rs '000
The offset amounts are as follows:		
Deferred tax assets	10,231	258,697
Deferred tax liabilities	1,120,078	1,095,636
Deferred tax liability (net)	1,109,847	836,939
The gross movement on deferred income tax account is as follows:		
At January 1	836,939	809,109
Charge for the year - profit and loss account	22,781	115,201
Charge for the year - statement of comprehensive income - note 12.2	250,127	(87,371)
At December 31	1,109,847	836,939

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

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

	2009 Rs '000	2008 Rs '000
Balance as at January 1	258,697	171,326
Credit for the year - profit and loss account	1,661	–
Charge for the year - statement of comprehensive income - note 12.2	(250,127)	87,371
Balance as at December 31	10,231	258,697

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

	2009 Rs '000	2008 Rs '000
Balance as at January 1	1,095,636	980,435
Charge for the year - profit and loss account	24,442	115,201
Balance as at December 31	1,120,078	1,095,636

28. Share capital

28.1 Authorized share capital

2009 (Number of shares)	2008 (Number of shares)		2009 Rs '000	2008 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

28.2 Issued, subscribed and paid-up capital

2009 (Number of shares)	2008 (Number of shares)		2009 Rs '000	2008 Rs '000
230,357,068	230,357,068	Cash	2,303,571	2,303,571
25,136,724	25,136,724	Bonus shares	251,367	251,367
255,493,792	255,493,792		2,554,938	2,554,938

British American Tobacco (Investments) Limited held 241,045,141 (2008: 241,045,141) ordinary shares at the year end.

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

29. Contingencies and commitments

29.1 Contingencies

	2009 Rs '000	2008 Rs '000
(a) Claims and guarantees		
(i) Claims against the Group not acknowledged as debt	113,436	87,688
(ii) Guarantees issued by banks on behalf of the Group	181,637	118,008

(b) Litigation

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

29.2 Commitments

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

	2009 Rs '000	2008 Rs '000
– due not later than one year	65,587	26,770
– due later than one year and not later than five years		
within 2 years	89,833	67,275
within 3 years	19,184	96,109
within 4 years	17,325	29,321
within 5 years	7,576	28,744
– due later than five years	20,433	9,241

(b) Letters of credit outstanding at December 31, 2009 were Rs 971,528 thousand (2008: Rs 616,502 thousand).

30. Financial instruments

Financial assets and liabilities

	Loans and receivables	
	2009	**2008**
	Rs '000	**Rs '000**
Financial assets		
Maturity up to one year:		
Trade debts	1,684	2,666
Loans and advances	48,598	65,917
Other receivables		
Local Currency	56,575	170,870
Foreign Currency	11,551	50,971
Cash and bank balances		
Local Currency	24,149	37,017
Foreign Currency	23,725	32,159
Maturity after one year:		
Loans	7,310	9,244
Security deposits	15,219	13,187
	188,811	382,031

	Other financial liabilities	
	2009	**2008**
	Rs '000	**Rs '000**
Financial liabilities		
Maturity up to one year:		
Federal excise duty and sales tax payable	3,205,801	2,704,965
Other trade payables		
Local Currency	1,629,416	1,480,915
Foreign Currency	196,005	131,559
Accrued interest / mark-up	27,659	10,354
Short term running finance	1,300,837	572,397
	6,359,718	4,900,190

31. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2008: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT-IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Group. Such entities are also referred to as 'BAT' in these financial statements. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is given in note 14 to the financial statements.

	2009 Rs '000	2008 Rs '000
Purchase of goods and services from		
Holding company	177,382	243,813
Associated companies	1,770,892	629,419
Sale of goods and services to		
Holding company	3,824	5,105
Associated companies	149,671	54,812
Royalty charge from		
Holding company	331,902	306,162
Expenses reimbursed to		
Holding company	–	19
Associated companies	219	1,057
Expenses reimbursed by		
Holding company	–	263
Associated companies	1,699	1,704
Contribution to retirement benefit funds by the Company	298,289	170,905

32. Post balance sheet event

Final dividend in respect of the year ended December 31, 2009 of Rs 4.75 (2008: Rs 2.30) per share amounting to a total dividend of Rs 1,213,596 thousand (2008: 587,636 thousand) has been proposed, over and above the interim dividends of Rs 7.25 (2008: Rs 5.75) per share paid during the year, out of the revenue reserves at the Board of Directors meeting held on March 12, 2010. These financial statements do not reflect this proposed dividend.

33. General

33.1 Capacity and production

Against an estimated manufacturing capacity of 48,111 million (2008: 43,991 million) cigarettes, actual production was 41,973 million (2008: 41,159 million) cigarettes. Actual production was sufficient to meet market demand. There was no production through any outside manufacturing source.

33.2 Number of employees

Total number of employees as at December 31, 2009 was 1,573 (2008: 1,655).

33.3 Corresponding figures

i) Reclassification of bank charges of Rs 34,317 (2008: Rs 27,311) from finance cost to other operating expenses.

ii) Federal excise duty on royalty amounting to Rs 29,242 (2008: Rs 26,706) shown as cost of sales. Previously this was shown as reduction from gross turnover.

33.4 Date of authorization

These consolidated financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on March 12, 2010.

Nicholas Stewart Hales
Managing Director and CEO

Mobasher Raza
Finance Director

Form of Proxy

Pakistan Tobacco Company Limited

I, ____

of ____

a member of Pakistan Tobacco Company Limited, hereby appoint ______________________________

______________________________________ of ______________________________

or failing him ______________________________ of ______________________________

or failing him either of them, may in writing appoint any other person to act as my proxy at the 63rd Annual General Meeting of the Company to be held on the April 20, 2010 and at any and every adjournment thereof.

As witness my hand this ____________ day of __________ 2010.

Revenue Stamp
Rs 5/=

Signed ______________________________

Shareholder's folio No. ____________________

Note:

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

For Beneficial Owners as per CDC List

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

(i) Attested copies of CNIC or the Passport of the beneficial owners and the proxy shall be submitted with the Company's Share Registrar not less than 48 hours before the Meeting.
(ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
(iii) The proxy shall produce his original CNIC or Passport at the time of the Meeting.
(iv) In case of a corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature shall be submitted along with proxy form to the Company's Share Registrar.

Witness as per (ii) above:

1. ______________________ 2. ______________________

______________________ ______________________

______________________ ______________________

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Innovative
Creative
Intelligent risk taker
Forward looking
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Transparent
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Perceptive
Adaptable
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