



Shaping the Future...



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Using simpler methods, straightforward strokes and easy-to-use instruments and controls allow us to perfect our craftsmanship... we then add colors with all our passion, develop textures of reason and shape with precision to create a future that belongs to all of us.

Operating in a challenging environment, every time we hit to shape up things in our business - bring in superior products, craft novel strategies, revolutionise supply chain, induct innovative technologies or opt for responsible business practices - we do it with passion and we do it professionally.

Like a craftsman, here at PTC, it is an all time art!

Contents

02	Corporate Information	26	Managing Director's Review
04	Corporate Objectives	32	Director's Review
06	Core Values	40	Statement of Value Generated and Distributed
10	Business Principles	41	Board Committees
12	The Board of Directors	42	Pattern of Shareholding
16	Financial Highlights	44	Statement of Compliance
18	Horizontal & Vertical Analysis	45	Review Report to the Members
20	Summary of Cashflows & Financial Calendar	53	Financial Statements
21	Analysis of Quarterly Results	87	Consolidated Financial Statements
22	Notice of the Annual General Meeting	121	Form of Proxy
24	Chairman's Message		

We have a duty of care towards all our management in order to ensure that they work to the best of their abilities in a safe environment. While our people endeavour to shape our business, a key area of focus is adherence to corporate governance procedures and principles so that business objectives are achieved in accordance with the best standards of conduct.

Graeme Amey
(Managing Director and CEO)

Corporate Information



PAKISTAN TOBACCO
COMPANY

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: ayasha_rafiq@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
United Bank Limited

Auditors

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

Share Registrar

FAMCO Associates (Pvt.) Ltd.
State Life Building No. 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 and 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

Sindh & Baluchistan

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

Corporate Objectives

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





Our Vision

First Choice for Everyone.

Our Mission

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

Strategic Objectives

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

Our Core Values

Consumer Led

The most successful tobacco company will be decided by the consumer. To win, we must win the consumer. We are consumer led.



National Battlefields

Our 'battlefields' are national. This is where our consumers, trade partners, stakeholders and people are. This is where we sell cigarettes, generate cash and develop talent. This is where our brands live or die. This is PTC.



Globally Aligned

We are a global business with a global vision. We have global strategies and hard-won global scale. We must use and leverage these in order to win against global competition. To do so, requires global cohesion and discipline. A matrix organisation is the best means to ensure this. We recognise that there is a 'tension' in a matrix organisation. This is as it should be: business needs different viewpoints to build conviction and purpose.

Diverse Teams

We believe in the value of teams and diversity within those teams. We cherish individuality in the pursuit of the team goal. We believe individual creativity and contribution can and must flourish for us to succeed.



Our Core Values



Good Leaders

People remember their leaders. The ones who had time for them, listened to them, coached them, developed them, trusted them. The leaders who helped make them the success that they are. We like good leaders. They tend to be very successful themselves. Our leaders bring our beliefs to life. We must all be leaders.

Fun and Welcoming

We like working with our colleagues and we trust them to deliver. They're smart, keen to make a good contribution and fun to be with. They are what makes PTC so special. We are a welcoming and hospitable organisation. We want people to enjoy their experience with us. People feel at home here.



Fit to Fight

Our competitors are powerful and determined. We value our organisational intimacy and family-feel, yet recognise we must be no less determined or demanding of ourselves. To head the industry will take more than thought-leadership and scale, we must be fit for the fight ahead, we must be quick and agile. We must each take ownership for our actions.



Consciously Responsible

We act responsibly and transparently. Not because we have to, but because we want to. We take comfort and pride in knowing that we will do the right thing and behave in the right way. We accept the costs this will incur.

Business Principles



Our Company follows three fundamental Business Principles:

- **Mutual Benefit**
- **Responsible Product Stewardship**
- **Good Corporate Conduct**

Mutual Benefit

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

Core Beliefs

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



Responsible Product Stewardship

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

Core Beliefs

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

Good Corporate Conduct

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

Core Beliefs

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

The Board of Directors



Mueen Afzal
(Chairman and Non-Executive Director)

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



Nicholas Stewart Hales
(Managing Director and CEO – Outgoing)

Nicholas Hales started his career in the tobacco industry as a Trainee Salesman in the United Kingdom in 1989. After a number of years in sales, he moved into general management and held numerous roles throughout the Sub-Saharan region. He also served as West and Central Africa Area Director covering 26 different markets. After four successful years in this role, in 2007 he was transferred to Bangladesh as Managing Director and Chairman. In 2008, he was appointed as the Managing Director and Chief Executive Officer of the Company.

Effective 31st January, 2012, the Board accepted the resignation of Nicholas Hales as a Director, Chief Executive Officer and Managing Director of the Company and appointed Graeme Amey in his place.



Mobasher Raza
(Deputy Managing Director and Finance Director)

Mobasher Raza has been with the Company for the last 32 years. He joined the Company as a Management Trainee and has held various key positions in the Finance function within PTC as well as with the other Group Companies. In 2006, in addition to his role as a Finance Director he was appointed as the Deputy Managing Director of the Company.



Mustanser Muhammad Ali Khan
(Supply Chain Director)

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



Feroze Ahmed
(Strategy and Planning Director)

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



Tajamal Shah
(Legal Director)

Tajamal qualified as a UK Barrister in 1989 and then in 1999 re-qualified as a Solicitor of England and Wales. He started his professional career with a UK private company as Assistant Company Secretary, and then joined the British Civil Service, when he became a Legal Advisor to the Department of Trade and Industry. In 1992 he moved to ECGD, where he specialized in project and aircraft financing. In 1996 he decided to move to private practice when he joined a leading law firm DLA as a Senior Associate. In 1999, he joined PTC as Head of Legal/Company Secretary and moved to Pakistan. In 2009, he joined the PTC Board.

The Board of Directors



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

Lt. General (Retd.) Ali Kuli Khan hails from Peshawar and belongs to a renowned industrial family. He was 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 in Quetta, Chief of General Staff and Director General Military Intelligence. He sits on the Board of various renowned establishments.



Abid Niaz Hasan
(Non-Executive Director)

Mr. Hasan has over 31 years of global experience in Economic Development, having worked for the World Bank from 1975-2006.

Mr. Hasan has worked extensively with countries in South and West Asia and the Asian Tiger economies. He has advised numerous Governments on economic management and structural reforms, and managed various World Bank supported development programs in several sectors. During his career with the Bank, he also represented International Finance Corporation (IFC) on the boards of several companies that were financed by it.



Syed Asif Shah
(Non-Executive Director)

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



Graeme Amey

(Managing Director and CEO – Incoming)

Graeme has been with the group for 30 years, he commenced his career in 1979 at Virginia Park, Melbourne for WD & HO Wills. Graeme worked at the Melbourne site in the GLT/Leaf department for 10 years. In 1989, he moved to take up the role of Assistant Leaf Blender and co ordinated the GLT processing. In 1991, Graeme took up the position of General Manager, Solomon Islands. On returning to Australia in 1996, Graeme joined the Australian Marketing Team and held a numbers of positions at state and national level in key accounts. Following the merger with Rothmans, Graeme was appointed as National Account Manager Wholesale. In 2001, Graeme was appointed as Project Manager, Supply Chain and led the integration

of the two supply chains post merger. In 2002, Graeme was appointed as Marketing Manager, South Pacific a position he held for 2 years. In 2004, Graeme was appointed as General Manager, Papua New Guinea, a position he held until September 2007. He held the position of Manufacturing Manager for Australia also. In November 2008, he was appointed General Manager, New Zealand and South Pacific. Graeme was a Trustee Director of the Wills Superannuation plan from 1998 - 2001 and was a Regional Safety Auditor for BAT from 1994 - 1998.

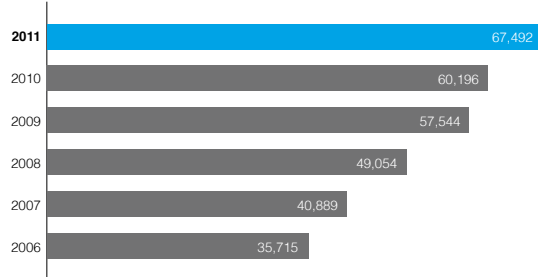
In 2012, he has been appointed as the Managing Director and Chief Executive Officer of the Company after Nicholas Hales.

Financial Highlights

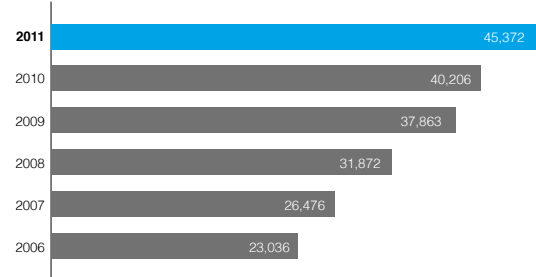
		2011	2010	2009	2008	2007	2006
Profit and Loss							
Volume	Million Sticks	39,795	36,831	41,183	41,469	37,188	34,549
Gross Turnover	Rs million	67,492	60,196	57,544	49,054	40,889	35,715
Excise & Sales Tax	Rs million	44,542	39,243	35,878	30,181	24,846	21,824
Net Turnover	Rs million	22,950	20,953	21,667	18,872	16,043	13,891
Gross Profit	Rs million	6,241	6,205	8,224	7,277	6,516	5,534
Operating Profit	Rs million	661	1,531	4,589	3,860	3,720	2,841
Profit Before Tax	Rs million	559	1,418	4,648	3,894	3,725	2,861
Profit After Tax	Rs million	364	925	3,022	2,532	2,420	1,905
EBITDA	Rs million	1,435	2,276	5,246	4,455	4,257	3,323
Dividends	Rs million	537	1,533	2,440	2,466	2,529	1,405
Balance Sheet							
Paid up Capital	Rs million	2,555	2,555	2,555	2,555	2,555	2,555
Reserves	Rs million	779	1,047	1,705	1,053	1,150	1,584
Shareholders' Funds	Rs million	3,334	3,602	4,260	3,608	3,705	4,139
Property, Plant & Equipment	Rs million	6,092	5,824	5,952	5,600	5,154	4,529
Net Current Assets /(Liabilities)	Rs million	(1,705)	(1,108)	(614)	(471)	(182)	423
Capital Employed	Rs million	4,416	4,740	5,370	5,184	5,003	4,984
Capital Expenditure during the year	Rs million	1,167	646	1,045	1,073	1,191	1,238
Long Term / Deferred Liabilities	Rs million	1,082	1,138	1,110	1,576	1,299	845
Investor Information							
Return on Assets	%	2.84	7.52	26.72	25.05	26.08	22.81
Return on Equity	%	10.91	25.68	70.94	70.18	65.33	46.02
Return on Capital Employed	%	8.24	19.52	56.28	48.84	48.37	38.22
Earnings per share After Tax	Rs	1.42	3.62	11.83	9.91	9.47	7.46
Price-Earning ratio	Rs	38.98	30.44	8.88	10.73	16.42	9.66
Dividend yield ratio	%	3.79	5.44	9.10	9.08	6.37	7.64
Dividend payout ratio	%	147.61	165.71	80.73	97.38	104.50	73.75
Break-up value per share	Rs	13.05	14.10	16.67	14.12	14.50	16.20
Market value per share at year end	Rs	55.5	110.23	105	106.30	155.50	72.00
Highest Market value per share during the year	Rs	116.0	119.9	117	161.00	198.30	80.00
Lowest Market value per share during the year	Rs	55.5	100.58	52.9	106.30	74.50	60.45
Gross Profit ratio	%	9.2	10.31	14.29	14.83	15.93	15.49
EBITDA Margin	%	2.13	3.78	9.12	9.08	10.41	9.30
Net Profit Margin	%	0.54	1.54	5.25	5.16	5.92	5.33
Inventory Turnover ratio		2.59	2.46	2.33	2.86	2.38	2.20
Creditor Turnover		4.65	8.42	8.03	7.83	7.98	8.39
Operating Cycle		141	149	157	128	153	166
Total Assets Turnover ratio		5.10	4.87	4.71	4.72	4.16	4.09
Fixed Assets Turnover ratio		11.08	10.34	9.67	8.76	7.93	7.89
Current ratio		0.81	0.85	0.91	0.91	0.96	1.11
Quick / Acid Test ratio		0.05	0.04	0.04	0.09	0.10	0.06
Dividend Per Share	Rs	2.10	6.00	9.55	9.65	9.90	5.50
Dividend Cover ratio		0.68	0.60	1.24	1.03	0.96	1.36
Debt to Equity ratio		0.53	0.63	0.31	0.16	0.28	0.31
Interest Cover ratio		4.70	10.23	104.78	148.39	143.46	102.11
Govt Levies as a percentage of Turnover	%	67.23	66.79	65.80	64.97	64.75	64.50
Government Levies							
Customs, Excise Duties & Sales Tax	Rs million	45,036	39,652	36,367	30,525	25,213	22,069
Local Taxes and Other Duties	Rs million	137	116	105	101	94	87
Income Tax	Rs million	199	438	1,391	1,246	1,169	880

Graphs

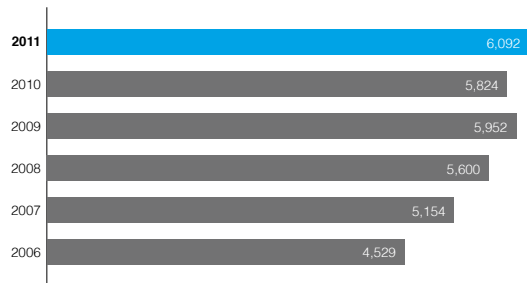
Gross Turnover Rs (million)



Government Levies Rs (million)



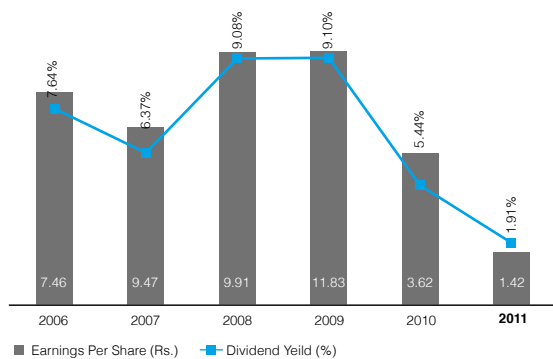
Property, Plant & Equipment Rs (million)



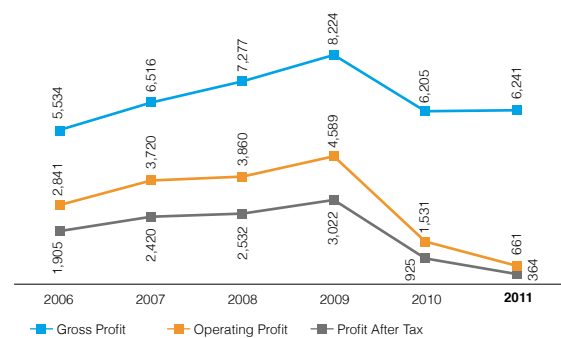
Volume Sticks (billion)



Earnings Per Share and Dividend Yield



Gross, Operating and Profit after Tax Rs (million)



Horizontal & Vertical Analysis

	Source Data					
	2006	2007	2008	2009	2010	2011
	(Rs. '000)					
Balance Sheet						
Non Current Assets						
Property, Plant and Equipment	4,529,366	5,154,326	5,599,758	5,952,108	5,823,688	6,092,284
Investment in Subsidiary Company at Cost	5,000	5,000	5,000	5,000	5,000	5,000
Long Term Loans	18,660	12,513	9,244	7,310	3,417	1,260
Long Term Deposits and Prepayments	8,424	13,025	41,172	19,915	15,375	22,640
	4,561,450	5,184,864	5,655,174	5,984,333	5,847,480	6,121,184
Current Assets						
Stock-in-Trade	3,790,853	3,998,181	4,059,063	5,765,367	6,002,824	6,462,330
Stores and Spares	140,008	140,777	190,646	218,375	199,208	190,110
Trade Debts	2,406	2,386	2,666	1,684	1,597	1,202
Loans and Advances	12,205	38,580	65,917	48,598	48,267	64,310
Short Term Prepayments	72,235	64,887	105,728	72,483	118,329	94,052
Other Receivables	92,360	229,891	246,675	88,147	93,546	196,249
Cash and Bank Balances	62,883	166,666	69,172	47,874	51,945	109,631
	4,172,950	4,641,368	4,739,867	6,242,528	6,515,716	7,117,884
	8,734,400	9,826,232	10,395,041	12,226,861	12,363,196	13,239,068
Share Capital & Reserves						
Share Capital	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938
Revenue Reserves	1,584,249	1,149,742	1,053,393	1,705,296	1,047,151	778,997
	4,139,187	3,704,680	3,608,331	4,260,234	3,602,089	3,333,935
Non Current Liabilities						
Retirement Benefits	-	489,503	739,133	-	-	-
Deferred Taxation	845,004	809,109	836,939	1,109,847	1,137,581	1,082,038
	845,004	1,298,612	1,576,072	1,109,847	1,137,581	1,082,038
Current Liabilities						
Trade and Other Payables	2,212,241	3,548,237	4,324,704	5,037,469	5,339,725	7,067,704
Accrued Interest / Mark-up Accrued	11,115	8,401	10,354	27,659	46,789	51,187
Short Term Finances	1,293,141	1,038,550	572,397	1,300,837	2,252,218	1,783,623
Income Tax Payable	233,712	227,752	303,183	490,815	(15,206)	(79,419)
	3,750,209	4,822,940	5,210,638	6,856,780	7,623,526	8,823,095
	8,734,400	9,826,232	10,395,041	12,226,861	12,363,196	13,239,068
Profit & Loss Account						
Gross Turnover	35,715,451	40,889,275	49,053,928	57,544,309	60,195,535	67,491,816
Excise Duties	16,991,172	19,311,946	23,351,734	27,654,345	30,476,421	34,719,661
Sales Tax	4,833,285	5,534,452	6,829,699	8,223,439	8,766,485	9,822,181
Net Turnover	13,890,994	16,042,877	18,872,495	21,666,525	20,952,629	22,949,974
Cost of Sales	8,357,474	9,527,306	11,595,736	13,442,066	14,747,717	16,709,273
Gross Profit	5,533,520	6,515,571	7,276,759	8,224,459	6,204,912	6,240,701
Selling and Distribution Expenses	1,816,198	1,795,793	1,933,364	2,246,014	3,279,390	3,129,938
Administration Expenses	644,981	736,147	928,358	1,100,814	1,233,165	1,321,713
Other Operating Income	20,686	71,756	60,551	226,499	46,610	53,967
Other Operating Expenses	251,932	335,763	615,458	514,665	208,211	1,182,363
Operating Profit	2,841,095	3,719,624	3,860,130	4,589,465	1,530,756	660,654
Finance Income	47,402	30,878	59,600	102,826	36,933	39,160
Finance Cost	27,824	25,928	26,013	43,802	149,680	140,539
Profit before Taxation	2,860,673	3,724,574	3,893,717	4,648,489	1,418,009	559,275
Taxation	955,685	1,304,367	1,361,422	1,626,083	492,909	195,490
Profit for the Year	1,904,988	2,420,207	2,532,295	3,022,406	925,100	363,785
Earnings per Share - Basic and Diluted (Rupees)	7.46	9.47	9.91	11.83	3.62	1.42

Horizontal Analysis						Vertical Analysis					
2006	07 Vs 06	08 Vs 07	09 Vs 08	10 Vs 09	11 Vs 10	2006	2007	2008	2009	2010	2011
Variance (%)						Percentage					
100.00	13.80	8.64	6.29	(2.16)	4.61	51.86	52.45	53.87	48.68	47.11	46.02
100.00	-	-	-	-	-	0.06	0.05	0.05	0.04	0.04	0.04
100.00	(32.94)	(26.12)	(20.92)	(53.26)	(63.13)	0.21	0.13	0.09	0.06	0.03	0.01
100.00	54.62	216.10	(51.63)	(22.80)	47.25	0.10	0.13	0.40	0.16	0.12	0.17
100.00	13.67	9.07	5.82	(2.29)	4.68	52.22	52.77	54.40	48.94	47.30	46.24
100.00	5.47	1.52	42.04	4.12	7.65	43.40	40.69	39.05	47.15	48.55	48.81
100.00	0.55	35.42	14.54	(8.78)	(4.57)	1.60	1.43	1.83	1.79	1.61	1.44
100.00	(0.83)	11.74	(36.83)	(5.17)	(24.73)	0.03	0.02	0.03	0.01	0.01	0.01
100.00	216.10	70.86	(26.27)	(0.68)	33.24	0.14	0.39	0.63	0.40	0.39	0.49
100.00	(10.17)	62.94	(31.44)	63.25	(20.52)	0.83	0.66	1.02	0.59	0.96	0.71
100.00	148.91	7.30	(64.27)	6.12	109.79	1.06	2.34	2.37	0.72	0.76	1.48
100.00	165.04	(58.50)	(30.79)	8.50	111.05	0.72	1.70	0.67	0.39	0.42	0.83
100.00	11.23	2.12	31.70	4.38	9.24	47.78	47.23	45.60	51.06	52.70	53.76
100.00	12.50	5.79	17.62	1.12	7.08	100	100	100	100	100	100
100.00	-	-	-	-	-	29.25	26.00	24.58	20.90	20.67	19.30
100.00	(27.43)	(8.38)	61.89	(38.59)	(25.61)	18.14	11.70	10.13	13.95	8.47	5.88
100.00	(10.50)	(2.60)	18.07	(15.45)	(7.44)	47.39	37.70	34.71	34.84	29.14	25.18
100.00	100	51.00	(100)	-	-	-	4.98	7.11	0.00	0.00	0.00
100.00	(4.25)	3.44	32.61	2.50	(4.88)	9.67	8.23	8.05	9.08	9.20	8.17
100.00	53.68	21.37	(29.58)	2.50	(4.88)	9.67	13.22	15.16	9.08	9.20	8.17
100.00	60.39	21.88	16.48	6.00	32.36	25.33	36.11	41.60	41.20	43.19	53.39
100.00	(24.42)	23.25	167.13	69.16	9.40	0.13	0.09	0.10	0.23	0.38	0.39
100.00	(19.69)	(44.88)	127.26	73.14	(20.81)	14.81	10.57	5.51	10.64	18.22	13.47
100.00	(2.55)	33.12	61.89	(103.10)	422.29	2.68	2.32	2.92	4.01	(0.12)	(0.60)
100.00	28.60	8.04	31.59	11.18	15.74	42.94	49.08	50.13	56.08	61.66	66.64
100.00	12.50	5.79	17.62	1.12	7.08	100	100	100	100	100	100
100.00	14.49	19.97	17.31	4.61	12.12						
100.00	13.66	20.92	18.43	10.20	13.92						
100.00	14.51	23.40	20.41	6.60	12.04						
100.00	15.49	17.64	14.80	(3.29)	9.53	100	100	100	100	100	100
100.00	14.00	21.71	15.92	9.71	13.30	60.16	59.39	61.44	62.04	70.39	72.81
100.00	17.75	11.68	13.02	(24.56)	0.58	39.84	40.61	38.56	37.96	29.61	27.19
100.00	(1.12)	7.66	16.17	46.01	(4.56)	13.07	11.19	10.24	10.37	15.65	13.64
100.00	14.13	26.11	18.58	12.02	7.18	4.64	4.59	4.92	5.08	5.89	5.76
100.00	246.88	(15.62)	274.06	(79.42)	15.78	0.15	0.45	0.32	1.05	0.22	0.24
100.00	33.28	83.30	(16.38)	(59.54)	467.87	1.81	2.09	3.26	2.38	0.99	5.15
100.00	30.92	3.78	18.89	(66.65)	(56.84)	20.45	23.19	20.45	21.18	7.31	2.88
100.00	(34.86)	93.02	72.53	(64.08)	6.03	0.34	0.19	0.32	0.47	0.18	0.17
100.00	(6.81)	0.33	68.39	241.72	(6.11)	0.20	0.16	0.14	0.20	0.71	0.61
100.00	30.20	4.54	19.38	(69.50)	(60.56)	20.59	23.22	20.63	21.45	6.77	2.44
100.00	36.49	4.37	19.44	(69.69)	(60.34)	6.88	8.13	7.21	7.51	2.35	0.85
100.00	27.05	4.63	19.35	(69.39)	(60.68)	13.71	15.09	13.42	13.95	4.42	1.59
100.00	26.94	4.65	19.37	(69.39)	(60.78)						

Summary of Cash Flows

(Rs in million)	2011	2010	2009	2008	2007	2006
Cash Flows from Operating Activities	2,158	1,149	2,545	4,316	3,546	1,711
Cash Flows from Investing Activities	(1,096)	(565)	(860)	(978)	(1,151)	(1,201)
Cash Flows from Financing Activities	(536)	(1,531)	(2,435)	(2,969)	(2,036)	(1,398)
Net Change in Cash and Cash Equivalents	526	(947)	(750)	369	358	(887)
Beginning Cash and Cash Equivalents	(2,200)	(1,253)	(503)	(872)	(1,230)	(343)
Ending Cash and Cash Equivalents	(1,674)	(2,200)	(1,253)	(503)	(872)	(1,230)
Cash and Cash Equivalents comprise						
Cash and Bank Balances	110	52	48	69	167	63
Short Term Borrowings	(1,784)	(2,252)	(1,301)	(572)	(1,039)	(1,293)
	(1,674)	(2,200)	(1,253)	(503)	(872)	(1,230)

Financial Calendar

2011

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

2010

1st Quarter Results issued on	April 19, 2010
2nd Quarter Results issued on	August 9, 2010
3rd Quarter Results issued on	October 18, 2010
Recommendation of Annual Results by the BOD	March 16, 2011
64th Annual General Meeting held on	April 22, 2011

Analysis of Quarterly Results

(Rs in million)	2010				2011			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Balance Sheet								
Non Current Assets								
Property, Plant and Equipment	5,799	5,738	5,680	5,824	5,657	5,592	5,616	6,093
Investment in Subsidiary Company	5	5	5	5	5	5	5	5
Long Term Loans	6	5	4	3	2	2	2	1
Long Term Deposits and Prepayments	19	46	30	15	16	20	19	23
Current Assets								
Stock-in-Trade	4,959	3,724	7,255	6,003	5,004	4,007	7,385	6,462
Stores and Spares	223	235	250	199	216	255	241	190
Trade Debts	3	3	2	2	1	2	2	1
Loans, Advances, Short Term Prepayments and Other Receivables	274	255	329	260	270	255	216	355
Short Term Deposits	810	-	-	-	-	-	-	-
Cash and Bank Balances	101	58	59	52	59	73	112	110
	6,370	4,275	7,895	6,516	5,549	4,592	7,956	7,118
Current Liabilities								
Trade and Other Payables	5,637	2,355	5,816	5,340	5,973	3,500	6,536	7,068
Accrued Interest / Mark-up	33	13	54	47	43	17	29	51
Short Term Running Finance	1	2,318	2,561	2,252	29	1,768	1,526	1,784
Income Tax Payable	501	332	199	(15)	138	210	387	(79)
	6,172	5,018	8,630	7,624	6,183	5,495	8,478	8,824
Net Current Assets / (Liabilities)	198	(743)	(735)	(1,108)	(634)	(903)	(522)	(1,706)
Non Current Liabilities								
Retirement Benefits	-	-	-	-	-	-	-	-
Deferred Taxation	1,085	1,127	1,114	1,137	1,101	1,072	1,043	1,082
	1,085	1,127	1,114	1,137	1,101	1,072	1,043	1,082
Net Assets	4,942	3,924	3,870	3,602	3,946	3,644	4,076	3,334
Share Capital & Reserves								
Share Capital	2,555	2,555	2,555	2,555	2,555	2,555	2,555	2,555
Revenue Reserves	2,387	1,369	1,314	1,047	1,391	1,089	1,521	779
	4,942	3,924	3,869	3,602	3,946	3,644	4,076	3,334
Profit & Loss Account								
Gross Turnover	15,753	15,832	12,873	15,738	16,455	17,384	16,107	17,546
Excise Duties	7,760	7,884	6,702	8,130	8,487	9,013	8,270	8,950
Sales Tax	2,233	2,254	1,927	2,352	2,457	2,590	2,289	2,486
Net Turnover	5,759	5,693	4,244	5,257	5,511	5,781	5,548	6,110
Cost of Sales	3,746	3,887	3,156	3,959	4,092	4,329	3,874	4,414
Gross Profit	2,014	1,806	1,088	1,297	1,419	1,452	1,673	1,697
Selling and Distribution Expenses	560	669	779	1,271	505	707	612	1,306
Administration Expenses	296	319	328	290	304	381	312	325
Other Operating Expenses	89	66	3	50	45	38	70	1,029
Other Operating Income	5	18	2	22	1	17	3	33
	940	1,036	1,108	1,589	853	1,109	991	2,627
Operating profit	1,074	770	(21)	(292)	566	343	682	(930)
Finance Income	3	31	1	2	2	30	5	2
Finance Cost	34	13	55	48	44	17	28	52
Net Finance Income / (Cost)	(31)	18	(54)	(46)	(42)	13	(23)	(50)
Profit before Income Tax	1,043	788	(74)	(339)	524	356	659	(980)
Income Tax Expense	361	273	(19)	(122)	180	121	227	(333)
Profit for the Year	682	515	(55)	217	344	235	432	(647)



Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty Fifth 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 24th April, 2012 at 10.30 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, 2011, and the Report of the Directors and Auditors thereon.
2. To approve the Final Dividend as recommended by the Board.
3. To appoint Auditors and to fix their remuneration.

By order of the Board

Islamabad:
1st April, 2012

Ayesha Rafique
Company Secretary

Notes:

1. The Share Transfer Books of the Company will be closed from 18th April, 2012 to 24th April, 2012 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 17th April, 2012, will be in time to be entitled to vote and for the entitlement of dividend.
2. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy and such proxy will have the right to attend, speak and vote in place of that member. Forms of proxy must be deposited at the office of the Company’s Share Registrar not less than 48 hours before the time appointed for the Meeting and in default, forms of proxy will not be treated as valid.
3. Attendance of members who have deposited their shares into Central Depository Company of Pakistan Limited shall be in accordance with the following:-



a) In Person:

- i) Individuals must bring their participant's ID number and account/sub-account number along with original Computerized National Identity Card (CNIC) or original Passport at the time of attending the Meeting
- ii) In the case of a corporate entity, presentation of a Board of Directors' Resolution/Power of Attorney with specimen signatures of the nominee at the time of the Meeting.

b) By Proxy:

- i) In case of individuals, the submission of the proxy form as per the requirement notified in Note 2 above.
- ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be stated on the form.
- iii) Attested copies of CNIC or the passport of the beneficial owners and proxy shall be furnished with the proxy form.

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

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

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

Chairman's Message



Pakistan Tobacco Company Limited faced immense challenges during 2011. A slowing economy, inflationary pressures, weakened purchasing power and rising illicit trade all added complexity to the business environment. It is a testament to PTC's resilience that despite these challenges the company performed well, growing in terms of share and sales volume. It is satisfying to note that key business decisions by the management have contributed to these results. As a consequence of bold and timely decisions, the company has further strengthened its market leadership during 2011.

2011 was another year of constrained economic growth and strong inflationary pressures. Disposable incomes continued to remain under pressure forcing consumers to down-trade. Enforcement lapses by government enabled widespread availability of cheap tax evaded brands in the market. Smuggled brands that do not comply with the recently enacted Pictorial Health Warnings (PHW) are gaining share each day. The Illicit sector, therefore, continued to show an alarming rate of growth, increasing its share from 18.9% to 19.2% of the domestic market in 2011. The availability of cheap, tax evaded brands continues to deprive the tax paying industry players of their right to a level playing field besides denying the Government its due share of revenue from the cigarette sector. The growth of the Illicit segment is the biggest threat to long term sustainability and viability of the tobacco industry in Pakistan as well as the largest hindrance to growth of Government revenues from this industry. The Government is requested to take immediate and concrete steps for stricter enforcement of the robust regulatory framework already in place.

PTC, true to its commitment to a long term focus, continued to invest heavily to augment its key strengths: its brands and its people. The 2010 decision to launch Capstan by Pall Mall Original (CbPMO) was a daring initiative. This has put the company back on track for volume growth and also strengthened its market leadership. Within 18 months of its launch, the brand has gained 14.4% share of the market. During 2011 it has become the key driver


behind the company's exceptional performance in terms of market share and sales growth. It is a pleasure to note that the company's market share has grown from 47.8 % to 48.6 % during 2011 with sales growing by 3 billion sticks to 39.8 billion during the year. I offer my felicitations to PTC's management and staff for achieving this stellar performance in very difficult circumstances.

I am pleased to note that even in times of constrained profitability the management has not shied away from making difficult decisions for the long term good of the business. The company continues to compensate its people in line with best market practices and makes the required investments for their training and development. Being part of a larger global concern, most of its valued talent is also able to further hone their skills through international roles and assignments. The company continues to invest in its plant and equipment as part of its drive to stay at par with international standards in terms of manufacturing efficiency and product quality. In order to further secure its leaf supply, the company has made good progress in its efforts to develop leaf growing areas. The management's decisions to make these investments today for a better tomorrow are a testament to its clarity of vision and commitment to a healthier future for the business.

Despite tough financial circumstances, the company has continued to make meaningful investments in pursuance of its corporate responsibility agenda. Its Afforestation Program, Mobile Doctor Units and its collaboration with developmental NGOs

continue to favorably impact the communities that it operates in and strengthen its bond with them.

The business today faces the formidable task of surviving in a very risky and unpredictable environment. PTC has always fared well in the face of challenges. I am fully confident that it shall continue to strive relentlessly in pursuance of its goal of delivering long term sustainable business growth and maintaining strong responsibility credentials.



Mueen Afzal
Chairman

Managing Director's Review



I am pleased to share company's results with you for the year 2011. This year our business faced immense challenges including sluggish economy, high inflationary pressure leading to consumers' down-trading and imposition of new regulations that banned manufacture of packs with less than 20 sticks. All these factors gave a boost to illicit trade which increased its share of the market. The continued precarious security situation further added to the complexities of the business environment.

Despite all the aforesaid challenges, our company has outperformed the competition and strengthened its market leadership. Our sales have grown by 3 billion versus SPLY, reaching 39.8 billion sticks and our market share has increased from 47.8% in 2010 to 48.6% in 2011. This growth has been led by an unprecedented performance by Capstan by Pall Mall Original (CbPMO), launched in July 2010. This brand has now grown to 14.4% of the market.

Persistent inflation and a weak local currency continued to increase our cost base. The impact of these was, however, mitigated to some extent through smart cost management and various productivity initiatives. Despite tough financial

circumstances, we have continued to invest in all those areas of the business which are of vital strategic importance to us, i.e., people, brands, technology and process. We not only further strengthened our portfolio through brand line extensions which gave our consumers more choice but we re-structured our trade and distribution network in order to make it more efficient. Our strengthened market position is a testament to the success of these initiatives.

During 2011 we contributed over Rs. 45 billion to Government Revenues, in lieu of Excise, Sales Tax, Income Tax and Custom duties which was 12.8% higher than 2010. The Cigarette Industry remains a significant source of revenue for the Government, however, a large portion of this revenue is lost due to the presence of a large Duty Not Paid segment. Alarmingly, this segment has seen new growth momentum during the last few years while the legal industry's

volume and profit has been under pressure. This segment not only denies the legitimate players of their right to a level playing field but also causes a huge loss of revenue to the national exchequer. We therefore urge the authorities for strict enforcement of the robust regulatory framework already in place and reiterate that we will continue to support the Government's efforts in this area.

Our Brands

PTC's brands have once again demonstrated their strength, capturing market share in the face of stiff competition. In a year when inflation remained in double digits, security situation remained volatile and when the legitimate tobacco market in fact suffered an overall decline, the company managed to grow its sales volume by 8% vs. SPLY. Our premium portfolio has performed well with **Dunhill** growing steadily this year on the back of enhanced distribution and brand equity building initiatives.



Benson & Hedges also performed with new strength in 2011. The two brands together have helped us maintain our strong presence in the premium segment.

John Player Gold Leaf (JPGL) continues to retain its superior position in the high segment delivering unparalleled value to its loyal consumers. The brand continued its strong momentum in 2011 through the innovations introduced and brand support initiatives that enhanced its equity even further.

Capstan by Pall Mall Original (CbPMO) has been an astounding success. Trade support has helped give the brand the necessary muscle. The brand doubled its franchise volume in 2011.

Gold Flake supported the low medium portfolio by holding onto a major portion of its consumer base establishing PTC's overall superior position in the low medium segment.

Managing Director's Review



Our People

At PTC, we value our people as one of our most vital assets. Attracting and retaining high quality talent becomes increasingly difficult as companies aggressively hunt for a limited pool of top talent. Despite difficult financial circumstances over the years, we have managed to maintain an attractive reward proposition of market driven salaries, prospects of a truly international career with fast paced growth, and world class training and development opportunities. PTC has, therefore, maintained its position as one of the top employers for the leading professionals of the country. As a result of our strategies and investment in people, PTC talent is recognized as world class by

its parent Group. We are a net exporter of talent and 23 of our employees are currently working on various international assignments across the BAT world. The international exposure will help our people to enhance their skill set and will help them take up more responsible positions within PTC upon their return.

Business Process Re-engineering

In 2011, PTC conducted a series of sessions to re-evaluate its strategic business priorities. These sessions were aimed at re-considering the current course of action and select the best possible alternative to stretch the organization and achieve stronger business performance. As an outcome

significant change initiatives were undertaken to re-engineer the current business operations e.g. the Tele-presence collaboration tool was deployed that invoked virtual working to accelerate decision making, improve work-life balance, and reduce traveling to save management time and costs. The new law to ban manufacture of packs with less than 20 sticks has critical implications for our manufacturing operations. We have, therefore, embarked upon a plan to re-align our manufacturing footprint and processes with the new market realities. Adjusting our manufacturing machinery and processes is a huge challenge with significant resource implications. But as always PTC has ensured strict compliance with law.



Environment, Health & Safety

Pakistan Tobacco Company has always been on the forefront to bring about continuous improvements in the field of Environment, Health & Safety (EH&S). Today companies across Pakistan look upto PTC as a benchmark for EH&S initiatives, standards and best practices. Moreover, we have also been invited to various national forums to share our knowledge and experience to establish an environment friendly business operation. At PTC, environmental considerations are a vital part of our business decisions. The initiatives taken under the umbrella

of EH&S in general, and Energy Conservation and Water use & Discharge Management in particular have set an example for others to follow. In recognition of our high EH&S standards, our parent group BAT in its recent EH&S review, rated our Leaf Area and manufacturing facilities amongst the highest of all BAT World. Moreover, in 2011 our Akora Khattak Factory received a letter of commendation for efficient use of natural resources, water

conservation and 100% reuse of treated water which reduced its water intake by 39%. Similarly, our Jehlum Factory after achieving 100% recycling of waste water has gone a step ahead in preserving and reusing storm water. This initiative received nationwide appreciation of the news media and was praised at multiple EH&S forums.

Managing Director's Review

Corporate Social Responsibility

Conducting our business responsibly is one of the fundamental principles on which the company operates. As a responsible corporate citizen, we have and will continue to strive to contribute to our communities through our Corporate Social Responsibility (CSR) activities. We continued to invest heavily in our CSR initiatives during 2011. We continued to operate our Mobile Doctor Units (MDUs) for the provision of healthcare facilities in the underprivileged and remote areas of the country. Over 70,000 patients were treated as part of our MDU program in Punjab and KPK Province. PTC is recognized for its Afforestation program which has helped it make significant contributions towards a greener environment. The program was initiated in 1981 through which we have distributed over 57million saplings for plantation around the country. During 2011, we distributed 3 million new samplings and continued to work on plantation on M-1 Motorway from Peshawar to Islamabad in collaboration with Government of Pakistan. Despite a difficult year with huge challenges for our business as well as our people on the security front, we have stayed committed to the responsibility agenda and



continued to run our CSR programs for the greater good of our communities. I appreciate the great work our team has put in to further our responsibility credentials and I am sure that despite the challenges ahead, we shall continue to progress with our CSR initiatives to strengthen our responsibility credentials even further.

Illicit Sector

With the legitimate tobacco sector having to increase prices heavily due to rising excise duties in the recent years, the illicit sector has flourished and as of 2011 it occupies 19.2% of the tobacco market. Consumers have increasingly down traded in favor of many of the ultra low priced tax evaded brands which sell well below the minimum allowable price

limit. Smuggled brands without the mandatory pictorial health warnings and sometimes without any health warning at all have seen alarming growth with an estimated increase of 65% in sales. Pine is one such brand which is priced at parity with low segment brands e.g., Gold Flake. The brand does not carry any health warnings and has grown from an estimated 536 Mn sticks in 2010 to 1,016 Mn in 2011, a YoY increase of 90%.

Illicit sector is the biggest threat to the commercial viability of the legitimate players and sustainability of Government revenues. We strongly urge the authorities to take immediate steps to enforce existing regulations and create a level playing field for all industry players.



Business Outlook

Our business continues to face challenges on multiple fronts including the illicit trade, rising costs, increasing taxes, down-trading, regulations, stiff competition and a volatile security situation. The business decisions of 2011 and 2012 are aimed at reducing our cost base in the long run, strengthening brand portfolio and modernizing factories for greater efficiency. Growing share of the illicit remains the biggest threat to the legitimate industry and sustainability of Government revenues. We will continue to support sensible regulation

and enforcement drive of the Government to curb this menace of illicit trade. We value the strong bond we have with our consumers, employees and business partners and remain committed to take it even further as we work together for the growth of our company. With strong business fundamentals and a highly committed and motivated team, I am confident that we will strengthen the business in our quest to deliver greater shareholder value.

Graeme Amey
Managing Director and CEO

Director's Review



The Directors present the 65th Annual Report along with the audited financial statements of the Company for the year ended December 31, 2011.

It was another challenging year in a weak macroeconomic environment. The business confronted multiple issues including consumers' down-trading fueled by the presence of a largely unchecked illicit sector, inflation, increased tobacco control regulations and intensifying competition. In spite of these challenges we managed to improve our market share.

Business Performance

Given below are the key financial highlights for 2011 versus last year.

	(Rs in million)		
	2011	2010	Change
Gross Turnover	67,492	60,196	12%
Net Turnover	22,950	20,953	10%
Gross Profit	6,241	6,205	1%
Operating Profit	661	1,531	-57%
Profit before Tax	559	1,418	-61%
Profit after Tax	364	925	-61%
Earnings per Share - EPS (Rs)	1.42	3.62	-61%

Our sales, at 39.8 bn sticks were higher vs. SPLY by 3 bn sticks and consequently our turnover has grown vs. last year. The imposition of the ban on manufacture of cigarette packs with less than 20 sticks requires us to make changes to our production processes. We have allocated a significant amount to achieve that objective. This combined with inflationary driven cost increases have impacted our financials and despite strict cost control our profits have declined by 61% vs. last year. However, we are pleased to note that despite a difficult financial situation we have not compromised on any of our long term priorities. We have continued to invest in our people, our brands, the distribution infrastructure, machinery footprint as well as taking on initiatives with sizeable potential future business benefit.

Sales Performance

In a declining market, we faced numerous challenges during the year. Persistent down-trading accelerated by strained disposable

incomes and the presence of cheap Duty Not Paid brands of the illicit sector continued to threaten our volumes. Conditions were made worse by the precarious law and order situation, intense competition, increasing regulations and easy availability of the illicit brands which do not comply with Government regulations. However PTC, its brands and its people, once again proved resilient in the face of massive difficulties. Giving a stellar performance and riding on the phenomenal success of CbPMO which was launched in July 2010, we sold 3 bn more sticks than 2010 and grew market share to 48.6% vs. 47.8% in SPLY.

Our premium portfolio enjoyed a good year with the help of consistent distribution expansion and trade development activities. Dunhill has established itself as the innovative brand of choice for the premium market. Moreover, B&H has performed strongly, growing sales by 23% vs. SPLY and it has been able to withstand aggressive competitive activities to steadily



grow PTC's market share in the premium segment.

Our flagship brand, John Player Gold Leaf continues to grow in spite of adverse economic conditions, squeezing disposable incomes and successive price increases in the recent years. The brand was supported by equity building campaigns to ensure that it continues to deliver great value year on year for the consumers and the company. Riding on its inherent strength and supported by the right marketing interventions, the brand increased its volume base to close the year at 9.7% market share with sales for the year higher vs. last year by 2%.

CbPMO has proved to be an unprecedented success in the domestic tobacco industry. Crossing the 1bn per month sales mark within 9 months of its launch, the brand became the fastest growing brand in the market. Capturing a further 9.9% of the market CbPMO's market share for the year was 14.4% in 2011. The brand grew sales by an astounding 211.9% during the year to firmly establish itself as one of the leading brands of the domestic tobacco market.

Director's Review

Gold Flake (GF) backed by consistent distribution focus and brand building activities ended the year with a strong market share of 20.3%. The GF pack change has been well executed in the market and the brand is looking good to give us steady volume base by cashing onto the improved pack appeal cues in the low medium segment.

Contribution to the National Exchequer

Despite an extraordinarily challenging macroeconomic environment and constrained profitability, our contribution to the Government continued to grow. We contributed over Rs. 45 bn to the Government in respect of Excise, Sales Tax, Income Tax and custom duties which is 12.8% higher vs. SPLY. Tobacco industry is a large contributor to Government Revenue which has shown healthy growth in the past. This however is under threat as Excise driven price increases accelerated consumers' down trading to the ultra low priced brands of the tax evaded sector.

Cost of Sales

Our input costs were higher on account of inflation, rupee devaluation and higher sales volumes. Energy costs were high as more expensive alternative sources of energy had to be used in the wake of acute electricity shortages. Due to the prevailing volatile security situation in the country, we also had to incur high security expenses to ensure safety of our people and our assets. We

Appropriation of Profits

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

	(Rs in million)	
	2011	2010
Operating Profit	661	1,531
Profit After Tax	364	925
Accumulated Profit brought forward	1,047	1,705
Actuarial (Losses) / Gains taken to Equity (net of tax)	(95)	(50)
Profit available for appropriation	1,316	2,580
Appropriations:		
Final dividend 2010 @ 21 % (2009:47.5%)	537	1,214
1st interim dividend 2010 @ 12.5%	-	319
Unappropriated Profit carried forward	779	1,047

managed to mitigate these cost escalations through strict cost controls and by promoting a culture of spend efficacy throughout our operations but increase in the cost base was unavoidable due to the overriding factors stated above.

Operating and Other Costs

While we strengthened our brand portfolio and extended our market reach, our marketing spend was 5% lower than SPLY which is on account of spend efficacy and strict cost control.

We realize that our people are one of the key fundamental strengths of our business. In pursuance of our efforts to attract and retain top quality talent, the company continued to make meaningful investments for further strengthening of this aspect of the business. In order to maintain an attractive Employee Value Proposition, we incurred higher expenses to offer market driven

remuneration packages, fast paced growth and world class training and development opportunities.

Government's decision to ban below 20s packaging of cigarettes has major implications for our machinery footprint and the workforce. This means realignment of our manufacturing facilities and processes with significant cost implications for 2011 as well as 2012.

Cash Flows

Our gross turnover has increased during the year driven by higher sales volume. Machinery modernization and re-configuration post imposition of ban on below 20s cigarette packaging resulted in higher capital expense vs. last year. However, the company did not declare any interim dividends for year 2011. No interim dividend and low corporate tax due to low profits resulted in an increase in our cash & cash equivalents which were higher vs. SPLY by Rs 526 Mn.



Plant Modernization

PTC Supply Chain modernized its capability to support market share growth and fully comply with emerging regulatory landscape while achieving global quality and productivity benchmarks.

The company invested Rs. 1,167 Mn in property, plant and equipment during 2011. Major part of these expenses were on machinery up gradation and modernization as well as reconfiguration of our production facilities post imposition of ban on below 20's cigarette packs. We also inducted a new plant to reduce product waste, a new tobacco curing facility to ensure superior quality and sustainability of leaf supply and modern cigarette packing machines for improved product quality and process productivity.

Dividend

In light of the company financials and ground realities we have decided to declare a dividend of Rs. 1 for the year ended December 31, 2011 (2010: Rs. 3.35 per share).

This shall be subject to the approval of shareholders in their meeting scheduled for April 24, 2012.

Good Corporate Governance

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

- a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of accounts of the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of all financial statements.
- e) The system of internal control, which is sound in design has been effectively implemented and is being continuously reviewed.
- f) There are no doubts about the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) All major Government levies in the normal course of business, payable as at December 31, 2011 have been cleared subsequent to the year-end.
- i) Key operating and financial data for last six years in summarized form is annexed.
- j) Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2010 are as follows:

(Rs. in million)

Staff Pension Funds	2400
Employees' Gratuity Fund	684
Management Provident Fund	500
Pakistan Tobacco Company Limited Provident Fund	599
Staff Defined Contribution Pension Fund	13

Director's Review

Board of Directors Meetings

During the year 2011, five meetings of the Board of Directors were held on 21st January, 16th March, 21st April, 15th August, and 20th October. Attendances are detailed below:

	Name of Director	No. of meetings attended
1.	Mr. Mueen Afzal <i>Chairman and Non-Executive Director</i>	05
2.	Mr. Nicholas Stewart Hales <i>Managing Director & Chief Executive</i>	05
3.	Mr. Mobasher Raza <i>Deputy Managing Director and Finance Director</i>	05
4.	Mustanser Muhammad Ali Khan <i>Supply Chain Director</i>	01
5.	Mr. Feroze Ahmed <i>Strategy & Planning Director</i>	04
6.	Mr. Tajamal Shah <i>Legal Director</i>	05
7.	Lt. Gen. (Retd.) Ali Kuli Khan Khattak <i>(Non-Executive Director)</i>	05
8.	Mr. Abid Niaz Hasan <i>(Non-Executive Director)</i>	04
9.	Syed Asif Shah <i>(Non-Executive Director)</i>	05

The Board

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

Changes in the Board

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

Ahmed Zeb resigned from the Board of the Company effective 23rd April 2011. The casual vacancy created by his resignation was filled in by Mustanser Muhammad Ali Khan effective 23rd April, 2011.

Board Committees

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

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 four Non-Executive Directors:

Mr. Abid Niaz Hasan (Chairman)
Lt. Gen. (Retd.) Ali Kuli Khan Khattak
Mr. Syed Asif Shah
Mr. 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 judgment reflected in the accounts, significant adjustments resulting from the audit of accounts, the going concern assumption, and changes in accounting policies and practices, compliance with applicable accounting standards,

compliance with listing regulations and other statutory and regulatory requirements.

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

matter deemed appropriate by the Committee or desired by the Board. The Audit Committee assists the Board of Directors in monitoring the framework of managing business risks and internal controls. The Committee seeks assurance on the measures taken by the management in identification, evaluation and mitigation of relevant business risks. It also monitors the performance of the Internal Audit Department which adopts a risk based approach for planning and conducting business process audits consistently with the Company's established work practices. The scope and extent of internal audit, including the annual Internal Audit Plan, are reviewed and approved by the Committee which also regularly monitors the progress. While the External Auditors independently determine their plan of audit, the Committee is informed of their progress and especially in regard to issues stated in their letters to management and responses received. Without interfering with the independence of the External and Internal Auditors, the Committee encourages coordination between them in the discharge of their respective functions. The Committee recommends to the Board the appointment of the External Auditors and their

engagement terms based on the Committee's review of their performance and value provided to the Company.

Auditors

Statutory Audit for the Company for the financial year ended December 31, 2011 has been concluded and the Auditors have issued their Audit Reports on the Company financial statements, consolidated financial statements and the "Statement of Compliance with the Code of Corporate Governance".

The Auditors Messrs A. F. Ferguson & Co. shall retire at the conclusion of annual general meeting, and they have indicated their willingness to continue as Auditors. They have confirmed achieving satisfactory rating by the Institute of Chartered Accountants of Pakistan (ICAP) and compliance with the Guidelines on the Code of Ethics of the International Federation of Accountants (IFAC) as adopted by ICAP. The Board proposes their reappointment as Auditors for the financial year ending December 31, 2012 on the recommendation of the Audit Committee.

Shareholding

The pattern of shareholding as at December 31, 2011 alongside the disclosure as required under

Director's Review

Code of Corporate Governance is annexed within this report. The Directors, CEO, Chief Financial Officer, Company Secretary and their spouses and minors have reportedly not performed any trading in the shares of the Company.

Holding Company

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

Consolidated Financial Statements

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

Environment, Health and Safety

Pakistan Tobacco Company has always tried to excel in its efforts to comply with world class Environment, Health and Safety standards and to conduct its business with responsibility. PTC is widely regarded in Pakistan as a benchmark for EH&S initiatives, standards and best practices. Our efforts in the field of EH&S have also been well recognized by our parent company, British American Tobacco (BAT). Our Leaf Area and the two manufacturing facilities are among the highest rated units in terms of EH&S in the BAT

World which was acknowledged in the recent International Review organized by the Group. In 2011, as part of the BAT EH&S Excellence Award, the Akora Khattak Factory received a letter of commendation for efficient use of natural resources. In addition, PTC has embarked upon various initiatives in the fields of renewable energy and energy conservation. The latest being to preserve the storm water using it to replenish the natural water table. This unique initiative has been highly applauded by the news media and has received all round appreciation at various EHS forums.

Corporate Social Responsibility

Living up to the expectation of its stakeholders PTC, in spite of difficult circumstances, remained active on the CSR front in 2011 as well. The focus of our CSR drive is sustainable development and healthcare provision to the deprived in the rural areas. PTC has an ongoing extensive Afforestation drive, while we run Mobile Doctor Units (MDUs) in many underprivileged areas of the country.

As part of the ongoing afforestation program, we distributed 3 million saplings for plantation across the country during 2011. This takes the total number of plants distributed since the inception of this program to 57 million which indeed is a



great service to the society and a big step for environmental conservation.

Our Mobile Doctor Units operate in many impoverished areas of Punjab and KPK providing free medical facilities to many deserving patients. We extended medical facilities to over 70,000 patients during the year through the MDU program.

We are very proud of our CSR team which has braved a precarious security situation to extend our company's vision and commitment to favorably impact the communities it operates in.



Business Challenges and Future Outlook

The business faces immense challenges including cost pressures, rising taxes, increasing regulations, stiff competition and the illicit trade which continues to grow in the wake of weak enforcement. The Government needs to take urgent steps to rectify the situation and curb this menace which causes an annual loss of over Rs. 10 bn to the exchequer while denying the legitimate players their due right to a level playing field. We remain fully committed to Government's efforts in this regard and will continue to support it in all possible ways to reign in the activities of illicit trade.

The Directors are pleased to note that the company's business is based on sound fundamentals. Emerging from a difficult competitive environment, the company has taken some bold decisions and made the right strategic choices to put itself back on track for long term growth.

We are greatly appreciative of the innovative spirit, hard work and dedication of our people including PTC's employees, its

valued business partners and loyal consumers. We derive immense strength from their resilience and commitment and will continue to build upon it in our endeavor to take this business on to the path of sustained growth and progress.

We believe that our strategy is correct and we have the right ingredients to achieve our vision of long term and sustainable value for the shareholders.

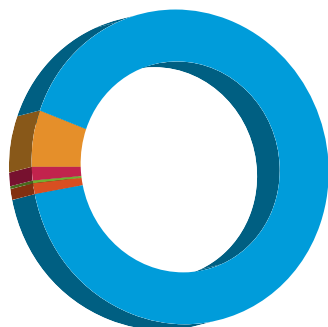

Mueen Afzal
 Chairman


Graeme Amey
 Managing Director & CEO

Statement of Value Generated and Distributed

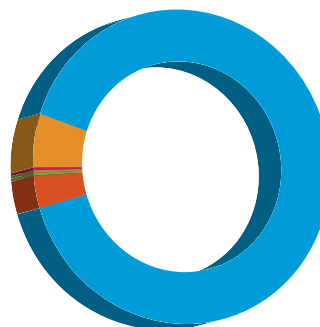
	(Rs in million)		(Rs in million)	
	2011	%	2010	%
Value Generation				
Gross Revenues	67,585		60,279	
Material, Services and Other Costs	17,894		15,610	
Value Added	49,691		44,669	
Value Distribution				
Employee Remuneration	3,022	6.08	2,606	5.83
Government Levies	45,372	91.31	40,205	90.01
Dividends	537	1.08	1,533	3.43
Finance Cost	141	0.28	150	0.34
Corporate Social Responsibility	22	0.04	88	0.20
Retained within Business	597	1.20	87	0.19
	49,691	100.00	44,669	100.00

Value Distribution
2011



Employee Remuneration	6.08%
Government Levies	91.31%
Dividends	1.08%
Finance Cost	0.28%
Corporate Social Responsibility	0.04%
Retained within Business	1.20%

Value Distribution
2010



Employee Remuneration	5.83%
Government Levies	90.01%
Dividends	3.43%
Finance Cost	0.34%
Corporate Social Responsibility	0.20%
Retained within Business	0.19%

Board Committees

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

Executive Committee of the Board (ExCo):

1. Mr. Nicholas Stewart Hales
(Member & Chairman)
2. Mr. Mobasher Raza
3. Mr. Mustanser Ali Khan
4. Mr. Asim Imdad
5. Mr. Tajamal Shah
6. Mr. Feroze Ahmed
7. Mr. Murali Thanabalan
8. Mr. Shehzad Munim
9. Ms. Ayesha Rafique (Secretary)

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

Audit Committee:

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

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

Board Compensation Committee:

1. Mr. Mueen Afzal
(Member & Chairman)
2. Mr. Nicholas Stewart Hales
(Member)
3. Lt. Gen. (Retd.) Ali Kuli Khan Khattak
(Member)
4. Mr. Murali Thanabalan
(Secretary)

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

Shares Transfer Committee:

1. Mr. Nicholas Stewart Hales
(Member & Chairman)
2. Mr. Mobasher Raza
(Member)
3. Mr. Tajamal Shah
(Member)
4. Ms. Ayesha Rafique
(Secretary)

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

Pattern of Shareholding

As at December 31, 2011

No. of Shareholders	Categories				Total Shares
1,462	From	1	To	100	49,746
1,285	From	101	To	500	377,006
453	From	501	To	1,000	327,758
392	From	1,001	To	5,000	864,442
45	From	5,001	To	10,000	315,208
9	From	10,001	To	15,000	109,745
11	From	15,001	To	20,000	191,538
12	From	20,001	To	25,000	283,156
1	From	25,001	To	30,000	29,600
2	From	35,001	To	40,000	73,081
1	From	40,001	To	45,000	42,500
4	From	45,001	To	50,000	196,345
2	From	55,001	To	60,000	113,900
2	From	60,001	To	65,000	124,918
2	From	70,001	To	75,000	142,091
1	From	75,001	To	80,000	75,870
1	From	95,001	To	100,000	98,316
2	From	140,001	To	145,000	286,531
1	From	155,001	To	160,000	156,700
1	From	165,001	To	170,000	167,633
1	From	175,001	To	180,000	175,184
1	From	230,001	To	235,000	234,909
1	From	290,001	To	295,000	291,000
1	From	295,001	To	300,000	296,900
1	From	360,001	To	365,000	364,600
1	From	400,001	To	405,000	401,800
1	From	505,001	To	510,000	507,000
1	From	700,001	To	705,000	700,911
1	From	795,001	To	800,000	798,282
1	From	1,835,001	To	1,840,000	1,835,243
1	From	1,965,001	To	1,970,000	1,967,935
1	From	2,845,001	To	2,850,000	2,848,803
1	From	241,045,001	To	241,050,000	241,045,141
3,702					255,493,792

	No. of Shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	1,835,758
Directors, CEO and their spouse and minor children	12,274
Executives	34
Public Sector Companies and Corporations	700,911
Banks, Development Finance Institutions, Non-Banking	
Finance Institutions, Insurance Companies, Modaraba and Mutual Funds	1,520,168
Others	5,764,851
Individuals	3,816,373
	255,493,792

Categories of Shareholders	Number	Shares Held	%
Directors, CEO and their spouse and minor children	8	12,274	0.0
Executives	3	34	0.0
Associated Companies, Undertakings and Related Parties	2	241,843,423	94.7
Investment Companies	2	1,835,758	0.7
Modarabas & Mutual Funds	3	33,464	0.0
Insurance Companies	9	1,065,596	0.4
Public Sector Companies and Corporations	1	700,911	0.3
Financial Institutions	13	421,108	0.2
Individuals	3,598	3,816,373	1.5
Others	63	5,764,851	2.3
Total	3,702	255,493,792	100.0

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

Statement of Compliance

with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (Code) 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 four independent Non-Executive Directors to protect the interests of the 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. 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.
5. 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.
6. 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.
7. 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.
8. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
9. 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.
10. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
11. 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.
12. The Company has complied with all the corporate and financial reporting requirements of the Code.
13. The Board has formed an audit committee. It comprises of four members, of whom all are non-executive directors including the chairman of the committee.
14. 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.
15. 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.
16. 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.
17. 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.
18. 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.
19. We confirm that all other material principles contained in the Code have been complied with.



Graeme Amey
Managing Director and CEO

Review Report to the Members

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

We have reviewed the Statement of Compliance with the 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, 2011.



Chartered Accountants

Islamabad

Date: March 19, 2012

Engagement partner: Sohail M Khan

Statement of Compliance

with the Best Practices on Transfer Pricing for the year ended December 31, 2011

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



Graeme Amey

Managing Director and CEO



DISCOVERING SUCCESS

For DUNHILL, 2011 was a year of expansion. With a clear focus on reaching out to more consumers, distribution width was almost doubled from 4.4% in 2010 to 7.1% in 2011. A strategic price communication campaign was used to create recall amongst premium smokers. Research studies were also carried out, which provided deep insight into the evolving mind set of consumers. Apart from this, key metro retail outlets were converted into flagship outlets. These efforts helped create greater visibility and consumer awareness for the brand.

The good response from these activities and encouraging results from research have provided the groundwork for 2012. By translating our learnings from the activities carried out in the last year, 2012 will undoubtedly be a big year for DUNHILL.



خبردار: تمباکو نوشی کینسر اور دل کی
بیماریوں کا باعث ہے۔ وزارتِ صحت

THE INNOVATION TRAILBLAZER

JOHN PLAYER GOLD LEAF (JPGL) HAS DOMINATED THE PREMIUM PRICE SEGMENT SINCE ITS INTRODUCTION INTO THE MARKET, THE SHEER SEGMENT DOMINANCE BEARS WITNESS TO JPGL BEING A QUALITY PRODUCT THAT HAS BEEN ABLE TO SATISFY ITS CONSUMERS. ONE OF THE MAIN REASONS FOR THIS HAS ALWAYS BEEN JPGL'S STRONG TASTE CREDENTIALS AND ITS UNPARALLELED EXPERTISE IN BRINGING FRESH AND INNOVATIVE OFFERS TO THE PAKISTANI MARKET.

IN 2011 THIS EXPERTISE WAS EVIDENT WITH THE LAUNCH OF THE LIMITED EDITION SIDE OPENING PACK, WHICH HELPED DRIVE REGULAR PURCHASE.

JPGL ALSO INTRODUCED TWO EXCITING MENTHOL FLAVOURS THROUGH THE TASTE CAMPAIGN. THIS CAMPAIGN GAVE SMOKERS THE CHANCE TO EXPERIENCE FLAVOURED FILTER THREADS - A FIRST IN PAKISTAN. APART FROM THIS JPGL REIGNITED ITS SPECIAL VARIANT AND WAS ABLE TO FIGHT OFF INCREASED COMPETITION.

WITH 7.1BN STICKS, JPGL IS THE 3RD BIGGEST BRAND IN PAKISTAN TOBACCO COMPANY'S PORTFOLIO. FOR THE FUTURE JPGL IS LOOKING TO STRENGTHEN ITSELF FURTHER AND CONTINUE ON ITS PATH OF INNOVATION.



KNOW WHAT MATTERS | A TASTE APART



خبردار: تمباکو نوشی کینسر اور دل کی
بیماریوں کا باعث ہے۔ وزارتِ صحت

CAPSTAN *by* PALL MALL ORIGINAL

In the Pakistani tobacco world, only one brand can claim to have stolen the limelight and reserve the top honours for itself in 2011, that brand is Capstan by Pall Mall Original. The brand grew in volume by a whopping 212%, adding 9.4 billion sticks to the brand volume over 2010. This translated into an exemplary 4.4% points growth in volume share (Dec'11 vs. Dec'10).

While spring was getting into its full bloom in March 2011, Capstan by Pall Mall Original was rising to the occasion, communicating consumer relevant cues of "Superior Quality" and "Amazing Value", thereby gaining the smokers' "Trust". The use of innovative touch points in the campaign struck a chord with the consumers and augmented brand growth.

PHENOMENAL EXTRAORDINARY GROWTH POTENTIAL

Capstan by Pall Mall Original played a key role in cementing market leadership for PTC, through focused development plans initiated in KPK, Balochistan and Southern Punjab. These initiatives yielded fabulous business results and drove the rural share of Capstan by Pall Mall Original from 8.5% (Dec 2010) to 13.5% (Dec 2011).

With the year-end market share of 16.2%, Capstan by Pall Mall Original is the growth engine for PTC and possesses the right DNA to become the largest brand in Pakistan's cigarette industry.



Jun'10

Dec'10

Dec'11

TRUSTED QUALITY ALWAYS

خبردار: تمباکو نوشی کینسر اور دل کی
بیماریوں کا باعث ہے۔ وزارتِ صحت



سوسال کانسائٹھ

Gold Flake has been a mark of pride for more than a 100 years. 2011 was a very special year for the brand, which celebrated its 100th year like a true Centurion!

A GLORIOUS PAST & AN EVEN BRIGHTER FUTURE

سوسال سے بنائے
ہر لمحہ یادگار



تمباکو نوشی کا انجام - منہ کا کینسر
وزارتِ صحت



W.D. & H.O.
WILLS

Applying its hundred years of experience and expertise in the tobacco world, this genuine local leader reaffirmed its trust with its smokers. Gold Flake has always made social moments special for its smokers. The brand asserted this by associating itself with moments of shared joy and making them memorable, consistently over the years. It is Gold Flake's dedication to great quality and taste that continues to offer superior value to its smokers.

The eventful 2011 ended on a high note with the grand arrival of a superior new pack design for Gold Flake. The brand has always kept itself ahead of the times and this revamped pack design is very much in line with that commitment. The bold new look and deep red colour reflect the vibrancy of the brand. Design elements like embossed crest, vivid red and golden tones make the pack stylish and modern. In this way, the brand offers enhanced value to its smokers. The pack was successfully launched in a few markets at the fag end of 2011. In 2012 it would be rolled-out nationally in all markets of Pakistan. Gold Flake has lofty goals for the future and this pack design upgrade is the first step towards them!

خبردار: تمباکو نوشی کینسر اور دل کی
بیماریوں کا باعث ہے۔ وزارتِ صحت

Our People, Our Future





Pakistan Tobacco Company Limited
Financial Statements
for the year ended December 31, 2011

Auditor's Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2011 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



Chartered Accountants

Islamabad

Date: March 19, 2012

Engagement partner: Sohail M Khan

Profit & Loss Account

for the year ended December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Gross turnover		67,491,816	60,195,535
Excise duties		(34,719,661)	(30,476,421)
Sales tax		(9,822,181)	(8,766,485)
Net turnover		22,949,974	20,952,629
Cost of sales	7	(16,709,273)	(14,747,717)
Gross profit		6,240,701	6,204,912
Selling and distribution expenses	8	(3,129,938)	(3,279,390)
Administrative expenses	9	(1,321,713)	(1,233,165)
Other operating expenses	10	(1,182,363)	(208,211)
Other operating income	11	53,967	46,610
		(5,580,047)	(4,674,156)
Operating profit		660,654	1,530,756
Finance income		39,160	36,933
Finance cost		(140,539)	(149,680)
Net finance cost		(101,379)	(112,747)
Profit before income tax		559,275	1,418,009
Income tax expense	12	(195,490)	(492,909)
Profit for the year		363,785	925,100
Earnings per share - (Rupees)	13	1.42	3.62

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Statement of Comprehensive Income

for the year ended December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Profit for the year		363,785	925,100
Other comprehensive loss for the year:			
Actuarial losses on defined benefit pension and gratuity plans	27	(146,770)	(77,360)
Tax credit related to actuarial losses on defined benefit pension and gratuity plans	12	51,370	27,076
Other comprehensive loss for the year - net of tax		(95,400)	(50,284)
Total comprehensive income for the year		268,385	874,816

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Balance Sheet

as at December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Non current assets			
Property, plant and equipment	15	6,092,284	5,823,688
Long term investment in subsidiary company	16	5,000	5,000
Long term loans	17	1,260	3,417
Long term deposits and prepayments	18	22,640	15,375
Current assets			
Stock-in-trade	19	6,462,330	6,002,823
Stores and spares	20	190,110	199,207
Trade debts	21	1,202	1,597
Loans and advances	22	64,310	48,267
Short term prepayments		94,052	118,329
Other receivables	23	196,249	93,546
Income tax paid in advance		79,419	15,206
Cash and bank balances	24	109,631	51,945
		7,197,303	6,530,920
Current liabilities			
Trade and other payables	25	7,067,704	5,339,725
Accrued interest / mark-up		51,187	46,789
Short term running finance	26	1,783,623	2,252,218
		8,902,514	7,638,732
Net current liabilities		(1,705,211)	(1,107,812)
Non current liabilities			
Deferred income tax liability	28	(1,082,038)	(1,137,581)
Net assets		3,333,935	3,602,087
Share capital and reserves			
Share capital	29	2,554,938	2,554,938
Revenue reserves		778,997	1,047,149
		3,333,935	3,602,087
Contingencies and commitments		30	

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Cash Flow Statement

for the year ended December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Cash flows from operating activities			
Cash receipts from customers		67,422,034	60,262,561
Cash paid to Government for Federal excise duty, Sales tax and other levies		(45,211,155)	(39,535,501)
Cash paid to suppliers		(16,525,288)	(15,256,590)
Finance cost paid		(136,141)	(130,550)
Cash paid as royalty		(352,169)	(342,276)
Cash paid to employees and retirement funds		(2,711,246)	(2,743,686)
Income tax paid		(263,876)	(944,120)
Other cash payments		(64,245)	(160,938)
		2,157,914	1,148,900
Cash flows from investing activities			
Additions in property, plant and equipment		(1,167,254)	(645,833)
Proceeds from disposal of property, plant and equipment		32,073	43,952
Finance income received		39,160	36,933
		(1,096,021)	(564,948)
Cash flows from financing activities			
Dividends paid		(535,612)	(1,531,262)
Increase / (Decrease) in cash and cash equivalents		526,281	(947,310)
Cash and cash equivalents at beginning of year		(2,200,273)	(1,252,963)
Cash and cash equivalents at end of year		(1,673,992)	(2,200,273)
Cash and cash equivalents comprise:			
Cash and bank balances		109,631	51,945
Short term running finance		(1,783,623)	(2,252,218)
		(1,673,992)	(2,200,273)

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director


Statement of Changes in Equity

for the year ended December 31, 2011

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2010	2,554,938	1,705,296	4,260,234
Comprehensive income:			
Profit for the year	-	925,100	925,100
Other comprehensive loss for the year	-	(50,284)	(50,284)
Total Comprehensive income for the year	-	874,816	874,816
Transactions with owners:			
Final dividend of Rs 4.75 per share relating to the year ended December 31, 2009	-	(1,213,596)	(1,213,596)
1st Interim dividend of Rs 1.25 per share relating to the year ended December 31, 2010	-	(319,367)	(319,367)
Total transactions with owners	-	(1,532,963)	(1,532,963)
Balance at December 31, 2010	2,554,938	1,047,149	3,602,087
Balance at January 1, 2011	2,554,938	1,047,149	3,602,087
Comprehensive income:			
Profit for the year	-	363,785	363,785
Other comprehensive loss for the year	-	(95,400)	(95,400)
Total Comprehensive income for the year	-	268,385	268,385
Transactions with owners:			
Final dividend of Rs 2.10 per share relating to the year ended December 31, 2010	-	(536,537)	(536,537)
Total transactions with owners	-	(536,537)	(536,537)
Balance at December 31, 2011	2,554,938	778,997	3,333,935

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


Graeme Amey
 Managing Director & CEO


Mobasher Raza
 Finance Director

Notes to the Financial Statements

for the year ended December 31, 2011

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. New and amended standards and interpretations

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 10, Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is effective for the accounting period beginning on or after January 1, 2013.

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

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 is effective for the accounting period beginning on or after January 1, 2012.

Notes to the Financial Statements

for the year ended December 31, 2011

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.

4. Summary of significant accounting policies

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

4.1 Basis of measurement

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

4.2 Segment reporting

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

4.3 Functional and presentation currency

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

4.4 Foreign currency transactions and translation

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

4.5 Revenue recognition

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

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

(a) Sale of goods

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

Notes to the Financial Statements

for the year ended December 31, 2011

(b) Income on bank deposits

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

(c) Others

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

4.6 Current and deferred income tax

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

(a) Current

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

(b) Deferred

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

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

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

4.7 Provisions

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

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

4.8 Contingent assets

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

4.9 Contingent liabilities

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

Notes to the Financial Statements

for the year ended December 31, 2011

4.10 Employee benefits

(a) Retirement benefit plans

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

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

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

The Company operates:

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

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

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

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

(b) Termination benefits

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

(c) Medical benefits

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

Notes to the Financial Statements

for the year ended December 31, 2011

(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 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 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 asset's carrying

Notes to the Financial Statements

for the year ended December 31, 2011

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. Reversal 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, security deposits and cash and bank balances.

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

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

Notes to the Financial Statements

for the year ended December 31, 2011

(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 of the investment within 12 months of the balance sheet date.

4.17.2 Recognition and measurement

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

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

4.17.3 Impairment

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

4.18 Trade debts

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

4.19 Trade and other payables

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

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

4.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs)

Notes to the Financial Statements

for the year ended December 31, 2011

and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

4.21 Dividend distribution

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

4.22 Cash and cash equivalents

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

4.23 Offsetting financial instruments

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

5. Financial risk management

5.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

Financial assets include Rs 187,601 thousand (2010: 61,018 thousand) and financial liabilities include Rs 460,393 thousand (2010: 159,402 thousand) which were subject to foreign exchange risk.

Notes to the Financial Statements

for the year ended December 31, 2011

At December 31 2011, 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 17.73 million (2010: Rs 6.41 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 1,783,623 thousand (2010: Rs 2,252,218 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 11.59 million (2010: Rs 14.64 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.

Counterparty	Rating		Rating Agency	Rs (million)	
	Short term	Long term		2011	2010
MCB Bank Limited	A1+	AA+	PACRA	25.08	16.32
Citibank N.A.	P-1	A1	Moody's	35.94	20.02
Deutsche Bank AG	P-1	Aa3	Moody's	45.97	11.12
Barclays Bank p.l.c	P-1	Aa3	Moody's	0.48	1.10
Habib Bank Limited	A-1+	AA+	JCR-VIS	-	1.99
National Bank of Pakistan	A-1+	AAA	JCR-VIS	-	0.63
				107.47	51.18

Trade debts, loans and advances and other receivables amounting to Rs 280.02 million (2010: Rs 157.37 million) do not include any amounts which are past due or impaired.

Notes to the Financial Statements

for the year ended December 31, 2011

(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, 2011, the Company had Rs 3,566 million unutilised borrowing facilities from financial institutions and Rs 110 million cash and bank balances. Further, the Company also has strong financial support from its holding company. Based on the above, in spite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low.

5.2 Capital management

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

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

5.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

6. Critical accounting estimates and judgements

(a) Income taxes

The Company recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (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) Employee benefits

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

(c) Property, plant and equipment

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

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
7. Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	5,318,558	4,915,788
Raw material purchases and expenses - note 7.1	13,121,930	11,436,719
Closing stock of raw materials and work in process	(5,376,669)	(5,318,558)
	13,063,819	11,033,949
Government taxes and levies		
Customs duty and surcharges	458,482	374,090
Provincial and municipal taxes and other duties	137,349	115,502
Excise duty on royalty	35,842	34,534
	631,673	524,126
	13,695,492	11,558,075
Royalty	358,468	345,340
Production overheads		
Salaries, wages and benefits	1,366,513	1,206,280
Stores, spares and machine repairs	443,334	351,581
Fuel and power	362,813	312,685
Insurance	32,498	25,445
Repairs and maintenance	127,490	120,481
Postage, telephone and stationery	10,753	12,152
Information technology	74,156	73,277
Depreciation	525,199	498,768
Stock written off	6,960	18,176
Stores and spares written off	24,953	9,578
Sundries	82,040	50,565
	3,056,709	2,678,988
Cost of goods manufactured	17,110,669	14,582,403
Cost of finished goods		
Opening stock	684,265	849,579
Closing stock	(1,085,661)	(684,265)
	(401,396)	165,314
Cost of sales	16,709,273	14,747,717
7.1 Raw material purchases and expenses		
Materials	12,059,600	10,525,185
Salaries, wages and benefits	490,922	421,119
Stores, spares and machine repairs	206,531	175,538
Fuel and power	136,222	100,181
Property rentals	44,607	39,827
Insurance	5,714	2,231
Repairs and maintenance	17,898	9,675
Postage, telephone and stationery	6,328	4,791
Depreciation	100,627	103,297
Sundries	53,481	54,875
	13,121,930	11,436,719

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
8. Selling and distribution expenses		
Salaries, wages and benefits	460,357	363,931
Selling expenses	2,151,830	2,473,812
Freight	282,209	235,187
Repairs and maintenance	103,323	88,974
Postage, telephone and stationery	7,044	7,937
Travelling	46,770	46,520
Property rentals	8,445	7,180
Insurance	7,549	7,960
Stock written off	4,413	2,318
Depreciation	57,998	45,571
	3,129,938	3,279,390
9. Administrative expenses		
Salaries, wages and benefits	703,725	614,252
Fuel and power	30,722	20,651
Property rentals	84,409	79,334
Insurance	4,514	5,261
Repairs and maintenance	44,075	51,916
Postage, telephone and stationery	15,359	17,340
Legal and professional charges	26,776	19,179
Donations - note 9.1	1,770	42,614
Information technology	220,200	152,210
Travelling	63,313	83,131
Depreciation	90,319	97,208
Auditor's remuneration and expenses - note 9.2	7,490	7,969
Sundries	29,041	42,100
	1,321,713	1,233,165

9.1 This includes an amount of Rs 1,600 thousand (2010: 42,164 thousand) paid to Gottfried Thoma - PTC Employees Benevolent Trust. A director of the Company is also trustee of this Trust.

	2011 Rs '000	2010 Rs '000
9.2 Auditor's remuneration and expenses include:		
– Statutory audit fee	1,295	1,177
– Group reporting, review of half yearly accounts, audit of consolidated accounts, special certifications and staff retirement benefit funds	2,831	2,580
– Tax services	2,969	3,886
– Out-of-pocket expenses	395	326
	7,490	7,969

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
10. Other operating expenses		
Employees' termination benefits	994,630	4,332
Workers' Profit Participation Fund	30,126	76,125
Workers' Welfare Fund	13,127	28,360
Bank charges and fees	32,037	38,800
Operating fixed assets written off	104,208	-
Other receivables written off	8,235	1,193
Security deposits written off	-	4,020
Provision for potential contractual obligation	-	53,000
Foreign exchange loss	-	2,215
Interest on Workers' Profit Participation Fund	-	166
	1,182,363	208,211
11. Other operating income		
Income from associated company	28,144	22,536
Gain on disposal of operating fixed assets	19,361	14,543
Foreign exchange gain	1,895	-
Miscellaneous	4,567	9,531
	53,967	46,610
12. Income tax expense		
Current	235,348	465,175
Deferred	(39,858)	27,734
	195,490	492,909

12.1 Effective tax rate reconciliation:

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

	2011 (%)	2010 (%)
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.12	0.17
Income taxed at different rate	(0.09)	(0.37)
Others	(0.08)	(0.04)
Average effective tax rate	34.95	34.76

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
12.2 Tax on items directly credited to statement of comprehensive income		
Current tax credit on defined benefit plans	(35,685)	(27,076)
Deferred tax credit on defined benefit plans	(15,685)	-
	(51,370)	(27,076)

	2011	2010
13. Earnings per share		
Profit after tax (Rs '000)	363,785	925,100
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share - Basic (Rs)	1.42	3.62

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	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	Key management personnel		Other executives		2011 Rs '000	2010 Rs '000
					2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000		
Managerial remuneration	56,315	55,817	47,673	58,966	188,608	170,207	456,932	379,637	749,528	664,627
Corporate bonus	19,983	8,142	91,079	70,529	148,839	72,760	167,811	58,082	427,712	209,513
Leave fare assistance	2,355	3,073	3,044	3,937	5,578	4,251	3,376	3,739	14,353	15,000
Housing and utilities	9,584	7,773	15,002	13,454	46,274	43,321	194,382	163,442	265,242	227,990
Medical expenses	42	3	2,080	1,191	5,806	7,888	31,268	19,343	39,196	28,425
Post employment benefits	11,247	9,194	8,206	7,168	27,811	31,064	103,973	79,599	151,237	127,025
	99,526	84,002	167,084	155,245	422,916	329,491	957,742	703,842	1,647,268	1,272,580
Number of persons	1	1	4	5	28	32	333	286	366	324

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 four (2010: six) non-executive directors of the Company amounted to Rs 3,916 thousand (2010: Rs 4,935 thousand).

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
15. Property, plant and equipment		
Operating assets - note 15.1	5,423,123	5,621,915
Capital work in progress - note 15.2	669,161	201,773
	6,092,284	5,823,688

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, 2010									
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 January 1, 2010	6,834	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,483,038
Year ended December 31, 2010									
Net book amount at January 1, 2010	6,834	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,483,038
Additions	-	38,330	-	-	562,349	113,747	11,885	186,819	913,130
Disposals	-	-	-	-	(8,031)	(5,689)	(4)	(15,685)	(29,409)
Depreciation charge	-	(15,330)	(435)	-	(534,902)	(64,703)	(11,830)	(117,644)	(744,844)
Net book amount at December 31, 2010	6,834	401,178	10,803	26	4,527,041	268,200	73,048	334,785	5,621,915
At January 1, 2011									
Cost	6,834	560,627	25,712	349	8,283,622	523,704	95,224	724,401	10,220,473
Accumulated Depreciation	-	(159,449)	(14,909)	(323)	(3,756,581)	(255,504)	(22,176)	(389,616)	(4,598,558)
Net book amount January 1, 2011	6,834	401,178	10,803	26	4,527,041	268,200	73,048	334,785	5,621,915
Year ended December 31, 2011									
Net book amount at January 1, 2011	6,834	401,178	10,803	26	4,527,041	268,200	73,048	334,785	5,621,915
Additions	-	17,479	-	-	502,206	86,716	9,280	76,589	692,270
Disposals	-	-	-	-	(80,963)	(19,797)	(3,832)	(12,327)	(116,919)
Depreciation charge	-	(16,185)	(432)	-	(547,204)	(73,056)	(13,827)	(123,439)	(774,143)
Net book amount at December 31, 2011	6,834	402,472	10,371	26	4,401,080	262,063	64,669	275,608	5,423,123
At December 31, 2011									
Cost	6,834	578,105	25,712	349	8,643,056	568,501	99,661	738,128	10,660,346
Accumulated depreciation	-	(175,633)	(15,341)	(323)	(4,241,976)	(306,438)	(34,992)	(462,520)	(5,237,223)
Net book amount at December 31, 2011	6,834	402,472	10,371	26	4,401,080	262,063	64,669	275,608	5,423,123

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
15.2 Capital work in progress		
Plant and machinery	573,558	186,144
Advances to suppliers	95,603	15,629
	669,161	201,773
15.3 Depreciation charge has been allocated as follows:		
Cost of sales	525,199	498,768
Raw material purchases and expenses	100,627	103,297
Selling and distribution expenses	57,998	45,571
Administrative expenses	90,319	97,208
	774,143	744,844

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

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
Vehicles				
- as per Company's policy	845	85	85	Syed Hammad Ali - Employee
	885	89	89	Muhammad Gulzar - Employee
	980	98	302	Syed Khurram Shah - Employee
	1,014	317	560	Athar Sultan - Employee
	1,309	131	131	Athar Baig - Employee
	1,319	132	238	Younis Jan Durrani - Ex Employee
	1,370	137	344	Najeeb Ur Rehman - Ex Employee
	1,809	678	1,095	Hina Ahmed - Ex Employee
	2,214	221	650	Iqtidar Ahmed - Ex Employee
	2,750	630	1,435	Wajid Ali - Ex Employee
	2,899	423	1,176	Zahid Ul Islam - Ex Employee
	6,093	609	609	Mobasher Raza - Employee
- by auction	604	60	552	Sujawal Khan - Islamabad
	739	74	773	Sheryar Khan - Charsadda
	835	84	694	Falak Naaz - Buner
	835	84	994	S.M Ahsan Zaidi - Islamabad
	845	85	880	Huzaifa - Islamabad
	845	85	991	Mohammad Azam - Islamabad
	881	88	950	Syed Tayyab Tahir - Lahore
	885	88	688	Rizwan Mazher - Rawalpindi
	1,024	102	931	Raja Farooq - Rawalpindi
	1,051	105	547	Aziz Khan - Rawalpindi
	1,309	131	900	Zahid Qadri - Karachi
	1,503	150	738	Tahir Zada - Blambat, Lower Deer
	1,852	185	875	Syed Tayyab Tahir - Lahore
	4,320	432	1,207	Raja M.Naveed - Rawalpindi

Notes to the Financial Statements

for the year ended December 31, 2011

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
- by insurance claim	558	244	495	New Hampshire Insurance Company
	575	503	545	-do-
	580	398	545	-do-
	651	232	595	-do-
	683	270	595	-do-
	1,309	131	1,345	-do-
	1,790	1,454	1,785	-do-
	1,869	1,168	1,745	-do-

16. Long term investment in subsidiary company - at cost

This represents 500,001 (2010: 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 (2010: Rs 10 per share) based on audited accounts for the year ended December 31, 2011.

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

	2011 Rs '000	2010 Rs '000
17. Long term loans - unsecured, considered good		
Related parties		
Key management personnel	164	452
Others		
Executives	2,856	3,817
Other employees	-	1,698
	2,856	5,515
	3,020	5,967
Less: Receivable within one year	1,760	2,550
	1,260	3,417

17.1 Reconciliation of loans:

	Executives				Other employees		Total	
	Key management personnel		Other executives		2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000				
Balance as at January 1	452	487	3,817	6,629	1,698	4,313	5,967	11,429
Disbursements	-	-	-	-	-	-	-	-
Repayments	288	35	961	2,812	1,698	2,615	2,947	5,462
Balance as at December 31	164	452	2,856	3,817	-	1,698	3,020	5,967

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.

Notes to the Financial Statements

for the year ended December 31, 2011

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

	2011 Rs '000	2010 Rs '000
Key management personnel	382	651
Other executives	5,073	7,256
	5,455	7,907
18. Long term deposits and prepayments		
Security deposits	17,000	10,540
Prepayments	5,640	4,835
	22,640	15,375
19. Stock-in-trade		
Raw materials	5,119,241	5,130,471
Raw materials in transit	207,493	144,924
Work in process	49,935	43,163
Finished goods	1,085,661	684,265
	6,462,330	6,002,823
20. Stores and spares		
Stores	2,210	1,506
Machine spares	187,900	197,701
	190,110	199,207
21. Trade debts		
Considered good	1,202	1,597
Considered doubtful	2,322	2,322
	3,524	3,919
Provision for doubtful debts	(2,322)	(2,322)
	1,202	1,597
22. Loans and advances - unsecured, considered good		
Related parties		
Loans to key management personnel	67	113
Advances due from key management personnel	-	3,208
Others		
Loans to executives and other employees	1,693	2,437
Advances due from executives and other employees - note 22.1	32,370	25,910
Advances due from others	30,180	16,599
	64,310	48,267

22.1 Includes Rs 19,828 thousand (2010: Rs 17,662 thousand) due from executives of the Company.

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
23. Other receivables		
Related parties - unsecured		
Due from holding company / associated companies - note 23.1	134,426	39,221
Due from subsidiary company	20,021	20,021
Management's Provident Fund	1,354	7,406
Employees' Provident Fund	-	2,013
Others		
Claims	7,494	18,067
Workers' Profit Participation Fund	5,874	1,875
Margin against guarantees	24,868	-
Others	2,212	4,943
	196,249	93,546
23.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	5,055	2,513
Associated Companies		
PT Bentoel Prima - Indonesia	93,610	-
BAT SAA Services (Private) Limited - Pakistan	28,738	12,918
BAT Marketing (Singapore) Pte Ltd - Singapore	2,044	16,949
BAT Asia-Pacific Region Ltd - Hong Kong	1,681	1,683
Rothmans Far East B.V - South Korea	1,003	-
BAT Switzerland SA	779	-
BAT (Singapore) Pte Ltd - Singapore	710	589
BAT ASPAC Service Center Sdn Bhd - Malaysia	528	670
BAT PNG - Papua New Guinea	278	-
BAT Vietnam Ltd - Vietnam	-	2,246
BAT Western Europe Area - Netherland	-	583
BAT (Taiwan) Ltd - Taiwan	-	289
BAT Equatorial Africa Area Ltd - Kenya	-	273
BAT Australia Ltd EFT - Australia	-	196
BAT Egypt - Egypt	-	187
BAT (Malaysia) Berhad - Malaysia	-	125
	134,426	39,221
24. Cash and bank balances		
Deposit accounts	16,883	14,104
Current accounts		
Local currency	1,845	5,941
Foreign currency	81,913	31,139
	100,641	51,184
Cash in transit	6,828	-
Cash in hand	2,162	761
	109,631	51,945

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
25. Trade and other payables		
Related parties - unsecured		
Due to holding company / associated companies - note 25.1	451,905	198,914
Others		
Creditors	1,095,606	910,126
Federal excise duty - note 25.2	2,781,825	2,779,617
Sales tax	613,880	648,206
Tobacco excise duty / Tobacco development cess - note 25.3	70,770	76,292
Employees' termination benefits	985,908	-
Other employee benefits - note 25.4	565,749	274,238
Retirement benefits - note 27	205,704	85,621
Staff pension fund - defined contribution	127	889
Employees' Provident Fund	741	-
Workers' Welfare Fund	26,661	40,854
Other accrued liabilities	217,893	206,017
Advances from customers	2,737	74,457
Security deposits	16,883	14,104
Unclaimed dividend	31,315	30,390
	7,067,704	5,339,725
25.1 The amount due to holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	149,671	80,805
Associated Companies		
BAT GLP Ltd - UK	107,858	-
BAT Asia-Pacific Region Ltd - Hong Kong	73,786	69,679
BAT Marketing (Singapore) Pte Ltd - Singapore	70,939	25,522
BAT ASPAC Service Center Sdn Bhd - Malaysia	43,731	18,213
Ceylon Tobacco Company Plc - Sri Lanka	4,016	278
BAT SA Ltd - South Africa	1,068	-
BAT Bangladesh Co. Ltd - Bangladesh	-	3,727
BAT (Malaysia) Berhad - Malaysia	836	612
BAT Hungary - Hungary	-	55
Rothmans Far East B.V - South Korea	-	23
	451,905	198,914
25.2 Federal excise duty		
Balance as at January 1	2,779,617	2,604,744
Charge for the year	34,719,661	30,476,421
Payment to the Government during the year	(34,717,453)	(30,301,548)
Balance as at December 31	2,781,825	2,779,617

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
25.3 Tobacco excise duty / Tobacco development cess:		
Balance as at January 1	76,292	66,783
Charge for the year	89,536	78,972
Payment to the Government during the year	(95,058)	(69,463)
Balance as at December 31	70,770	76,292
25.4 Other employee benefits		
Balance as at January 1	274,238	317,769
Charge for the year	526,518	300,135
Payment to employees during the year	(235,007)	(343,666)
Balance as at December 31	565,749	274,238

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 5,350 million (2010: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 3,566 million (2010: Rs 3,098 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 5,940 million (2010: Rs 5,940 million). The mark-up ranges between 12.42% and 14.79% (2010: 12.72% and 14.39%) 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 (2010: Rs 2,500 million) and Rs 355 million (2010: Rs 355 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 588 million (2010: Rs 748 million) and Rs 109 million (2010: Rs 200 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2010: Rs 355 million).

	2011 Rs '000	2010 Rs '000
27. Retirement benefits		
Staff pension fund	158,626	51,640
Employees gratuity fund	47,078	33,981
	205,704	85,621

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2011 using the projected unit credit method. Details of the defined benefit plans are:

Notes to the Financial Statements

for the year ended December 31, 2011

	Defined benefit pension plan		Defined benefit gratuity plan	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
(a) The amounts recognised in the balance sheet:				
Present value of defined benefit obligations	2,841,970	2,399,679	792,745	683,533
Fair value of plan assets	(2,683,344)	(2,348,039)	(745,667)	(649,552)
Net liability	158,626	51,640	47,078	33,981
(b) Movement in the liability recognized in the balance sheet is as follow:				
Balance as at January 1	51,640	14,206	33,981	45,201
Charge for the year - profit & loss	70,544	58,042	33,742	32,494
Charge for the year - statement of comprehensive income	107,313	50,959	39,457	26,401
Employer's contribution during the year	(70,871)	(71,567)	(60,102)	(70,115)
Balance as at December 31	158,626	51,640	47,078	33,981
(c) The amounts recognised in the profit and loss account:				
Current service cost	95,271	94,207	32,674	29,860
Interest cost	354,861	267,722	96,129	73,324
Expected return on plan assets	(337,442)	(265,045)	(91,279)	(67,527)
Members' own contribution	(26,341)	(26,298)	-	-
Secondees' own contribution	(5,246)	(4,417)	-	-
Contribution by employer in respect of secondees	(10,559)	(8,127)	(3,782)	(3,163)
	70,544	58,042	33,742	32,494
(d) The aggregate amounts recognised in the statement of comprehensive income:				
Actuarial losses as at January 1	456,420	405,461	265,547	239,146
Actuarial losses on defined benefit obligations	121,344	37,773	69,571	28,101
Actuarial losses / (gains) on plan assets	(14,031)	13,186	(30,114)	(1,700)
	107,313	50,959	39,457	26,401
Actuarial losses as at December 31	563,733	456,420	305,004	265,547
(e) Changes in the present value of defined benefit obligation:				
Present value of defined benefit obligation as at January 1	2,399,679	2,100,232	683,533	586,297
Current service cost	95,271	94,207	32,674	29,860
Interest cost	354,861	267,722	96,129	73,324
Actual benefits paid during the year	(129,185)	(100,255)	(89,162)	(34,049)
Actuarial losses	121,344	37,773	69,571	28,101
Present value of defined benefit obligation as at December 31	2,841,970	2,399,679	792,745	683,533

Notes to the Financial Statements

for the year ended December 31, 2011

	Defined benefit pension plan		Defined benefit gratuity plan	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
(f) Changes in the fair value of plan assets:				
Fair value of plan assets as at January 1	2,348,039	2,086,026	649,552	541,096
Expected return on plan assets	337,442	265,045	91,279	67,527
Contribution by employer in respect of members	70,871	71,567	60,102	70,115
Members' own contribution	26,341	26,298	-	-
Secondees' own contribution	5,246	4,417	-	-
Contribution by employer in respect of secondees	10,559	8,127	3,782	3,163
Actual benefits paid during the year	(129,185)	(100,255)	(89,162)	(34,049)
Actuarial (losses) / gains	14,031	(13,186)	30,114	1,700
Fair value of plan assets as at December 31	2,683,344	2,348,039	745,667	649,552
Actual return on plan assets	341,127	254,909	116,913	64,711

During the year 2012 the Company expects to contribute Rs 76.804 million and Rs 40.627 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

	Defined benefit pension plan		Defined benefit gratuity plan	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
(g) The major categories of plan assets:				
Investment in equities	348,386	218,145	-	81,754
Investment in bonds	2,328,743	2,122,487	745,142	565,283
Cash	6,215	2,279	525	2,460
Other assets	-	5,128	-	55
	2,683,344	2,348,039	745,667	649,552
(h) Significant actuarial assumptions at the balance sheet date:				
Discount rate	12.50%	14.50%	12.50%	14.50%
Expected rate of return on plan assets	12.50%	14.50%	12.50%	14.50%
Expected rate of increase in salary				
First year	14.00%	13.00%	14.00%	13.00%
Second year onwards	11.50%	13.00%	11.50%	13.00%
Pension increase rate	8.50%	10.50%	-	-

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

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

Notes to the Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000	2009 Rs '000	2008 Rs '000	2007 Rs '000
(i) Amounts for the current and previous four years:					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	2,841,970	2,399,679	2,100,232	1,769,557	1,704,382
Fair value of plan assets	(2,683,344)	(2,348,039)	(2,086,026)	(1,232,749)	(1,367,884)
Deficit	158,626	51,640	14,206	536,808	336,498
Experience (gain)/loss on obligation	28,146	37,773	83,719	63,120	122,206
Experience (gain)/loss on plan assets	(3,685)	10,136	(166,211)	333,376	(12,878)
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	792,745	683,533	586,297	460,720	490,379
Fair value of plan assets	(745,667)	(649,552)	(541,096)	(258,395)	(337,374)
Deficit	47,078	33,981	45,201	202,325	153,005
Experience (gain)/loss on obligation	25,977	28,101	63,208	73,527	46,209
Experience (gain)/loss on plan assets	(26,008)	2,816	(40,000)	64,891	(152)

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

	2011 Rs '000	2010 Rs '000
Provident Fund	59,340	56,290
Pension Fund	70,544	58,042
Gratuity Fund	33,742	32,494
	163,626	146,826

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.

	2011 Rs '000	2010 Rs '000
The offset amounts are as follows:		
Deferred tax assets	(25,916)	(10,231)
Deferred tax liabilities	1,107,954	1,147,812
Deferred tax liability (net)	1,082,038	1,137,581
The gross movement on deferred income tax account is as follows:		
At January 1	1,137,581	1,109,847
Charge/(Credit) for the year - profit and loss account (note 12)	(39,858)	27,734
(Credit) for the year - statement of comprehensive income (note 12.2)	(15,685)	-
At December 31	1,082,038	1,137,581

Notes to the Financial Statements

for the year ended December 31, 2011

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.

	2011 Rs '000	2010 Rs '000
Balance as at January 1	(10,231)	(10,231)
(Credit) for the year - statement of comprehensive income	(15,685)	-
Balance as at December 31	(25,916)	(10,231)

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

	2011 Rs '000	2010 Rs '000
Balance as at January 1	1,147,812	1,120,078
Charge/(Credit) for the year - profit and loss account	(39,858)	27,734
Balance as at December 31	1,107,954	1,147,812

29. Share capital

29.1 Authorized share capital

	2011 (Number of Shares)	2010 (Number of Shares)		2011 Rs '000	2010 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

	2011 (Number of Shares)	2010 (Number of Shares)		2011 Rs '000	2010 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 (2010: 241,045,141) ordinary shares at the year end.

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

	2011 Rs '000	2010 Rs '000
30. Contingencies and commitments		
30.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Company not acknowledged as debt	131,800	127,050
(ii) Guarantees issued by banks on behalf of the Company	108,747	199,608

Notes to the Financial Statements

for the year ended December 31, 2011

(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 and are due as follows:

	2011 Rs '000	2010 Rs '000
No later than one year	32,801	20,099
Later than one year and no later than five years	285,430	91,171
Later than five years	26,739	35,898

(b) Letters of credit outstanding at December 31, 2011 were Rs 587,861 thousand (2010: Rs 748,185 thousand).

31. Financial instruments

	Loans and receivables	
	2011 Rs '000	2010 Rs '000
Financial assets and liabilities		
Financial assets		
Maturity up to one year:		
Trade debts	1,202	1,597
Loans and advances	64,310	48,267
Other receivables		
Local Currency	90,561	63,667
Foreign Currency	105,688	29,879
Cash and bank balances		
Local Currency	27,718	20,806
Foreign Currency	81,913	31,139
Maturity after one year:		
Loans	1,260	3,417
Security deposits	17,000	10,540
	389,652	209,312

	Other financial liabilities	
	2011 Rs '000	2010 Rs '000
Financial liabilities		
Maturity up to one year:		
Federal excise duty and sales tax payable	3,395,705	3,427,823
Other trade payables		
Local Currency	3,208,871	1,678,043
Foreign Currency	460,393	159,402
Accrued interest / mark-up	51,187	46,789
Short term running finance	1,783,623	2,252,218
	8,899,779	7,564,275

Notes to the Financial Statements

for the year ended December 31, 2011

32. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2010: 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.

	2011 Rs '000	2010 Rs '000
Purchase of goods and services from		
Holding company	267,846	192,129
Associated companies	1,702,866	1,370,643
Sale of goods and services to		
Holding company	7,373	5,266
Associated companies	651,715	433,066
Royalty charge from		
Holding company	358,468	345,340
Expenses reimbursed to		
Associated companies	854	553
Expenses reimbursed by		
Holding company	2,119	134
Associated companies	2,966	1,671

33. Post balance sheet event

Final dividend in respect of the year ended December 31, 2011 of Rs 1.00 (2010: Rs 2.10) per share amounting to a total dividend of Rs 255,494 thousand (2010: 536,537 thousand) has been proposed, over and above the interim dividend of Rs nil (2010: Rs 1.25) per share paid during the year, out of the revenue reserves at the Board of Directors meeting held on March 19, 2012. These financial statements do not reflect this proposed dividend.

34. General

34.1 Capacity and production

Against an estimated manufacturing capacity of 45,184 million (2010: 45,270 million) cigarettes, actual production was 40,537 million (2010: 36,196 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, 2011 was 1,543 (2010: 1,597).

34.3 Date of authorization for issue

These financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on March 19, 2012.



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Pakistan Tobacco Company Limited
Consolidated Financial Statements
for the year ended December 31, 2011

Auditor's Report to the Members

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2011 and the 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, 2011 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, 2011 and the results of their operations for the year then ended.



Chartered Accountants

Islamabad

Date: March 19, 2012

Engagement partner: Sohail M Khan

Consolidated Profit & Loss Account

for the year ended December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Gross turnover		67,491,816	60,195,535
Excise duties		(34,719,661)	(30,476,421)
Sales tax		(9,822,181)	(8,766,485)
Net turnover		22,949,974	20,952,629
Cost of sales	7	(16,709,273)	(14,747,717)
Gross profit		6,240,701	6,204,912
Selling and distribution expenses	8	(3,129,938)	(3,279,390)
Administrative expenses	9	(1,321,713)	(1,233,165)
Other operating expenses	10	(1,182,363)	(208,211)
Other operating income	11	53,967	46,610
		(5,580,047)	(4,674,156)
Operating profit		660,654	1,530,756
Finance income		39,160	36,933
Finance cost		(140,539)	(149,680)
Net finance cost		(101,379)	(112,747)
Profit before income tax		559,275	1,418,009
Income tax expense	12	(195,490)	(492,909)
Profit for the year		363,785	925,100
Earnings per share - (Rupees)	13	1.42	3.62

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Profit for the year		363,785	925,100
Other comprehensive loss for the year:			
Actuarial losses on defined benefit pension and gratuity plans	27	(146,770)	(77,360)
Tax credit related to actuarial losses on defined benefit pension and gratuity plans	12	51,370	27,076
Other comprehensive loss for the year - net of tax		(95,400)	(50,284)
Total comprehensive income for the year		268,385	874,816

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director


Consolidated Balance Sheet

as at December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Non current assets			
Property, plant and equipment	15	6,117,332	5,848,736
Long term loans	16	1,260	3,417
Long term deposits and prepayments	17	22,640	15,375
Current assets			
Stock-in-trade	18	6,462,330	6,002,823
Stores and spares	19	190,110	199,207
Trade debts	20	1,202	1,597
Loans and advances	21	64,310	48,267
Short term prepayments		94,052	118,329
Other receivables	22	176,228	73,525
Income tax paid in advance		79,419	15,206
Cash and bank balances	23	109,631	51,945
		7,177,282	6,510,899
Current liabilities			
Trade and other payables	24	7,067,731	5,339,752
Accrued interest / mark-up		51,187	46,789
Short term running finance	25	1,783,623	2,252,218
		8,902,541	7,638,759
Net current liabilities			
		(1,725,259)	(1,127,860)
Non current liabilities			
Deferred income tax liability	27	(1,082,038)	(1,137,581)
Net assets			
		3,333,935	3,602,087
Share capital and reserves			
Share capital	28	2,554,938	2,554,938
Revenue reserves		778,997	1,047,149
		3,333,935	3,602,087
Contingencies and commitments			
	29		

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


Graeme Amey
 Managing Director & CEO


Mobasher Raza
 Finance Director

Consolidated Cash Flow Statement

for the year ended December 31, 2011

	Note	2011 Rs '000	2010 Rs '000
Cash flows from operating activities			
Cash receipts from customers		67,422,034	60,262,561
Cash paid to Government for Federal excise duty, Sales tax and other levies		(45,211,155)	(39,535,501)
Cash paid to suppliers		(16,525,288)	(15,256,590)
Finance cost paid		(136,141)	(130,550)
Cash paid as royalty		(352,169)	(342,276)
Cash paid to employees and retirement funds		(2,711,246)	(2,743,686)
Income tax paid		(263,876)	(944,120)
Other cash payments		(64,245)	(160,938)
		2,157,914	1,148,900
Cash flows from investing activities			
Additions in property, plant and equipment		(1,167,254)	(645,833)
Proceeds from disposal of property, plant and equipment		32,073	43,952
Finance income received		39,160	36,933
		(1,096,021)	(564,948)
Cash flows from financing activities			
Dividends paid		(535,612)	(1,531,262)
Increase / (Decrease) in cash and cash equivalents		526,281	(947,310)
Cash and cash equivalents at beginning of year		(2,200,273)	(1,252,963)
Cash and cash equivalents at end of year		(1,673,992)	(2,200,273)
Cash and cash equivalents comprise:			
Cash and bank balances		109,631	51,945
Short term running finance		(1,783,623)	(2,252,218)
		(1,673,992)	(2,200,273)

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Consolidated Statement of Changes in Equity

for the year ended December 31, 2011

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2010	2,554,938	1,705,296	4,260,234
Comprehensive income:			
Profit for the year	-	925,100	925,100
Other comprehensive loss for the year	-	(50,284)	(50,284)
Total Comprehensive income for the year	-	874,816	874,816
Transactions with owners:			
Final dividend of Rs 4.75 per share relating to the year ended December 31, 2009	-	(1,213,596)	(1,213,596)
1st Interim dividend of Rs 1.25 per share relating to the year ended December 31, 2010	-	(319,367)	(319,367)
Total transactions with owners	-	(1,532,963)	(1,532,963)
Balance at December 31, 2010	2,554,938	1,047,149	3,602,087
Balance at January 1, 2011	2,554,938	1,047,149	3,602,087
Comprehensive income:			
Profit for the year	-	363,785	363,785
Other comprehensive loss for the year	-	(95,400)	(95,400)
Total Comprehensive income for the year	-	268,385	268,385
Transactions with owners:			
Final dividend of Rs 2.10 per share relating to the year ended December 31, 2010	-	(536,537)	(536,537)
Total transactions with owners	-	(536,537)	(536,537)
Balance at December 31, 2011	2,554,938	778,997	3,333,935

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



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

1. The Group and its operations

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

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

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

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

2. Statement of compliance

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

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

3. New and amended standards and interpretations

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 10, Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is effective for the accounting period beginning on or after January 1, 2013.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

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

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 is effective for the accounting period beginning on or after January 1, 2012.

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.

4. Summary of significant accounting policies

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

4.1 Basis of measurement

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

4.2 Consolidation - Subsidiaries

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

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

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

4.3 Segment reporting

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

4.4 Functional and presentation currency

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

4.5 Foreign currency transactions and translation

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

4.6 Revenue recognition

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

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

(a) Sale of goods

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

(b) Income on bank deposits

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

(c) Others

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

4.7 Current and deferred income tax

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

(a) Current

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

(b) Deferred

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

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.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

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

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

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

(b) Termination benefits

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

(c) Medical benefits

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

(d) Bonus plans

- (i) The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments and performance targets. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.
- (ii) The Group also operates a deferred bonus plan for certain eligible management staff members. These benefits are usually paid after 3 years from the date of grant of such an award unless otherwise authorized by the Compensation Committee of the Board of Directors. The obligation for these payments is recognised in the consolidated profit and loss account on a straight line basis to allocate the expected award amount over the term of the award.

4.12 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.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

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 asset's 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. Reversal 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.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

i) Held to maturity

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

(ii) Loans and receivables

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

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

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of 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 profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method.

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

4.17.3 Impairment

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

4.18 Trade debts

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the consolidated profit and loss account.

4.19 Trade and other payables

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

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

4.20 Borrowings

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

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

4.21 Dividend distribution

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

4.22 Cash and cash equivalents

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

4.23 Offsetting financial instruments

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

5. Financial risk management

5.1 Financial risk factors

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

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

(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), Great Britain Pound Sterling (GBP) and the Euro. Currently, the Group's foreign exchange risk exposure is restricted to bank balances, the amounts receivable/payable from/to the foreign entities and outstanding letters of credit.

Financial assets include Rs 187,601 thousand (2010: 61,018 thousand) and financial liabilities include Rs 460,393 thousand (2010: 159,402 thousand) which were subject to foreign exchange risk.

At December 31 2011, 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 17.73 million (2010: Rs 6.41 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 1,783,623 thousand (2010: Rs 2,252,218 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 11.59 million (2010: Rs 14.64 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.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

Counterparty	Rating		Rating Agency	Rs (million)	
	Short term	Long term		2011	2010
MCB Bank Limited	A1+	AA+	PACRA	25.08	16.32
Citibank N.A.	P-1	A1	Moody's	35.94	20.02
Deutsche Bank AG	P-1	Aa3	Moody's	45.97	11.12
Barclays Bank p.l.c	P-1	Aa3	Moody's	0.48	1.10
Habib Bank Limited	A-1+	AA+	JCR-VIS	-	1.99
National Bank of Pakistan	A-1+	AAA	JCR-VIS	-	0.63
				107.47	51.18

Trade debts, loans and advances and other receivables amounting to Rs 260 million (2010: Rs 137.35 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, 2011, the Group had Rs 3,566 million unutilised borrowing facilities from financial institutions and Rs 110 million cash and bank balances. Further, the Group also has strong financial support from its holding company. Based on the above, in spite the fact that the Group is in a negative working capital position at the year end, management believes the liquidity risk to be low.

5.2 Capital management

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

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

5.3 Fair value estimation

The carrying values of financial instruments approximate their fair values.

6. Critical accounting estimates and judgements

(a) Income taxes

The Group recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax/legal advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined. Deferred income tax (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) Employee benefits

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

(c) Property, plant and equipment

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
7. Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	5,318,558	4,915,788
Raw material purchases and expenses - note 7.1	13,121,930	11,436,719
Closing stock of raw materials and work in process	(5,376,669)	(5,318,558)
	13,063,819	11,033,949
Government taxes and levies		
Customs duty and surcharges	458,482	374,090
Provincial and municipal taxes and other duties	137,349	115,502
Excise duty on royalty	35,842	34,534
	631,673	524,126
	13,695,492	11,558,075
Royalty	358,468	345,340
Production overheads		
Salaries, wages and benefits	1,366,513	1,206,280
Stores, spares and machine repairs	443,334	351,581
Fuel and power	362,813	312,685
Insurance	32,498	25,445
Repairs and maintenance	127,490	120,481
Postage, telephone and stationery	10,753	12,152
Information technology	74,156	73,277
Depreciation	525,199	498,768
Stock written off	6,960	18,176
Stores and spares written off	24,953	9,578
Sundries	82,040	50,565
	3,056,709	2,678,988
Cost of goods manufactured	17,110,669	14,582,403
Cost of finished goods		
Opening stock	684,265	849,579
Closing stock	(1,085,661)	(684,265)
	(401,396)	165,314
Cost of sales	16,709,273	14,747,717
7.1 Raw material purchases and expenses		
Materials	12,059,600	10,525,185
Salaries, wages and benefits	490,922	421,119
Stores, spares and machine repairs	206,531	175,538
Fuel and power	136,222	100,181
Property rentals	44,607	39,827
Insurance	5,714	2,231
Repairs and maintenance	17,898	9,675
Postage, telephone and stationery	6,328	4,791
Depreciation	100,627	103,297
Sundries	53,481	54,875
	13,121,930	11,436,719

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
8. Selling and distribution expenses		
Salaries, wages and benefits	460,357	363,931
Selling expenses	2,151,830	2,473,812
Freight	282,209	235,187
Repairs and maintenance	103,323	88,974
Postage, telephone and stationery	7,044	7,937
Travelling	46,770	46,520
Property rentals	8,445	7,180
Insurance	7,549	7,960
Stock written off	4,413	2,318
Depreciation	57,998	45,571
	3,129,938	3,279,390
9. Administrative expenses		
Salaries, wages and benefits	703,725	614,252
Fuel and power	30,722	20,651
Property rentals	84,409	79,334
Insurance	4,514	5,261
Repairs and maintenance	44,075	51,916
Postage, telephone and stationery	15,359	17,340
Legal and professional charges	26,776	19,179
Donations - note 9.1	1,770	42,614
Information technology	220,200	152,210
Travelling	63,313	83,131
Depreciation	90,319	97,208
Auditor's remuneration and expenses - note 9.2	7,490	7,969
Sundries	29,041	42,100
	1,321,713	1,233,165

9.1 This includes an amount of Rs 1,600 thousand (2010: 42,164 thousand) paid to Gottfried Thoma - PTC Employees Benevolent Trust. A director of the Company is also trustee of this Trust.

	2011 Rs '000	2010 Rs '000
9.2 Auditor's remuneration and expenses include:		
– Statutory audit fee	1,295	1,177
– Group reporting, review of half yearly accounts, audit of consolidated accounts, special certifications and staff retirement benefit funds	2,831	2,580
– Tax services	2,969	3,886
– Out-of-pocket expenses	395	326
	7,490	7,969

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
10. Other operating expenses		
Employees' termination benefits	994,630	4,332
Workers' Profit Participation Fund	30,126	76,125
Workers' Welfare Fund	13,127	28,360
Bank charges and fees	32,037	38,800
Operating fixed assets written off	104,208	-
Other receivables written off	8,235	1,193
Security deposits written off	-	4,020
Provision for potential contractual obligation	-	53,000
Foreign exchange loss	-	2,215
Interest on Workers' Profit Participation Fund	-	166
	1,182,363	208,211
11. Other operating income		
Income from associated company	28,144	22,536
Gain on disposal of operating fixed assets	19,361	14,543
Foreign exchange gain	1,895	-
Miscellaneous	4,567	9,531
	53,967	46,610
12. Income tax expense		
Current	235,348	465,175
Deferred	(39,858)	27,734
	195,490	492,909

12.1 Effective tax rate reconciliation:

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

	2011 (%)	2010 (%)
Applicable tax rate	35.00	35.00
Tax effect of:		
Inadmissible expenses	0.12	0.17
Income taxed at different rate	(0.09)	(0.37)
Others	(0.08)	(0.04)
Average effective tax rate	34.95	34.76

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
12.2 Tax on items directly credited to statement of comprehensive income		
Current tax credit on defined benefit plans	(35,685)	(27,076)
Deferred tax credit on defined benefit plans	(15,685)	-
	(51,370)	(27,076)

	2011	2010
13. Earnings per share		
Profit after tax (Rs '000)	363,785	925,100
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share - Basic (Rs)	1.42	3.62

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 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	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	Key management personnel		Other executives		2011 Rs '000	2010 Rs '000
					2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000		
Managerial remuneration	56,315	55,817	47,673	58,966	188,608	170,207	456,932	379,637	749,528	664,627
Corporate bonus	19,983	8,142	91,079	70,529	148,839	72,760	167,811	58,082	427,712	209,513
Leave fare assistance	2,355	3,073	3,044	3,937	5,578	4,251	3,376	3,739	14,353	15,000
Housing and utilities	9,584	7,773	15,002	13,454	46,274	43,321	194,382	163,442	265,242	227,990
Medical expenses	42	3	2,080	1,191	5,806	7,888	31,268	19,343	39,196	28,425
Post employment benefits	11,247	9,194	8,206	7,168	27,811	31,064	103,973	79,599	151,237	127,025
	99,526	84,002	167,084	155,245	422,916	329,491	957,742	703,842	1,647,268	1,272,580
Number of persons	1	1	4	5	28	32	333	286	366	324

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 four (2010: six) non-executive directors of the Group amounted to Rs 3,916 thousand (2010: Rs 4,935 thousand).

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
15. Property, plant and equipment		
Operating assets - note 15.1	5,426,487	5,625,279
Capital work in progress - note 15.2	690,845	223,457
	6,117,332	5,848,736

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, 2010									
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 January 1, 2010	10,198	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,486,402
Year ended December 31, 2010									
Net book amount at January 1, 2010	10,198	378,178	11,238	26	4,507,625	224,845	72,997	281,295	5,486,402
Additions	-	38,330	-	-	562,349	113,747	11,885	186,819	913,130
Disposals	-	-	-	-	(8,031)	(5,689)	(4)	(15,685)	(29,409)
Depreciation charge	-	(15,330)	(435)	-	(534,902)	(64,703)	(11,830)	(117,644)	(744,844)
Net book amount at December 31, 2010	10,198	401,178	10,803	26	4,527,041	268,200	73,048	334,785	5,625,279
At January 1, 2011									
Cost	10,198	560,627	25,712	349	8,283,622	523,704	95,224	724,401	10,223,837
Accumulated Depreciation	-	(159,449)	(14,909)	(323)	(3,756,581)	(255,504)	(22,176)	(389,616)	(4,598,558)
Net book amount January 1, 2011	10,198	401,178	10,803	26	4,527,041	268,200	73,048	334,785	5,625,279
Year ended December 31, 2011									
Net book amount at January 1, 2011	10,198	401,178	10,803	26	4,527,041	268,200	73,048	334,785	5,625,279
Additions	-	17,479	-	-	502,206	86,716	9,280	76,589	692,270
Disposals	-	-	-	-	(80,963)	(19,797)	(3,832)	(12,327)	(116,919)
Depreciation charge	-	(16,185)	(432)	-	(547,204)	(73,056)	(13,827)	(123,439)	(774,143)
Net book amount at December 31, 2011	10,198	402,472	10,371	26	4,401,080	262,063	64,669	275,608	5,426,487
At December 31, 2011									
Cost	10,198	578,105	25,712	349	8,643,056	568,501	99,661	738,128	10,663,710
Accumulated depreciation	-	(175,633)	(15,341)	(323)	(4,241,976)	(306,438)	(34,992)	(462,520)	(5,237,223)
Net book amount at December 31, 2011	10,198	402,472	10,371	26	4,401,080	262,063	64,669	275,608	5,426,487

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
15.2 Capital work in progress		
Civil and electrical works	12,563	12,563
Plant and machinery	582,679	195,265
Advances to suppliers	95,603	15,629
	690,845	223,457
15.3 Depreciation charge has been allocated as follows:		
Cost of sales	525,199	498,768
Raw material purchases and expenses	100,627	103,297
Selling and distribution expenses	57,998	45,571
Administrative expenses	90,319	97,208
	774,143	744,844

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

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers
Vehicles				
- as per Company's policy	845	85	85	Syed Hammad Ali - Employee
	885	89	89	Muhammad Gulzar - Employee
	980	98	302	Syed Khurram Shah - Employee
	1,014	317	560	Athar Sultan - Employee
	1,309	131	131	Athar Baig - Employee
	1,319	132	238	Younis Jan Durrani - Ex Employee
	1,370	137	344	Najeeb Ur Rehman - Ex Employee
	1,809	678	1,095	Hina Ahmed - Ex Employee
	2,214	221	650	Iqtidar Ahmed - Ex Employee
	2,750	630	1,435	Wajid Ali - Ex Employee
	2,899	423	1,176	Zahid Ul Islam - Ex Employee
	6,093	609	609	Mobasher Raza - Employee
- by auction	604	60	552	Sujawal Khan - Islamabad
	739	74	773	Sheryar Khan - Charsadda
	835	84	694	Falak Naaz - Buner
	835	84	994	S.M Ahsan Zaidi - Islamabad
	845	85	880	Huzaifa - Islamabad
	845	85	991	Mohammad Azam - Islamabad
	881	88	950	Syed Tayyab Tahir - Lahore
	885	88	688	Rizwan Mazher - Rawalpindi
	1,024	102	931	Raja Farooq - Rawalpindi
	1,051	105	547	Aziz Khan - Rawalpindi
	1,309	131	900	Zahid Qadri - Karachi
	1,503	150	738	Tahir Zada - Blambat, Lower Deer
	1,852	185	875	Syed Tayyab Tahir - Lahore
	4,320	432	1,207	Raja M.Naveed - Rawalpindi

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Original Cost Rs '000	Book Value Rs '000	Sale Proceeds Rs '000	Particulars of Buyers		
- by insurance claim	558	244	495	New Hampshire Insurance Company		
	575	503	545	-do-		
	580	398	545	-do-		
	651	232	595	-do-		
	683	270	595	-do-		
	1,309	131	1,345	-do-		
	1,790	1,454	1,785	-do-		
	1,869	1,168	1,745	-do-		
					2011 Rs '000	2010 Rs '000
16. Long term loans - unsecured, considered good						
Related parties						
Key management personnel					164	452
Others						
Executives					2,856	3,817
Other employees					-	1,698
					2,856	5,515
					3,020	5,967
Less: Receivable within one year					1,760	2,550
					1,260	3,417

16.1 Reconciliation of loans:

	Executives				Other employees		Total	
	Key management personnel		Other executives		2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000				
Balance as at January 1	452	487	3,817	6,629	1,698	4,313	5,967	11,429
Disbursements	-	-	-	-	-	-	-	-
Repayments	288	35	961	2,812	1,698	2,615	2,947	5,462
Balance as at December 31	164	452	2,856	3,817	-	1,698	3,020	5,967

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:

	2011 Rs '000	2010 Rs '000
Key management personnel	382	651
Other executives	5,073	7,256
	5,455	7,907

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
17. Long term deposits and prepayments		
Security deposits	17,000	10,540
Prepayments	5,640	4,835
	22,640	15,375
18. Stock-in-trade		
Raw materials	5,119,241	5,130,471
Raw materials in transit	207,493	144,924
Work in process	49,935	43,163
Finished goods	1,085,661	684,265
	6,462,330	6,002,823
19. Stores and spares		
Stores	2,210	1,506
Machine spares	187,900	197,701
	190,110	199,207
20. Trade debts		
Considered good	1,202	1,597
Considered doubtful	2,322	2,322
	3,524	3,919
Provision for doubtful debts	(2,322)	(2,322)
	1,202	1,597
21. Loans and advances - unsecured, considered good		
Related parties		
Loans to key management personnel	67	113
Advances due from key management personnel	-	3,208
Others		
Loans to executives and other employees	1,693	2,437
Advances due from executives and other employees - note 21.1	32,370	25,910
Advances due from others	30,180	16,599
	64,310	48,267

21.1 Includes Rs 19,828 thousand (2010: Rs 17,662 thousand) due from executives of the Group.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
22. Other receivables		
Related parties - unsecured		
Due from holding company / associated companies - note 22.1	134,426	39,221
Management's Provident Fund	1,354	7,406
Employees' Provident Fund	-	2,013
Others		
Claims	7,494	18,067
Workers' Profit Participation Fund	5,874	1,875
Margin against guarantees	24,868	-
Others	2,212	4,943
	176,228	73,525
22.1 The amount due from holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	5,055	2,513
Associated Companies		
PT Bentoel Prima - Indonesia	93,610	-
BAT SAA Services (Private) Limited - Pakistan	28,738	12,918
BAT Marketing (Singapore) Pte Ltd - Singapore	2,044	16,949
BAT Asia-Pacific Region Ltd - Hong Kong	1,681	1,683
Rothmans Far East B.V - South Korea	1,003	-
BAT Switzerland SA	779	-
BAT (Singapore) Pte Ltd - Singapore	710	589
BAT ASPAC Service Center Sdn Bhd - Malaysia	528	670
BAT PNG - Papua New Guinea	278	-
BAT Vietnam Ltd - Vietnam	-	2,246
BAT Western Europe Area - Netherland	-	583
BAT (Taiwan) Ltd - Taiwan	-	289
BAT Equatorial Africa Area Ltd - Kenya	-	273
BAT Australia Ltd EFT - Australia	-	196
BAT Egypt - Egypt	-	187
BAT (Malaysia) Berhad - Malaysia	-	125
	134,426	39,221
23. Cash and bank balances		
Deposit accounts	16,883	14,104
Current accounts		
Local currency	1,845	5,941
Foreign currency	81,913	31,139
	100,641	51,184
Cash in transit	6,828	-
Cash in hand	2,162	761
	109,631	51,945

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
24. Trade and other payables		
Related parties - unsecured		
Due to holding company / associated companies - note 24.1	451,905	198,914
Others		
Creditors	1,095,633	910,153
Federal excise duty - note 24.2	2,781,825	2,779,617
Sales tax	613,880	648,206
Tobacco excise duty / Tobacco development cess - note 24.3	70,770	76,292
Employees' termination benefits	985,908	-
Other employee benefits - note 24.4	565,749	274,238
Retirement benefits - note 26	205,704	85,621
Staff pension fund - defined contribution	127	889
Employees' Provident Fund	741	-
Workers' Welfare Fund	26,661	40,854
Other accrued liabilities	217,893	206,017
Advances from customers	2,737	74,457
Security deposits	16,883	14,104
Unclaimed dividend	31,315	30,390
	7,067,731	5,339,752
24.1 The amount due to holding company / associated companies comprises:		
Holding Company		
British American Tobacco p.l.c. - UK	149,671	80,805
Associated Companies		
BAT GLP Ltd - UK	107,858	-
BAT Asia-Pacific Region Ltd - Hong Kong	73,786	69,679
BAT Marketing (Singapore) Pte Ltd - Singapore	70,939	25,522
BAT ASPAC Service Center Sdn Bhd - Malaysia	43,731	18,213
Ceylon Tobacco Company Plc - Sri Lanka	4,016	278
BAT SA Ltd - South Africa	1,068	-
BAT Bangladesh Co. Ltd - Bangladesh	-	3,727
BAT (Malaysia) Berhad - Malaysia	836	612
BAT Hungary - Hungary	-	55
Rothmans Far East B.V - South Korea	-	23
	451,905	198,914
24.2 Federal excise duty		
Balance as at January 1	2,779,617	2,604,744
Charge for the year	34,719,661	30,476,421
Payment to the Government during the year	(34,717,453)	(30,301,548)
Balance as at December 31	2,781,825	2,779,617

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000
24.3 Tobacco excise duty / Tobacco development cess:		
Balance as at January 1	76,292	66,783
Charge for the year	89,536	78,972
Payment to the Government during the year	(95,058)	(69,463)
Balance as at December 31	70,770	76,292
24.4 Other employee benefits		
Balance as at January 1	274,238	317,769
Charge for the year	526,518	300,135
Payment to employees during the year	(235,007)	(343,666)
Balance as at December 31	565,749	274,238

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 5,350 million (2010: Rs 5,350 million), out of which the amount unavailed at the year end was Rs 3,566 million (2010: Rs 3,098 million). These facilities are secured by hypothecation of stock in trade and plant & machinery amounting to Rs 5,940 million (2010: Rs 5,940 million). The mark-up ranges between 12.42% and 14.79% (2010: 12.72% and 14.39%) 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 (2010: Rs 2,500 million) and Rs 355 million (2010: Rs 355 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 588 million (2010: Rs 748 million) and Rs 109 million (2010: Rs 200 million). The letter of guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 355 million (2010: Rs 355 million).

	2011 Rs '000	2010 Rs '000
26. Retirement benefits		
Staff pension fund	158,626	51,640
Employees gratuity fund	47,078	33,981
	205,704	85,621

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2011 using the projected unit credit method. Details of the defined benefit plans are:

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Defined benefit pension plan		Defined benefit gratuity plan	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
(a) The amounts recognised in the balance sheet:				
Present value of defined benefit obligations	2,841,970	2,399,679	792,745	683,533
Fair value of plan assets	(2,683,344)	(2,348,039)	(745,667)	(649,552)
Net liability	158,626	51,640	47,078	33,981
(b) Movement in the liability recognized in the balance sheet is as follow:				
Balance as at January 1	51,640	14,206	33,981	45,201
Charge for the year - profit & loss	70,544	58,042	33,742	32,494
Charge for the year - statement of comprehensive income	107,313	50,959	39,457	26,401
Employer's contribution during the year	(70,871)	(71,567)	(60,102)	(70,115)
Balance as at December 31	158,626	51,640	47,078	33,981
(c) The amounts recognised in the profit and loss account:				
Current service cost	95,271	94,207	32,674	29,860
Interest cost	354,861	267,722	96,129	73,324
Expected return on plan assets	(337,442)	(265,045)	(91,279)	(67,527)
Members' own contribution	(26,341)	(26,298)	-	-
Secondees' own contribution	(5,246)	(4,417)	-	-
Contribution by employer in respect of secondees	(10,559)	(8,127)	(3,782)	(3,163)
	70,544	58,042	33,742	32,494
(d) The aggregate amounts recognised in the statement of comprehensive income:				
Actuarial losses as at January 1	456,420	405,461	265,547	239,146
Actuarial losses on defined benefit obligations	121,344	37,773	69,571	28,101
Actuarial losses / (gains) on plan assets	(14,031)	13,186	(30,114)	(1,700)
	107,313	50,959	39,457	26,401
Actuarial losses as at December 31	563,733	456,420	305,004	265,547
(e) Changes in the present value of defined benefit obligation:				
Present value of defined benefit obligation as at January 1	2,399,679	2,100,232	683,533	586,297
Current service cost	95,271	94,207	32,674	29,860
Interest cost	354,861	267,722	96,129	73,324
Actual benefits paid during the year	(129,185)	(100,255)	(89,162)	(34,049)
Actuarial losses	121,344	37,773	69,571	28,101
Present value of defined benefit obligation as at December 31	2,841,970	2,399,679	792,745	683,533

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Defined benefit pension plan		Defined benefit gratuity plan	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
(f) Changes in the fair value of plan assets:				
Fair value of plan assets as at January 1	2,348,039	2,086,026	649,551	541,096
Expected return on plan assets	337,442	265,045	91,279	67,527
Contribution by employer in respect of members	70,871	71,567	60,102	70,115
Members' own contribution	26,341	26,298	-	-
Secondees' own contribution	5,246	4,417	-	-
Contribution by employer in respect of secondees	10,559	8,127	3,782	3,163
Actual benefits paid during the year	(129,185)	(100,255)	(89,162)	(34,049)
Actuarial (losses) / gains	14,031	(13,186)	30,114	1,700
Fair value of plan assets as at December 31	2,683,344	2,348,039	745,666	649,552
Actual return on plan assets	341,127	254,909	116,913	64,711

During the year 2012 the Company expects to contribute Rs 76.804 million and Rs 40.627 million to its defined benefit pension plan and defined benefit gratuity plan respectively.

	Defined benefit pension plan		Defined benefit gratuity plan	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
(g) The major categories of plan assets:				
Investment in equities	348,386	218,145	-	81,754
Investment in bonds	2,328,743	2,122,487	745,142	565,283
Cash	6,215	2,279	525	2,460
Other assets	-	5,128	-	55
	2,683,344	2,348,039	745,667	649,552
(h) Significant actuarial assumptions at the balance sheet date:				
Discount rate	12.50%	14.50%	12.50%	14.50%
Expected rate of return on plan assets	12.50%	14.50%	12.50%	14.50%
Expected rate of increase in salary				
First year	14.00%	13.00%	14.00%	13.00%
Second year onwards	11.50%	13.00%	11.50%	13.00%
Pension increase rate	8.50%	10.50%	-	-

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

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011 Rs '000	2010 Rs '000	2009 Rs '000	2008 Rs '000	2007 Rs '000
(i) Amounts for the current and previous four years:					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	2,841,970	2,399,679	2,100,232	1,769,557	1,704,382
Fair value of plan assets	(2,683,344)	(2,348,039)	(2,086,026)	(1,232,749)	(1,367,884)
Deficit	158,626	51,640	14,206	536,808	336,498
Experience (gain)/loss on obligation	28,146	37,773	83,719	63,120	122,206
Experience (gain)/loss on plan assets	(3,685)	10,136	(166,211)	333,376	(12,878)
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	792,745	683,533	586,297	460,720	490,379
Fair value of plan assets	(745,667)	(649,552)	(541,096)	(258,395)	(337,374)
Deficit	47,078	33,981	45,201	202,325	153,005
Experience (gain)/loss on obligation	25,977	28,101	63,208	73,527	46,209
Experience (gain)/loss on plan assets	(26,008)	2,816	(40,000)	64,891	(152)

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

	2011 Rs '000	2010 Rs '000
Provident Fund	59,340	56,290
Pension Fund	70,544	58,042
Gratuity Fund	33,742	32,494
	163,626	146,826

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.

	2011 Rs '000	2010 Rs '000
The offset amounts are as follows:		
Deferred tax assets	(25,916)	(10,231)
Deferred tax liabilities	1,107,954	1,147,812
Deferred tax liability (net)	1,082,038	1,137,581
The gross movement on deferred income tax account is as follows:		
At January 1	1,137,581	1,109,847
Charge/(Credit) for the year - profit and loss account (note 12)	(39,858)	27,734
(Credit) for the year - statement of comprehensive income (note 12.2)	(15,685)	-
At December 31	1,082,038	1,137,581

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

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.

	2011 Rs '000	2010 Rs '000
Balance as at January 1	(10,231)	(10,231)
(Credit) for the year - statement of comprehensive income	(15,685)	-
Balance as at December 31	(25,916)	(10,231)

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

	2011 Rs '000	2010 Rs '000
Balance as at January 1	1,147,812	1,120,078
Charge/(Credit) for the year - profit and loss account	(39,858)	27,734
Balance as at December 31	1,107,954	1,147,812

28. Share capital

28.1 Authorized share capital

	2011 (Number of Shares)	2010 (Number of Shares)		2011 Rs '000	2010 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

	2011 (Number of Shares)	2010 (Number of Shares)		2011 Rs '000	2010 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 (2010: 241,045,141) ordinary shares at the year end.

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

	2011 Rs '000	2010 Rs '000
29. Contingencies and commitments		
29.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Group not acknowledged as debt	131,800	127,050
(ii) Guarantees issued by banks on behalf of the Group	108,747	199,608

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

(b) Litigation

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

29.2 Commitments

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

	2011 Rs '000	2010 Rs '000
No later than one year	32,801	20,099
Later than one year and no later than five years	285,430	91,171
Later than five years	26,739	35,898

(b) Letters of credit outstanding at December 31, 2011 were Rs 587,861 thousand (2010: Rs 748,185 thousand).

30. Financial instruments

	Loans and receivables	
	2011 Rs '000	2010 Rs '000
Financial assets and liabilities		
Financial assets		
Maturity up to one year:		
Trade debts	1,202	1,597
Loans and advances	64,310	48,267
Other receivables		
Local Currency	70,540	43,646
Foreign Currency	105,688	29,879
Cash and bank balances		
Local Currency	27,718	20,806
Foreign Currency	81,913	31,139
Maturity after one year:		
Loans	1,260	3,417
Security deposits	17,000	10,540
	369,631	189,291
	Other financial liabilities	
	2011 Rs '000	2010 Rs '000
Financial liabilities		
Maturity up to one year:		
Federal excise duty and sales tax payable	3,395,705	3,427,823
Other trade payables		
Local Currency	3,208,898	1,678,070
Foreign Currency	460,393	159,402
Accrued interest / mark-up	51,187	46,789
Short term running finance	1,783,623	2,252,218
	8,899,806	7,564,302

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

31. Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2010: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT-IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Group. Such entities are also referred to as 'BAT' in these consolidated financial statements. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise the influence. The amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of the chief executive, directors, key management personnel and executives is given in note 14 to the consolidated financial statements.

	2011 Rs '000	2010 Rs '000
Purchase of goods and services from		
Holding company	267,846	192,129
Associated companies	1,702,866	1,370,643
Sale of goods and services to		
Holding company	7,373	5,266
Associated companies	651,715	433,066
Royalty charge from		
Holding company	358,468	345,340
Expenses reimbursed to		
Associated companies	854	553
Expenses reimbursed by		
Holding company	2,119	134
Associated companies	2,966	1,671

32. Post balance sheet event

Final dividend in respect of the year ended December 31, 2011 of Rs 1.00 (2010: Rs 2.10) per share amounting to a total dividend of Rs 255,494 thousand (2010: 536,537 thousand) has been proposed, over and above the interim dividend of Rs nil (2010: Rs 1.25) per share paid during the year, out of the revenue reserves at the Board of Directors meeting held on March 19, 2012. These consolidated financial statements do not reflect this proposed dividend.

33. General

33.1 Capacity and production

Against an estimated manufacturing capacity of 45,184 million (2010: 45,270 million) cigarettes, actual production was 40,537 million (2010: 36,196 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, 2011 was 1,543 (2010: 1,597).

33.3 Date of authorization for issue

These consolidated financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on March 19, 2012.



Graeme Amey
Managing Director & CEO



Mobasher Raza
Finance Director

Form of Proxy

Pakistan Tobacco Company Limited

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

as my proxy to vote for me and on my behalf at the 65th Annual General Meeting of the Company to be held on the 24th April, 2012 and at any and every adjournment thereof.

As witness my hand this _____ day of _____ 2012.

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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Islamabad 4400