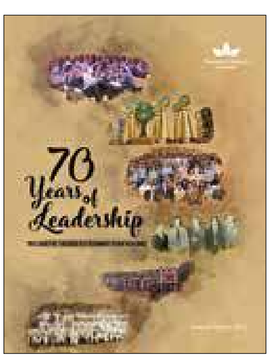
PAKISTAN TOBACCO COMPANY

70 Years of Leadership

THIS LEGACY OF 7 DECADES IS A TESTAMENT TO OUR RESILIENCE

Annual Report 2017



70 YEARS OF **LEADERSHIP**

THIS LEGACY OF 7 DECADES IS A TESTAMENT TO OUR RESILIENCE

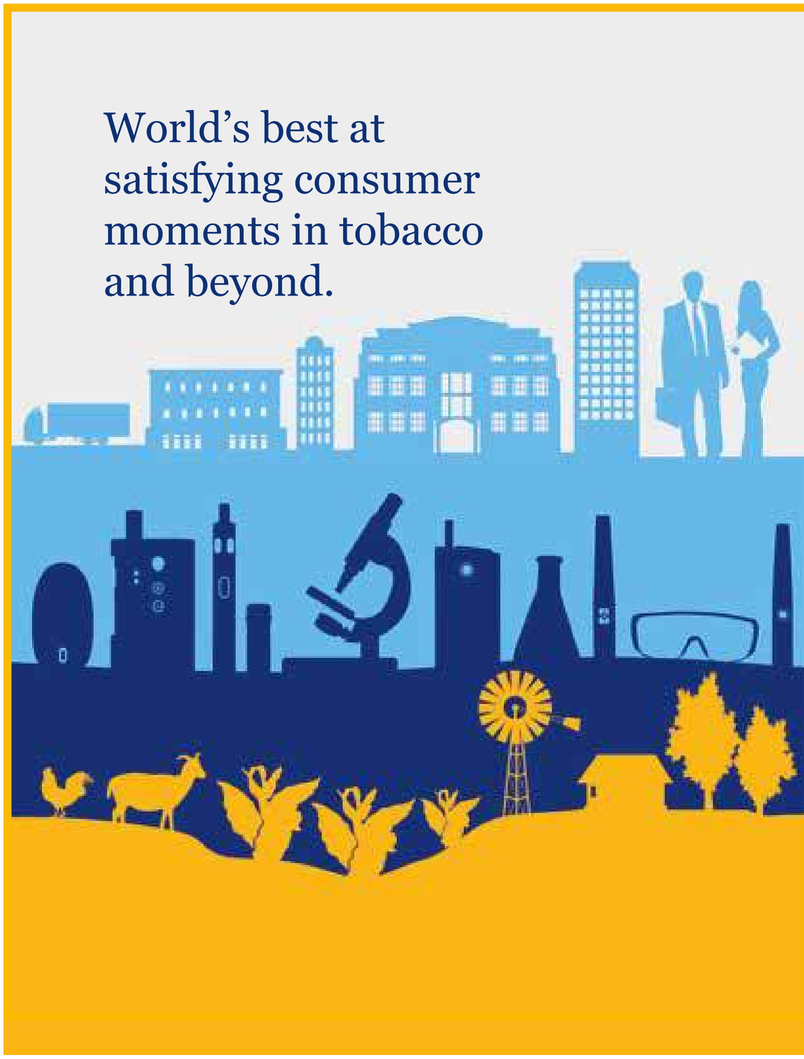
Pakistan Tobacco Company Limited (PTC) has created a proud legacy of excellence, commitment and resilience. The Company has spent 7 decades honing its craft, overcoming various challenges and navigating the business landscape of Pakistan with remarkable leadership. In honour of our journey we celebrate this rich history in the Special Edition feature of our Annual Report.

AWARDS & **ACCOLADES**

TABLE OF **CONTENTS**

OUR **VISION**

Our consumers are at the core of everything we do and our success depends on addressing their preferences, concerns and behaviours. We know that these are fragmenting and evolving at an unprecedented pace, and consequently, we are focusing on providing a range of tobacco and nicotine products across the risk spectrum. In addition, we are clear that to win in this space we need to understand our consumers' preferences and further invest in a pipeline of ever evolving innovations.



OUR **MISSION**

Delivering our commitments to society, while championing informed consumer choice.

We have long known that, as a major international business, we have a responsibility to address societal issues with our tobacco products, and that, as our business continues to grow, so does our influence and the responsibility that comes with it. We are also clear that we have a duty to our shareholders to ensure we continue to deliver today and invest for a sustainable future and to our consumers to provide, in addition to our combustible products, a range of potentially reduced-risk products such as NGPs and oral tobacco products. Our transforming tobacco ambition, with its core objective of providing consumers with more choice, more innovation and less risk will allow us to: satisfy these consumers; address societal concerns at large through the growth of multiple categories of potentially reduced-risk tobacco and nicotine products; and provide a sustainable, profitable future for our shareholders.

OUR **GUIDING PRINCIPLES**

Our Guiding Principles provide clarity about what we stand for. They form the core of our culture and guide how we deliver our strategy.

Strength from Diversity

Our management population comprises people from over 140 nations, giving us unique insights into local markets and enhancing our ability to compete across the world. We respect and celebrate each other's differences and enjoy working together. We harness diversity – of our people, cultures, viewpoints, brands, markets and ideas – to strengthen our business. We value what makes each of us unique.

Open Minded

Our corporate culture is a great strength of the business and one of the reasons we have been, and will continue to be, successful. We are forward-looking and anticipate consumer preferences, winning with innovative, high-quality products. We listen to, and genuinely consider, other perspectives and changing social expectations. We are open to new ways of doing things.

Enterprising Spirit

We value enterprise from all of our employees across the world, giving us a great breadth of ideas and viewpoints to enhance the way we do business. We have the confidence to passionately pursue growth and new opportunities while accepting the considered entrepreneurial risk that comes with it. We are bold and strive to overcome challenges. This is the cornerstone of our success.

Freedom through Responsibility

We give our people the freedom to operate in their local environment, providing them with the benefits of our scale but also the ability to succeed locally. We always strive to do the right thing, exercising our responsibility to society and other stakeholders. We use our freedom to take decisions and act in the best interest of consumers.

BAT: A TRULY **GLOBAL ORGANIZATION**

Founded in 1902, British American Tobacco (BAT) is one of the world's leading consumer goods companies and provides tobacco and nicotine products to millions of consumers around the world. It has presence in more than 200 markets and has a market leadership in more than 55 countries and factories in 42. Employing more than 55,000 people worldwide, BAT is proud that it is frequently rated as a top employer in different countries around the world.

With more than a century's legacy of being the leaders in driving change through innovation, BAT is passionate about its tobacco business and takes pride in offering consumers a choice of high-quality products and market-leading innovations that meet the varied preferences of consumers.

In July 2017, British American Tobacco p.l.c acquired the remaining 57% of Reynolds American Inc. (RAI) that BAT did not own, creating a stronger, global tobacco and Next Generation Products company. The addition of RAI's operating companies means BAT's combined portfolio now also includes three out of the four best-selling cigarette brands in the US as well as one of the leading brands sold in the US Vapour Products retail market.

BAT has not just revolutionized the markets it operates in with the state of the art processes and sophisticated mechanisms but has also developed the talent of these countries – giving them opportunities of international exposure and capacity building.

Leading
Public Listed Tobacco Company in the World

No. 1
Certified as a Top Employer in Europe, and Asia-Pacific in 2017 by the Top Employer Institute

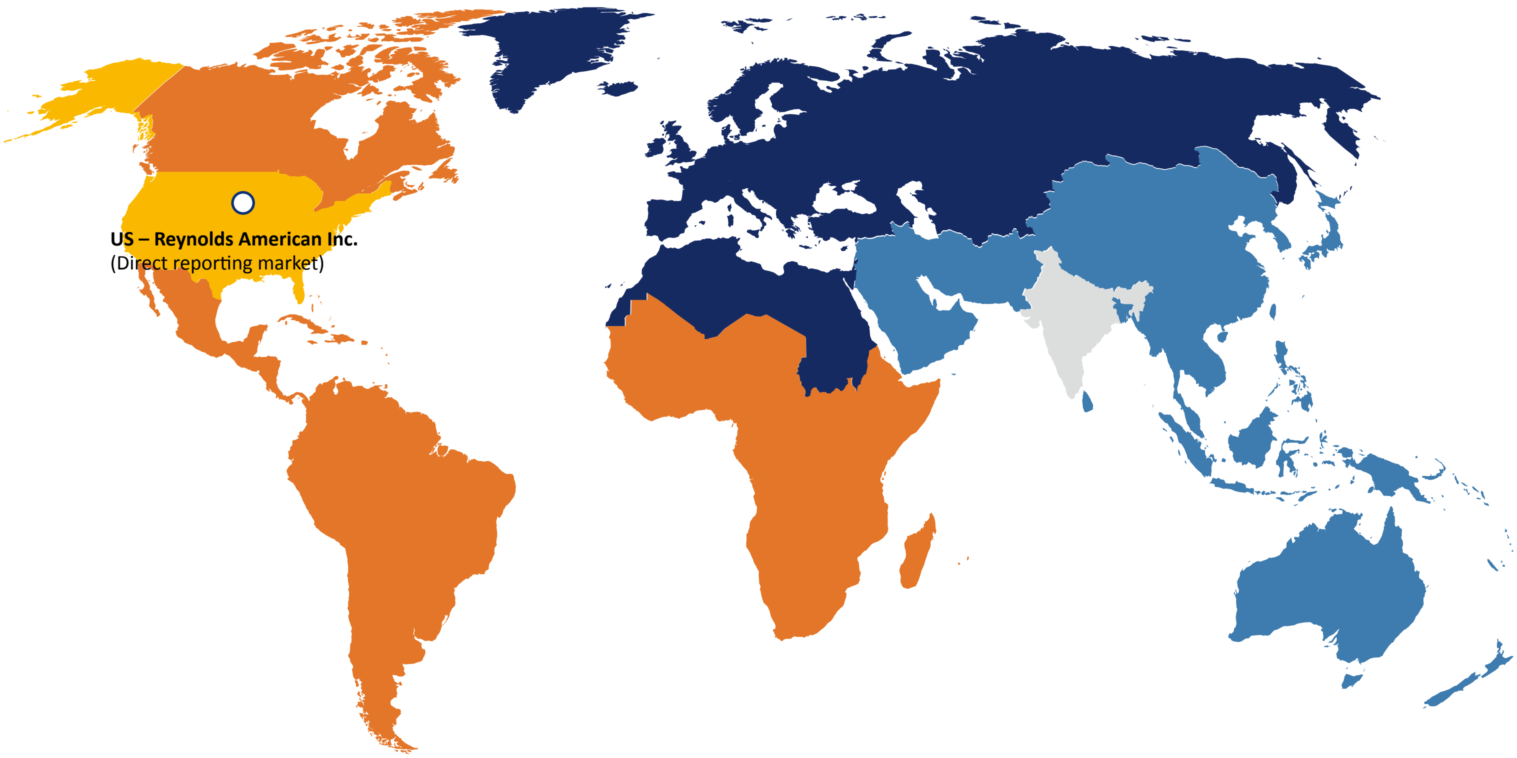
200+
Markets we have a presence in

55,000+
Employees Worldwide

143
Nationalities represented at management level

1902
That's the year we were founded, before the Wright Brothers flew the world's first aeroplane.

BAT'S GLOBAL FOOTPRINT



Americas & Sub-Saharan Africa (AmSSA)

- Brazil
- Canada
- East & Central Africa Area
- Mexico & Central America Area
- Southern Africa Area
- South Americas North & Caribbean Area
- Southern Cone Area
- West Africa Area

Europe & North Africa (ENA)

- DACH Area
- Northern Central Europe Area
- Northern Europe Area
- Russia
- Southern Central Europe Area
- Southern Europe Area
- Turkey & North Africa Area
- Ukraine, Caucasus, Central Asia & Belarus
- Western Europe Area

Asia-Pacific & Middle East (APME)

- Australasia Area
- Bangladesh
- China JV
- East Asia Area
- Greater North Asia Area
- Indonesia
- Malaysia Area
- Middle East Area
- South Asia Area

PAKISTAN TOBACCO COMPANY Limited

1947

Pakistan Tobacco Company Limited, Lahore Office PTC Staff & Distributors

Before the independence of Pakistan, British American Tobacco had a subsidiary by the name of Imperial Tobacco Company. It was established in 1910 but after partition in 1947, it is now operational in India under the name of I.T.C Limited. Pakistan Tobacco Company Limited (PTC) was established in 1947. This history of 70 years, since the establishment of PTC, is a testimony of our leadership and the resilience of our people.

We take pride in the fact that we have employees, suppliers, valued business partners from all spheres of life, making PTC a conglomerate of different cultures and traditions. Our processes are seamless only with the support of our most valued business partners who share our success in each and every step of our product making.

By being instrumental in designing and driving state-of-the-art agricultural and industrial processes, we have managed to stay innovative through-out our supply chain. There has been a ceaseless effort to modernize the Company's operations by introducing new and revolutionary concepts, optimal processes and cutting-edge technology. PTC's systems and processes are considered benchmarks by other businesses and we have also been able to transfer international best practices to the local business partners in trade and distribution.

Our ground-breaking success as a local champion is because of our illustrious international experience, heritage of brands and richness of corporate values.

Our story of 70 resilient years encapsulates the key milestones we have thus far crossed, intertwined with the meaningful contribution we have made along the way in social and economic terms. Our journey continues as we endeavor to outdo ourselves in setting the highest standards of corporate excellence.

1940s PrePartition

ITC Lahore office with staff and distributers

1950s

Mr. R. P. Dobson - Director BAT

1960s

Mr. P. D. Tindeley & Mr. D. R. Clarke - Vice Chairman BAT

1970s

Mr. R.I. Willans - Chairman PTC

1980s

Mr. S. Muhammad Sarwat Ali GM Finance - PTC

1990s

Mr. Sean O' Hara - BAT

2000s

Mr. Dale McLean & Mr. Peter Geubels from BAT Regional & Global Team

2017

Regional and Global teams visit to Pakistan

OUR NATIONAL FOOTPRINT

18 LEAF DEPOTS

Buner, Shergarh, Takhbahi, Jamalgarhi, Mandani, Sharif Abad, Fujoon, Dagai, Firdausabad, Roshan Pura, Chamla, Bherkhund, Paikhel, Fatehpur, Okara, Baffa, Yar Hussain, Gujrat

04 REGIONAL TRADE OFFICES

Lahore, Rawalpindi, Multan, Karachi

02 FACTORIES

Jhelum, Akora Khattak

12 WAREHOUSES

Sargodha, Jhelum, Islamabad, Gujranwala, Lahore, Faisalabad, Okara, Multan, Karachi, Hyderabad, Sukhar, Quetta

17 SALES OFFICES

Quetta, Sukhar, Hyderabad, Nawabshah, Sahiwal, Bahawalpur, Gujranwala, Faisalabad, Peshawar, Jhelum, Sargodha, Karachi, Multan, D.G. Khan, Lahore, Islamabad, Northern Area

06 REGIONAL LEAF OFFICES

Buner, Mansehra - Baffa, Mianwali, Gujrat, Yar Hussain, Mardan

GREEN **TO GOLD**

WE SOURCE TOBACCO FROM OVER 10,000 FARMERS AND HAVE PUT IN PLACE A RANGE OF SUSTAINABILITY INITIATIVES WITH THE FARMING COMMUNITIES.

1947-1950s

ESTABLISHMENT

The 40s and 50s were periods of crop and curing infrastructure establishment. During this era of establishment, PTC kept striving for embedding good tobacco crop growing, grading and bailing practices to establish the crop and make it a viable farmer option. We simultaneously set up our model of contracted farming.

1960s

EXPANSION

The 60s was characterized by crop expansion. By this time our extension services network spread throughout the country as we made our farmer base superior examples of economic uplift. We established the first Conditioning and Classifying (CnC) lines for green leaf processing spanning this era, a major mechanical transformation where we transitioned from redrying to tobacco threshing.

1970s-1990s

SEEKING NEW AVENUES

This period was characterized by spreading our footprint in the premium leaf belts. Leaf spread into Mansehra and Swat Regions growing different tobacco types. Today Mansehra and Buner are the main areas for premium tobacco in Pakistan.

2000-2008

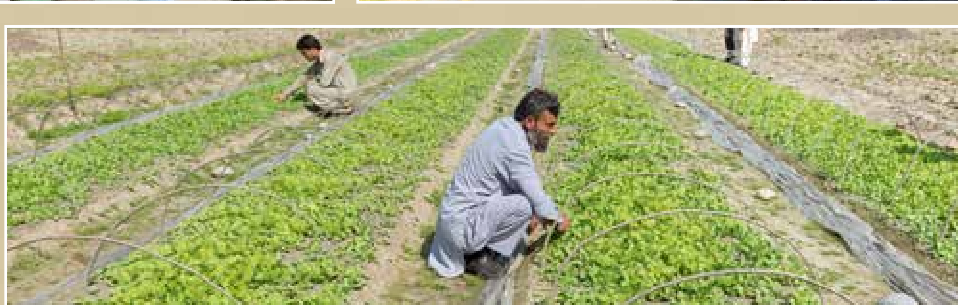
SUSTAINING

We spread into the Punjab province in the late 2000s. We also adopted the global green leaf grading model at this time, beginning the exercise of internal grading for consistent blends in all our Leaf Depots. We upgraded our Green Leaf Threshing (GLT) at this time as well, by introducing a second line and installing four new classifiers increasing our processing capability to 16 tonnes/ hour.

2009-2017

TRANSFORMATION

We embarked on the Farmer Loyalty Progam, a flagship program focusing on recognition and reward to further cement our relation with farmers. We transformed the Leaf Sustainability space, by fully transitioning from Social Responsibility in Tobacco Production (SRTP) to the industry wide Sustainable Tobacco Program (STP). Here we are working very closely with farmers on elements of Crop, Environment and People. We are running dedicated programs on Farm Safety, curbing Child Labour in Tobacco, disposing hazardous waste, protecting our natural forest cover and precious land and water resources.




The BAT Way
Vision
Mission
Strategy Pillars
Guiding Principles
Where We Will Win
Must Dos

TORCHBEARERS OF **INNOVATION**

1947-1949

Established our factory in Karachi

Setup a manufacturing unit in Dhaka

1953-1956

Akora Khattak Factory site inauguration

Jhelum and Chittagong factories were constructed and manufacturing operations kickstarted

1971-1974

In-House Filter Manufacturing started in our Factory

After 1971, Akora Khattak Factory was commissioned as a cigarette factory

Chittagong and Dhaka factories consequently became a part of BAT Bangladesh

1996-2000

In-House Printing Operation was closed and packages capability was built to supply blanks

1st Induction of High Speed Technology of Loga (8,000 ppm) and GDX-2 (360 ppm) machinery

Karachi factory closed in 1992

2001-2006

Jhelum and Akora Khattak factories successfully achieved their ISO 9001/14001 /SA 8000 Certifications

1st Induction of Protos 90ER (10,000 cpm) and GDX-3 (500 ppm) machinery

2009-2011

Our Jhelum Factory became the 1st 5S Certified Factory of Pakistan

2013-2017

We started our journey towards technology footprint upgradation (Protos) and successfully deployed TaO

We embarked on the Integrated Work System (IWS) in Aug '15 and successfully completed the fastest roll out. JF is 2nd best in OEE in the BAT world and has delivered the highest OEE in Aug '17.

BRICK BY BRICK

FACTORY CONSTRUCTION

1955

1960

2017

BIT BY BIT

CIGARETTE MAKING FOOTPRINT

1200 CPM

2000 CPM

10,000 CPM

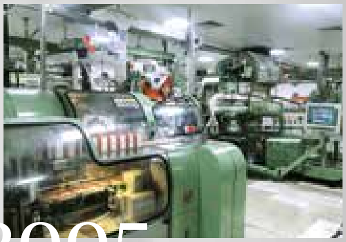
CPM: Cigarettes Per Minute

INCH BY INCH

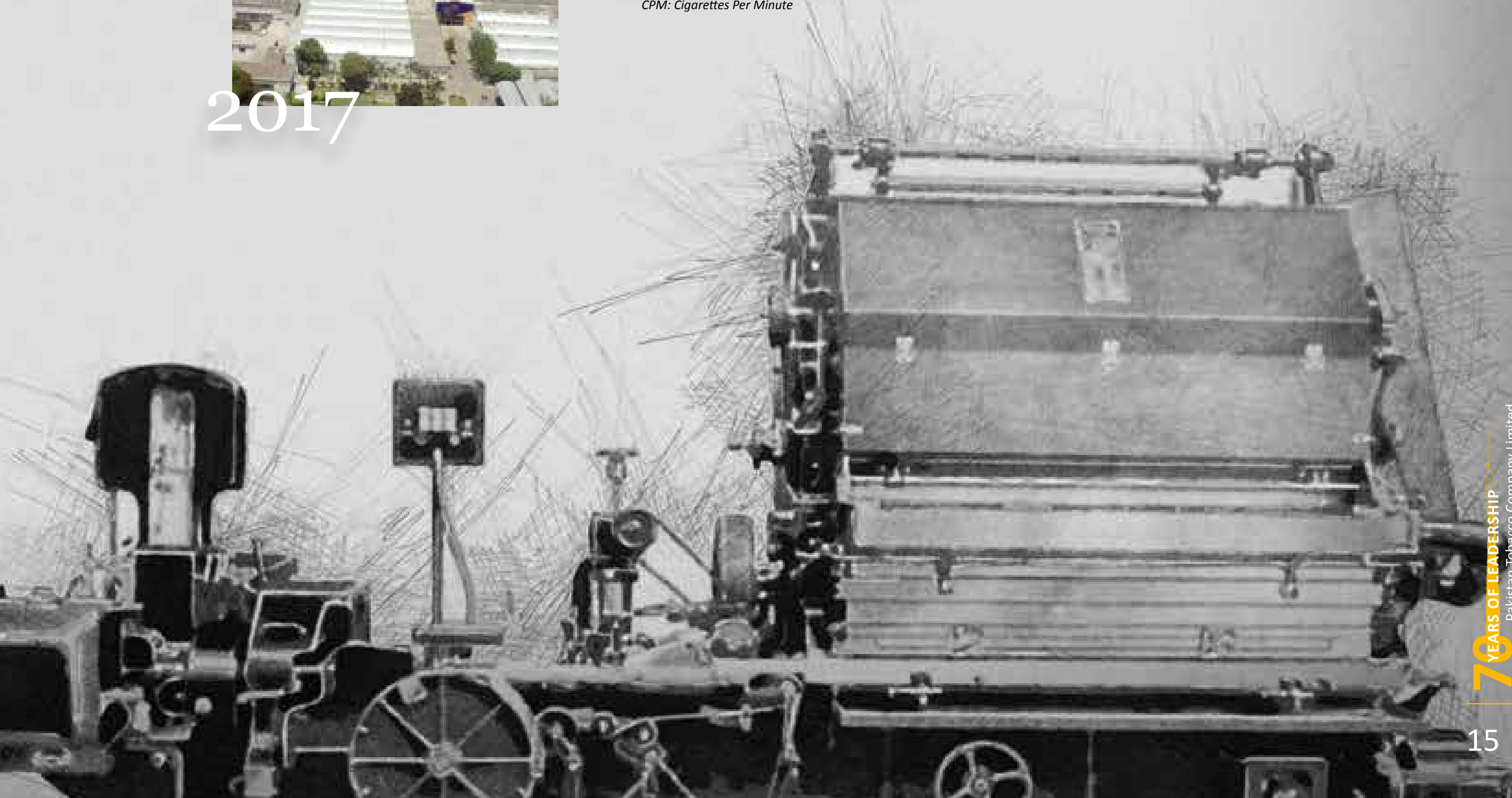
CIGARETTE PACKING FOOTPRINT

1947

1990



2005 to date...




Low Risk

LEADING ON **TECHNOLOGICAL FRONT**

1971-1988

THE COMPUTER DEPARTMENT

In 1971, this department was established by PTC to process Payroll, Leaf, Shares and Wrapping Material using ICL Punch Cards / Verifier Machines on Hollerith Paper Cards to capture data.

1981-1982
PERSONAL COMPUTER

First four computers, Model 2 XT with floppy disk and 10 MB hard disk were introduced in Finance and Human Resources. With this, first Voucher Record Book (VRB) and Trial Balance System was deployed.

1984-1985
MANAGEMENT SERVICES

IBM server system was introduced to process Payroll System, which was developed in COBOL language.

1988
EXTENSION OF MSD DEPARTMENT TO FACTORIES

In pursuit of data processing decentralization, 4 IBM S/36 systems were introduced in the Head Office and three of our factories

1992-2005

R&RS SYSTEM

Spare Inventory and Durations System (R&RS) was developed and installed at Lahore engineering Office, IBM S36 module 5360. One dedicated console through which all operational commands could only be executed.

1993-1994
FIRST EMAIL SYSTEM

First email system, Lotus Notes implemented.

1995-1996
THE IT DEPARTMENT

Implementation of MRP II, industry standard business processes.

1999-2000
MILLENNIUM COMPLIANCE

V-SAT links deployed between both factories and Head Office to implement online mailing system, Lotus Notes. A new server client end user computing solution.

2001-2002
CS3 SYSTEM

An ERP Solution, known as CS3, deployed to manage company ERP requirements.

2003-2004
GENA 2

A new version of end user computing solution implemented known as GENA V2.

2004-2005
SAP ERP SYSTEM

A new and improved ERP system, SAP Symphony, deployed to cover all business needs with industry standard reporting and managing capabilities.

2005-2006

TRADE TEAM MOBILITY

Complete trade marketing team was provided laptops with VPN solution for emailing on the go.

2007-2013

A NEW ERA OF TECHNOLOGY

After 2006, IT became a core driving tool for Company business activities:

- Global WiFi for Head Office
- HOT backup site
- New high-tech Head Office building with centralized printing solutions, audio meeting facilities and state of the art VC room
- Telepresence + video conference solution
- Consecutive three years satisfactory rating ITGC Audit

2014

TO DATE...

- TaO Implementation, with warehouse management system for both factories
- Consolidation of servers
- Move to Azure Cloud
- Microsoft Outlook implemented
- Microsoft O365 implemented
- Telepresence in factories

HISTORY OF
CULTIVATING TALENT

ZIA SHAFI KHAN

Retired as Director Personnel

I felt all along and still feel that all my knowledge of business or management was something that has been introduced to me by PTC.

NAJMUS SAQUIB HAMEED

Retaired as Chairman

I never enjoyed my work more than I did with BAT and PTC and the main reason is that we always felt a part of a family. It was this great loyalty that individuals who worked for PTC had and I'm sure that loyalty continues.

ALAMGIR AHMAD

Currently – Technical Director Tetra Pak

I became part of the PTC family in the late 90's and I experienced the finest of what the corporate world had to offer. Complete business turnaround, exceptional leadership and most importantly the value of people.

SAAD MAHMOOD RASHID

Currently – CEO AkzoNobel Pakistan

I was fortunate to land my first job in PTC right after graduation. PTC was, and still is regarded as an institution in its own right. I am thankful to PTC for the experience that has held me in good stead in my subsequent career.

PTC is committed to attracting and retaining a top-talented and diverse workforce while cultivating a conducive environment which drives performance and results; a mission which has been embedded deep in the overall strategy of the Company for the last 70 years. We are passionate about promoting and maintaining a culture of employee engagement and inclusiveness where work is meaningful, employees are valued and collaboration is celebrated. The key to rooting this culture is the enhanced focus we place on innovation and a desire to win that is propagated throughout the Company.

We believe in inspiring individuals and giving them the environment to grow and groom themselves professionally from the beginning of their life cycle through strategic interventions. We sustain this by consistent and constant communication, achieved through connecting with our people via multiple focus groups, surveys and planning sessions and from close collaboration with divisional leaders. This helps us to steer the culture in the right direction and ensure that every voice and idea is heard with every opportunity available being leveraged.

PTC's HR strategy has always revolved around three fundamental pillars; Attract, Grow and Retain. We source the best talent through our leading practices of talent acquisition. We develop them by investing in robust training and development interventions. Ultimately retaining them through advancing their career growth by giving them international exposure at different phases of their life cycle.

In Pakistan we have a very high Talent Brand Index whereby our employer value proposition is placed very high by talent in the market, making us a first choice for recent graduates as well as mid-career job seekers. Through various initiatives we continue to build our employer brand in Pakistan.

40+

Employees of PTC exported to BAT Group

REVOLUTIONIZING
OUR TM&D

1940s

PAKISTAN TOBACCO COMPANY LIMITED LAHORE OFFICE PTC STAFF & DISTRIBUTORS

1950s

MR. B. FANE SAUNDERS - CHAIRMAN PTC, JANUARY 1956

1960s

MR. R. I. WILLANS - CHAIRMAN, PTC & MR. O. R. SINCLAIR, BAT, OCTOBER 1966

1970s

MR. M. R. NOAKES BAT, JANUARY 1976

1980s

MR. NAJAMUS SAUQIB HAMEED GM MARKETING, PTC, MARCH 1986

1990s

MR. R.W. JONES - GENERAL BRAND GROUP DIRECTOR, BAT, NOVEMBER 1993

2000s

MR. TIM EVERY - BURNS, REGIONAL MARKETING MANAGER, MIDDLE EAST SOUTH & CENTRAL ASIA BAT, FEBRUARY 2001

2010s

PTC MANAGEMENT WITH OUR VALUED BUSINESS PARTNERS

When it comes to Trade Marketing & Distribution (TM&D), PTC stands out as the benchmark organization. It has sound foundations laid down 70 years ago when PTC had the honour of becoming one of the first multinationals in Pakistan. Over the years PTC has shown great progress by adopting valuable interventions that have helped the business progress steadily.

Pall Mall led from the front yet again, registering record-breaking growth to secure its highest market share to date. In 2017, the number 1 Brand of Pakistan consolidated its formidable equity through its largest campaign to-date, delivered nationwide through excellence in both campaign planning and execution.

Route to Market:

From 1947 till 1984, our RTM evolved gradually. The core focus is on an active distribution model to ensure right stock levels across retail and wholesale. This was achieved by expanding our distribution footprint and focusing on key elements like: number of distribution points, resource deployment, proper trade coverage, frequency of service and right load of outlets per salesman. Other than service frequency, our salesmen were also equipped with state of art distribution tools like motorized vehicles from push carts and bicycle vans. Every 5 years TM&D team carries out a comprehensive 360 degree evolution of its operating model to make it future fit for the next five years. As the market is evolving, our TM&D is also evolving by embracing latest solutions to increase its speed and scale of service.

More Than
400,000 retail outlets
sell tobacco products in Pakistan

Sales Automation:

For the past many years, we have been trying and testing the applicability of an automated sales management system where details of sales are available to all relevant people and are available instantly. By the end of 2017, PTC successfully piloted the Sales Automation program. It was a long and challenging process; training our people first who trained the distributors and then the distributors sales force. Before implementation, proper month-long testing was scheduled with distributors from where we strategized and launched pilot projects in various markets to see the response. As the response was so positive, we launched it nationally and we are benefiting from an automated sales force.

PTC has the
3rd Largest
TM&D force in the BAT world

Scientific methods of market research:

Since the start of the new century, in order to better understand and accordingly respond to our ever-changing consumer base, we decided to get regular market research surveys done from an independent international research agency called Nielsen. It helped us better divide our brands market wise and gave us knowledge on what exactly the consumer trends are. On ground, it helped us with the numeric width, the share drop or share increase, which brand is performing better than others and where. This helped us in streamlining our processes to an extent that we made a sub function of marketing which is solely drawing conclusions and trends from the data we receive directly from one end of our supply chain – our retailers.

CORPORATE SOCIAL **RESPONSIBILITY**

We have been at the forefront of delivering on our sustainability, empowerment and community uplifting agenda and have laid foundations for many new projects for others to follow. Our projects are considered benchmarks in not just the industry but in the entire Country.

Awarded by The Professionals Network for Sustainability Initiative, 2017

Awarded by NFEH for CSR/Social Campaign, 2017

Awarded by NFEH for Sustainability Initiative, 2017

Awarded by NFEH for Best Tree Plantation

Awarded by NFEH for CSR Round O'Clock, 2017

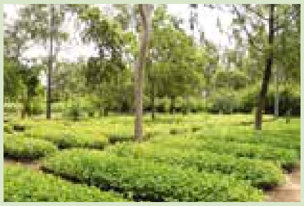
Awarded by NFEH for Biodiversity and Conservation, 2017

Awarded by NFEH for Best Practices in CSR, 2017

Awarded by NFEH for Corporate Community Program, 2017

Awarded by The Professionals Network for Business Practices, 2017

Afforestation:



In 2017, we signed an MoU with the Capital Development Authority (CDA) under which we will be carrying out plantation drives in Islamabad.

We signed another MoU with the National Highways Authority (NHA) to do plantation on M1 motorway.

With the National Rural Support Programme (NRSP), we signed an MoU in 2017 opening a gate to knowledge sharing and educating our farmer community on crop cultivation resulting in sustainable farmer livelihood.

Solar Energy:

In 2017, we distributed and assembled 110 solar kits in a far-fetched area of Khyber Pakhtunkhwa (KPK) province in partnership with the provincial government.

The solar kit has a fan, a torch, two bulbs and a mobile charger with it which benefited around 1,000 people of this community where residents have never experienced electricity until we went and illuminated that rocky valley.

Water filtration:

We started establishing water filtration plants in 2014 and have four of them in Lahore currently. In 2017 approximately 1 million people benefited from having access to clean and safe drinking water.

Towards the end of 2017, we conducted an exercise to start renovation of our water filtration plants one by one in pursuit of continuing to provide safe and clean drinking water.

Mobile Doctor Units:

In 1985, we started an initiative called Mobile Doctor Units. Through this programme, we provide free medical assistance and advice. We operate 7 mobile ambulances with doctors in Akora Khattak, Yar Hussain, Sher Garh, Manshera, Jhelum and Mianwali.

In 2017 alone, through this initiative more than 78,000 patients were treated, bringing an average of about 213 people each day. The doctors who are with these ambulances are more than qualified and the feedback of this Program from patients has always been overwhelming.

Tree Saplings
2.8 MILLION
Planted and Distributed

Around
1,000
villagers benefited

More than
1 MILLION
people benefited

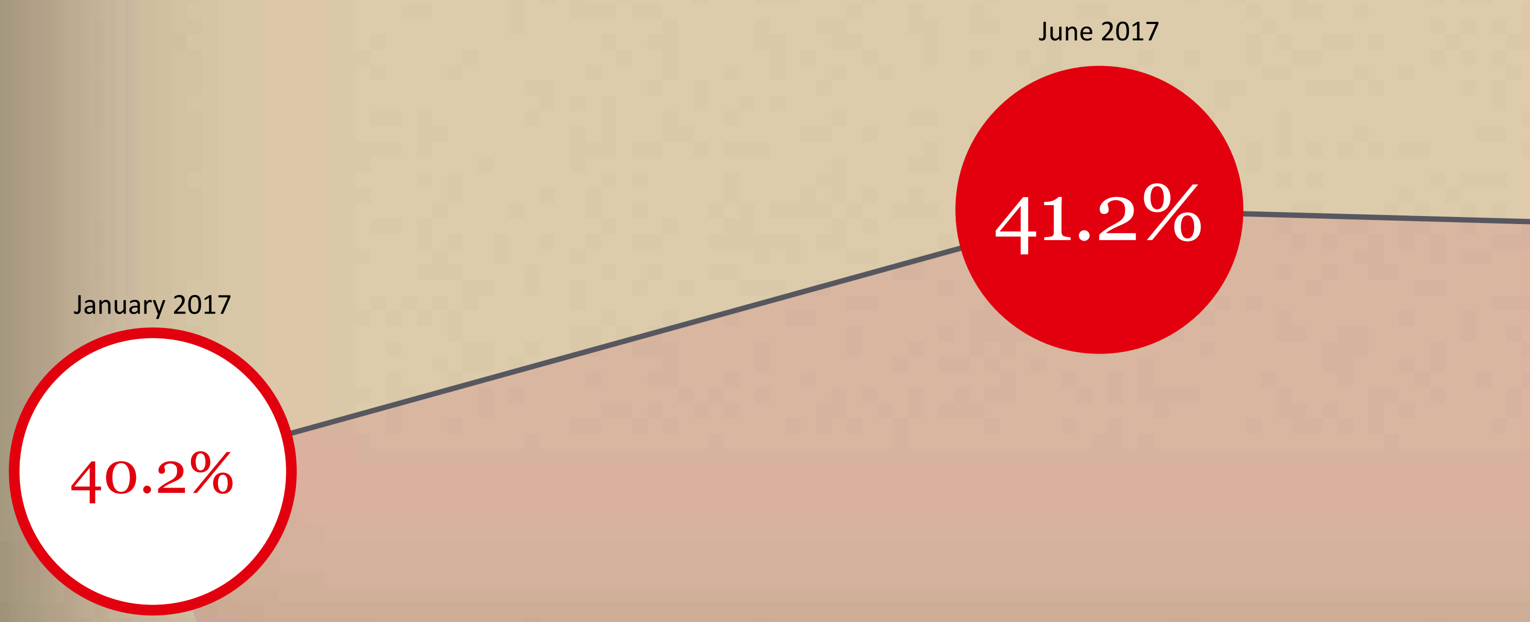
More than
78,000
patients treated

Statement of Charity Account

	Rs in Million	
	2017	**2016**
Afforestation	26.7	17.6
Solar Energy	4.9	6.9
Water Filtration	-	1.2
MDUs	17.1	17.6
Donations	0.4	5.6
Total	**49.1**	**48.9**

THREAT TO **SUSTAINABILITY**

2017 was a tough year for the legitimate industry and the Government as illicit trade in cigarettes rose to a staggering 41.2 percent as at June 2017. It not only regressed the legitimate industry from moving ahead but also proved detrimental to the Government and the economy.



Cigarettes are a reliable source of tax revenue for governments worldwide. However, the increase in their price and broader macroeconomic pressures are leading to a growth in the illicit cigarette trade.

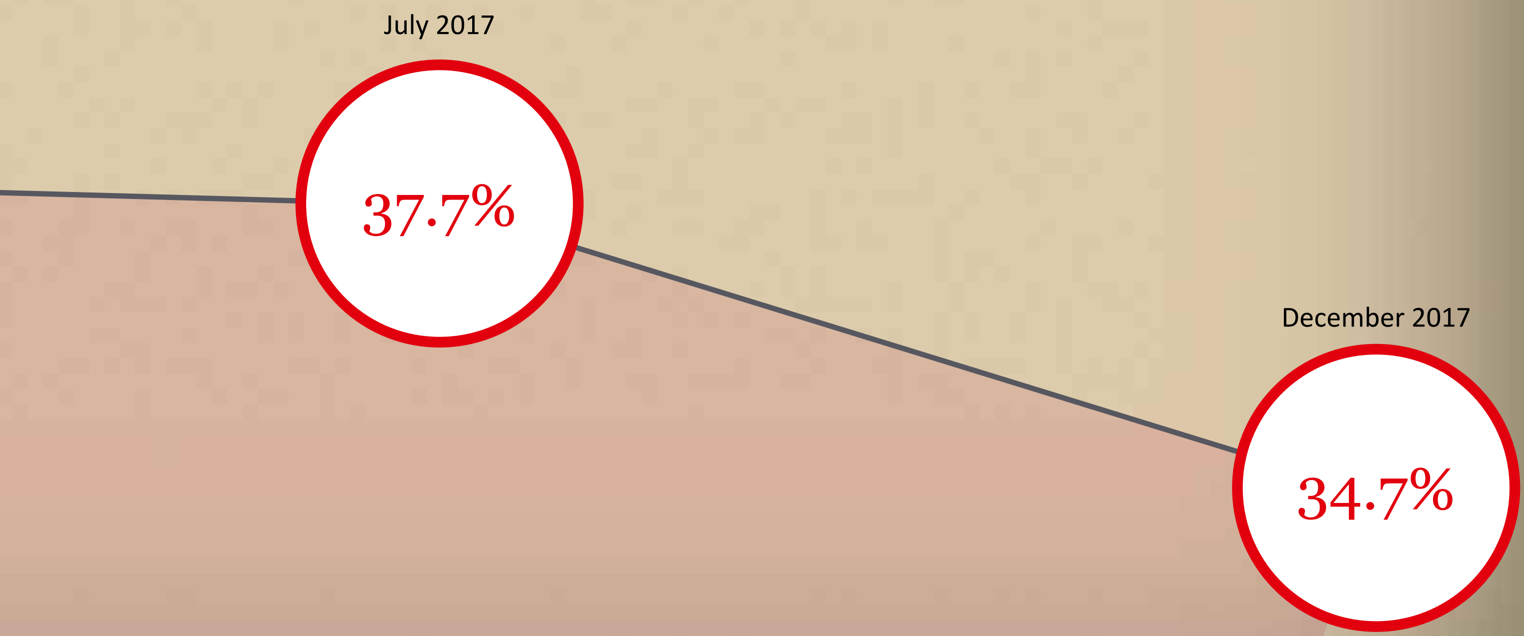
In Pakistan, continuous excise led price increases over the years widened the price gap between legitimate and non-legitimate cigarettes hence making legal cigarettes very expensive for the consumer. The huge price differential resulted in creating an uneven playing field for tax compliant legal industry and consequently dealt heavy losses to both national exchequer and the tax paying industry.

This situation gave an opportunity to the duty non-paid cigarettes to flourish and gain market share.

The Government of Pakistan, acknowledging this trend, formed a dedicated task force to curb illicit trade of cigarettes called the Inland Revenue Enforcement Network (IREN).

This task force, coupled with fiscal measures taken, was instrumental in the implementation and enforcement of tax laws across the country during its first year of operations.

The consistency of these measures needs to continue more effectively in order to reduce illicit trade in cigarettes so as to enable legitimate industry and Government revenue sustainability. Stricter laws and penalties also need to be introduced and implemented against these tax evaders.



GROUP STRUCTURE

BRITISH AMERICAN TOBACCO

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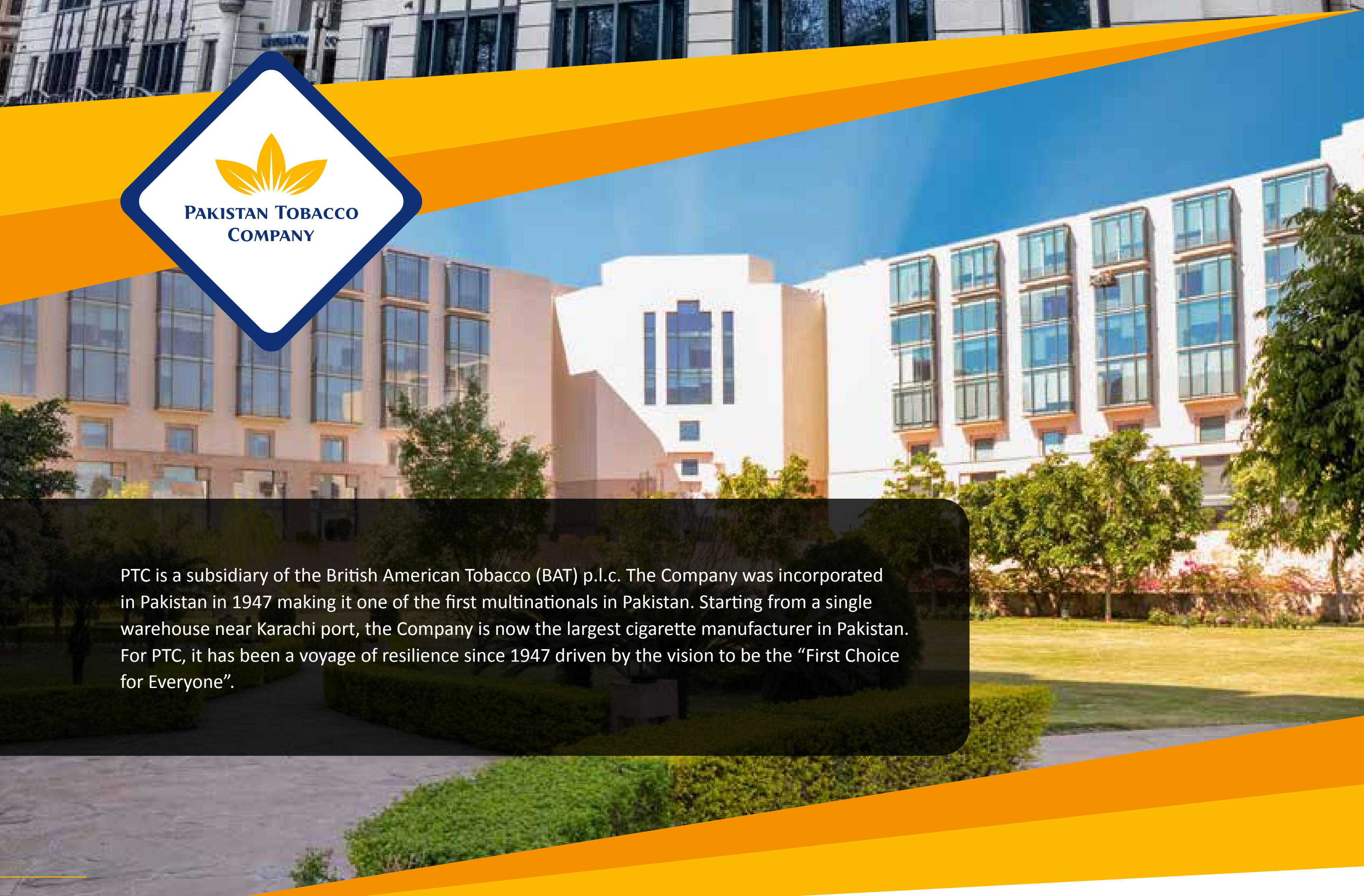


PAKISTAN TOBACCO COMPANY

PTC is a subsidiary of the British American Tobacco (BAT) p.l.c. The Company was incorporated in Pakistan in 1947 making it one of the first multinationals in Pakistan. Starting from a single warehouse near Karachi port, the Company is now the largest cigarette manufacturer in Pakistan. For PTC, it has been a voyage of resilience since 1947 driven by the vision to be the "First Choice for Everyone".

CORPORATE **INFORMATION**

REGISTERED OFFICE

Pakistan Tobacco Company Limited
Serena Business Complex
Khayaban-e-Suhrwardy
P.O. Box 2549
Islamabad – 44000
T: +92 (51) 2083200, 2083201
F: +92 (51) 2604516
www.ptc.com.pk

FACTORIES

AKORA KHATTAK FACTORY
P.O Akora Khattak
Tehsil and District Nowshera
Khyber Pakhtunkhwa
T: +92 (923) 561561-72
F: +92 (923) 561502

JHELUM FACTORY
G.T Road, Kala Gujran, Jhelum
T: +92 (544) 646500-7
F: +92 (544) 646524

REGIONAL AND AREA OFFICES

CENTRAL PUNJAB
200-FF Block, Central Commercial Area,
Phase 4, DHA, Lahore Cantt
T: +92 (42) 35899351-55

11 KM Jaranwala Road,
Near Shafi Oil Mills, Faisalabad
T: +92 (41) 8740892-94

G.T Road, Rahwali, Gujranwala Cantt
T: +92 (55) 3864297

SOUTHERN PUNJAB
Office No. 602, 6th Floor,
The United Mall, Main Abdali Road,
Multan.
T: +92 (61) 4512553, 4585992

House No. 42/3, Tipu Shaheed Road,
Model Town A, Bahawalpur
T: +92 (62) 2877576

House No. 313, Street No. 3 Hameed
Ullah Mocal Colony, Sahiwal.
T: +92 (40) 4503107

NORTH
1st Floor, Faran-101, Civic Centre,
Phase IV, Bahria Town, Islamabad.
T: +92 (51) 5734207-10

Cigarette Factory, G.T Road, Jhelum
T: +92 (544) 646500-11
F: +92 (541) 646529

House No. 108-A, Aziz Bhatti Town,
Khushab Road, Sargodha
T: +92 (483) 838699

House No. 3, 4 Jhandagal, New IT
Marhraba Tower, University Road,
Peshawar
T: +92 (91) 5700731

SINDH & BALOCHISTAN
Office No. 903, 9th Floor,
Emerald Tower (Plot No. G - 19),
Main Clifton Road, Clifton Block 5,
Karachi 75600.
T: +92 (21) 35147690-94.

Banglow No. 05, Block B, Unit No. 05,
Near Bhittai Hospital Latifabad,
Hyderabad.
T: +92 (22) 3813636

Bunglow No. A-17, Housing Society,
Nawabshah, (Near SSGE Regional Office).
Nawabshah
T: +92 (244) 364463-364458

Bungalow No. A / 31 Akhuwat Nagar,
Shikarpur Road, Sukkur
T: +92 (71) 5807225 - 5807224

B-604, 2nd Floor, (Serena Bazar) Serena
Hotel Quetta, Quetta
T: +92 (81) 2832012 - 13.

COMPANY SECRETARY

M. Idries Ahmed
T: +92 (51) 2083200

BANKERS

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

ISLAMIC BANKS
MCB Islamic Bank Limited

AUDITORS

KPMG Taseer Hadi & Co.
6th Floor, State Life Building No. 5, Jinnah
Avenue, Blue Area, Islamabad 44000
T: +92 (51) 2823558
F: +92 (51) 2822671

SHARE REGISTRAR

FAMCO ASSOCIATES PRIVATE LIMITED
8-F, Next to Hotel Faran
Nursery, Block 6, P.E.C.H.S.
Shahrah-e-Faisal, Karachi
T: +92 (21) 34380101-2

CHAIRMAN'S **REVIEW**

"

With the level of commitment exuded by our employees not just in the company turnaround in 2017 but in the last 70 years, we are confident about our future as a business entity and also as a major contributor to this Country. We are ready to face the toughest of challenges and for whatever there is to come in future.

Mueen Afzal
Chairman of the Board

Welcome to our annual report of 2017. It is a special year for PTC as it marks our 70th year of formation, making us one of the 1st multinationals in Pakistan.

2017 was a landmark year for Pakistan Tobacco Company Limited. The excise driven price increases, the last one being in Dec'16, and lack of effective enforcement by law enforcement agencies in the last few years had resulted in:

a. The growth of the illicit sector to over 40% by June 2017;

b. Decline in Government's tobacco excise revenues; and

c. Material decline in the business of the legitimate players in the tobacco industry.

The Government of Pakistan, in its budget for 2017-18, recognized the crisis that faced the legitimate tobacco industry and which had inter alia resulted in a serious decline in the Government's revenues from tobacco. The unprecedented growth of the illicit sector in the tobacco industry was, apart from other things, causing a negative impact on the Government of Pakistan's international commitments.

The tax and policy reforms introduced by the Government of Pakistan in June 2017 backed up by the strong enforcement measures taken by the Federal Board of Revenue have been instrumental in:

a. Gradually reducing the size of the illicit sector in the tobacco industry in Pakistan and

b. A spike in Government's revenues from the tobacco industry from July 2017 onwards.

These will also result in strengthening the legitimate tobacco industry as well as in sustainability in Government revenues.

CORPORATE GOVERNANCE

PTC takes pride in its compliance with good corporate governance practices. The Company believes in honesty, transparency as well as accountability. It takes a long-term view regarding its investment in the economy of Pakistan and in its commitment to giving very good value to its shareholders.

Among other things, PTC remains committed to working with communities in Pakistan to assist in encouraging sustainable agricultural practices, particularly in promoting the productivity of tobacco crop.

CORPORATE SOCIAL RESPONISBILITY (CSR)

PTC has been one of the pioneers of promoting CSR and in this regard, it has endeavored to work for the uplift of rural communities in the tobacco growing areas of Pakistan. 2017 was a significant year, as PTC planted over 75 million trees under our flagship afforestation program, since its inception in 1981. This initiative is viewed as one of the largest private sector afforestation commitments in Pakistan, with the Company distributing and planting saplings free of cost. For some of our other CSR programmes, we distributed 110 solar panels free of cost, benefitting about 1,000 citizens of one village in the Khyber Pakhtunkhwa (KPK) province. PTC also continued with its Mobile Doctor Units and in 2017, treated 78,000 patients under this program and more than 1 million people benefited from clean water through our water filtration projects.

SUSTAINABILITY OF PTC'S BUSINESS

PTC's strategic objectives are aimed at building a business which can be sustained over a long-term period. In this regard, we believe in investing in our future by recruiting the best talent in Pakistan which will provides us with the human resources to excel in the tobacco sector in Pakistan. We remain committed to the pursuit of excellence and to be a responsible business which will continue to create good value for its shareholders.

The senior management of the Company and I have full confidence in the long-term sustainability of our business and in the efficacy of its leadership.

Mueen Afzal

Chairman

MD & CEO'S MESSAGE

"Our people have always been at the core of delivering the business agenda. 2017 has been a year of resilience for PTC and all credit goes to our employees. While we remain strong today; we are determined to strive for every inch out there for a stronger tomorrow!

Syed Javed Iqbal
Managing Director & CEO

I am pleased to share company's performance results for the year 2017. 2017 has been a year of perseverance for PTC.

BUSINESS PERFORMANCE

Despite the challenge of illicit trade in tobacco industry continuing to impact legitimate industry resulting in 44% volume decline in H1'17 compared to same period last year (SPLY), the Company managed to somewhat stabilize in H2'17 and closed the year with a volume decline of 3.6% vs. SPLY. This decline in volume had a trickle-down impact on absolute revenue as well as the profitability but the operating margin was protected through effective cost management and productivity savings. In response to fiscal reforms we revisited our portfolio pricing in 2017 which supported the rebound of legitimate tobacco industry. This was driven by clear and aligned strategy that was underpinned by passionate commitment of our people to excellence in execution and delivery.

OUR BRANDS

PTC remains committed to differentiating itself by investing in its entire brand spectrum. Our success is built on the foundation of a strong brand portfolio. This was further fortified in 2017 through various initiatives such as equity campaigns for John Player Gold Leaf (JPGL) and Capstan by Pall Mall Original (CbPMO), dynamic workforce and smart investments. We also launched limited edition packs that were widely appreciated by consumers.

OUR PEOPLE

PTC is rated amongst the top preferred employers in the country. Investing in our people is a value shared and lived at PTC. We are continuously investing in hiring, retaining and developing people who are leading the successful delivery of business objectives and driving the corporate strategy. Diversity & inclusion agenda is at the heart of our efforts to build a fit for future organization.

We provide numerous growth and learning opportunities in the form of trainings, international assignments and global graduate trainee program. PTC is a net exporter of talent within the BAT Group, with over 40 managers occupying various leadership roles in different BAT Group companies internationally.

PTC works with universities through Battle of Minds (BOM), one of the most coveted and highly anticipated recruitment campaigns in university calendars across Pakistan. BOM provides students with the opportunity to showcase their skills through series of rigorous evaluations. PTC also inducts over 80 students every year from diverse universities in the summer internship program. These initiatives give chance to the young leaders of the nation to work alongside the best talent in Pakistan.

OUR PROCESSES

Achieving excellence in execution across the business was in special focus throughout 2017. We have successfully adopted global manufacturing standards and processes in our factories that allowed us to deliver the best quality products and reduced costs through efficient supply chain management. Investments were made in modernizing our machinery footprint while achieving milestones of manufacturing excellence in our journey to implement Integrated Work Systems (IWS). Latest IT tools have been deployed in a phased approach in trade marketing for improved personnel productivity and decision making.

OUR FUTURE

2018 will be another challenging year. Illicit trade remains the biggest threat to the sustainability of the legitimate tobacco industry and we anticipate economic pressures to continue in the operating environment. However, we expect the Government to continue supporting the fiscal reforms led by the Federal Board of Revenue (FBR) in 2017 and stricter enforcement through relevant authorities, creating a level playing field for the legitimate tobacco industry and ensuring sustainability of their role in the economic development of the country.

Thus, we remain confident about the future of the Company and our ability to continue delivering value to our shareholders, as our success is built on the grit of our people, strength of our brands and efficiency of our processes.

Syed Javed Iqbal

Managing Director

BOARD OF **DIRECTORS**

Mueen Afzal
Chairman & Non-Executive Director

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

He joined the Civil Service of Pakistan in 1964, and served as Finance Secretary in the provinces of Baluchistan and Punjab. He was also Federal Secretary Finance. He finally served as Secretary General, Finance and Economic Affairs between 1990 to 2002.

Since leaving Government in 2002, Mr. Afzal has worked in various capacities in the corporate sector as well as in academia. At present he is on the boards of Murree Brewery Co. Ltd and Akzo Nobel Pakistan. He joined the PTC Board in 2003 and became the Chairman in 2007. He was awarded the Hilal-e-Imtiaz (HI) in 2002 for distinguished public service.

Syed Javed Iqbal
Managing Director & CEO

Syed Javed Iqbal has been with the Company for the last 20 years. He joined the Company as a Management Trainee and has held various key positions in the Finance function in PTC as well as in British American Tobacco Group.

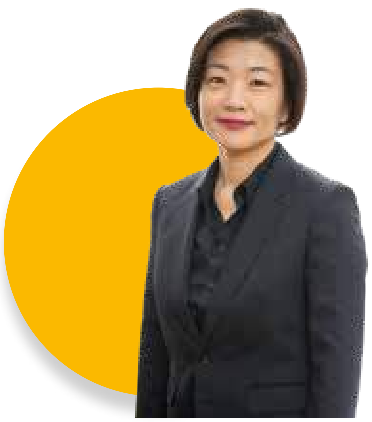
He has served in BAT South Korea as Finance Controller and later in Global Headquarters in London as Finance Manager for Global Marketing.

In 2011, he was appointed as Finance Director for the Swiss Business Unit looking after 5 European markets based in Switzerland.

He came back to Pakistan in 2014 as Director Finance & IT for PTC. In July 2016, he became the Managing Director & Chief Executive Officer of PTC. Mr. Iqbal has an MBA with majors in Finance & MIS.

Zafar Mahmood
Non-Executive Director & Chairman of Audit Committee

Mr. Zafar Mahmood, who is also the former Chairman WAPDA, has served the Government of Pakistan for 38 years at policy formation and implementation level, before assuming responsibilities as Chairman WAPDA in April 2014. He has served the Federal Government as Secretary Textiles Industry, Secretary Industries, Secretary Water & Power, Secretary Petroleum & Natural Resources, Secretary Commerce and Secretary Cabinet. He has also served as Chairman, Punjab Public Service Commission, Consul General Istanbul, Vice Chairman Export Promotion Bureau, Secretary Punjab Education Schools. Mr. Mahmood holds a Master’s Degree in Economics, LL.B. and Post-Graduate Diploma in Development Administration from Manchester University. He joined the PTC Board in 2016.



Hae In Kim
Non-Executive Director

Ms. Hae In Kim joined BAT Group as a corporate service HR business partner from Korea in 2008 and held a number of key positions in HR including Head of Talent and Organization Development of BAT Indonesia (Bentoel Group), HR Director of BAT Japan and HR Director of BAT Korea. She was appointed as the Regional Head of HR, Asia Pacific in 2014 looking after over 15,000 employees in eight direct reporting business units across Asia Pacific. Currently she is the Group Head of Talent and OE, Human Resources.

Prior to joining BAT Group, she worked as a management consultant at global consulting firms such as PricewaterhouseCoopers, IBM Business Consulting Services and Hewitt Associates in Australia, Singapore and Korea. She also worked for Samsung Life Insurance, an affiliate of Samsung Group as an Employee Benefit and Corporate Pension Consultant. She has Masters of Commerce with major in Organizational Behavior and Industrial Relations from University of New South Wales, Australia. She joined the PTC Board in 2015.

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

Lt. General (Retd.) Ali Kuli Khan hails from Khyber Pakhtunkhwa (KPK) province and belongs to a renowned industrial family. He was commissioned in the Pakistan Army in 1964.

Mr. Khattak and his late father are the only examples in the Pakistan Army where father and son have risen to the ranks of Lieutenant Generals and held the post of Chief of General Staff (CGS). Other important assignments during his Army career were, Commandant Staff College Quetta, Director General Military Intelligence, Commander 10 Corps and CGS.

Since retirement he sits on the Boards of numerous family industrial concerns which include Textiles, Automobile Assembly and Tire Manufacturing. He joined the PTC Board in 2001.

Imran Maqbool
Non-Executive Director

Mr. Imran Maqbool serves as President & Chief Executive Officer of MCB Bank Limited. He is a seasoned professional with over three decades of diverse banking experience. Before taking on the CEO position, he was Head of Commercial Branch Banking Group, where he successfully managed the largest group of the Bank in terms of market diversity, size of workforce, number of branches on countrywide basis and diversified spectrum of products. In earlier roles, he worked as Head Wholesale Banking Group–North, Country Head MCB Sri Lanka, Group Head Special Assets Management and Islamic Banking.

Prior to joining MCB Bank in 2002, Mr. Maqbool was associated with local banking operations of Bank of America and CitiBank for more than seventeen years. He worked at various senior-management level positions in respective banks. Mr. Maqbool holds an MBA from Institute of Business Administration (IBA) Karachi and MS in Management from MIT Sloan School of Management, Massachusetts USA. He joined the PTC Board in 2016.

BOARD OF **DIRECTORS**

Wael Sabra
Director-Finance & IT

Mr. Wael Sabra joined BAT in 2003 in Lebanon and since then he held various key senior positions in the Finance function across Middle East, Africa and most recently South Asia. In 2010, Mr. Sabra was appointed as Finance Director Democratic Republic of Congo before moving to South Africa in 2012, where he was assigned to take up the role of Southern African Markets Finance Director in charge of Mozambique, Angola, Zimbabwe, Malawi, Zambia, Botswana, Namibia and Swaziland.

In July 2014, he moved to Cairo as Finance Director North Africa Area covering Egypt, Algeria, Morocco, Tunisia, Sudan and Algeria. In August 2016, he moved to Islamabad as Finance Director South Asia Area. In his 14 years with the British American Tobacco Group, he has been an executive board member in several BAT operating companies across Africa.

Mr. Sabra is a holder of a Masters Degree in Finance from University of Florida and is a Certified Management Accountant (CMA) from the Institute of Management Accountant. He joined the PTC Board in 2016.

Michael Koest
Non-Executive Director

Mr. Michael Koest joined BAT in 2001 in Zug, Switzerland. He has a proven track record in management, sales & marketing. Experienced in working across geographies and in complex market environments, he has built high performing, motivated and engaged teams through his inspiring and achievement driven leadership style. Extremely determined commercial leader, strategic thinker and renowned team player, he consistently achieved outstanding business results. Prior to his assignment in Sri Lanka, he held various positions in BAT mainly in the areas of strategy & planning and marketing. Mr. Koest was Commercial Director in BAT Netherlands from 2010-2012 and in BAT Korea from 2013-2015.

Mr. Koest has been appointed to the Board of Directors of Dutch retailer Primera B.V. between 2010-2012.

Mr. Koest holds a BA degree from the University of Neuchâtel (Switzerland) in Philosophy, Geography and German Literature. He has also been appointed to the Board of Directors of the American Chamber of Commerce in Sri Lanka and Pakistan Tobacco Company Limited. in 2016.

Tajamal Shah
Director-Legal & External ffairs

A UK qualified Barrister, who later converted to become a Solicitor for England and Wales. He was in 1996 admitted as an Advocate of the High Court of Pakistan. His area of specialization has been aircraft, asset and project financing and general banking having worked on major cross-jurisdictional transactions. He later expanded his expertise to cover commercial law, good corporate governance and strategic litigation. Prior to joining PTC, he worked in the private and public sector notably for several years as a civil servant for the UK government as part of the Department of Trade and Industry, where his responsibilities included regulation of the financial services industry. In 1999, he left the leading UK law firm DLA Piper, where he was a Senior Associate to join BAT. He has been with the group for over 17 years and has held various roles amongst others, Head of Legal/Company Secretary, Global Regulatory Counsel for BAT, Director Legal and is now heading the newly created function Legal and External Affairs.

DIRECTOR'S **REPORT**

Quorum approving the Director's Report 2017.

The directors present the Annual Report of Pakistan Tobacco Company Limited along with the audited financial statements of the company for the year ended 31 December 2017.

DIRECTOR'S **REPORT**

1. BUSINESS REVIEW

1.1 MACROECONOMIC ENVIRONMENT*

Manufacturing Sector is the backbone of Pakistan's economy. It constitutes the third largest sector of economy contributing 11.9% to Gross Domestic Product (GDP) and generating one of the biggest number of industrial employment with technology transfer. The overall manufacturing sector continued to maintain its growth momentum with more vigor and recorded an impressive growth during fiscal year 2017 compared to last year.

Fiscal Deficit has risen to 5.8% of GDP in fiscal year 2017. The increase is because higher development and security related expenditures and lower growth in tax revenues. Budget deficit for the fiscal year 2017-18 has already swelled up to Rs. 826 billion i.e. 2.3% of GDP in the first five months. If the same trend continues, the deficit may even exceed last year's level.

Policy rate has been kept constant by SBP at 5.75% in 2017. The Overall credit grew by 11.1% as compared to 7.2% increase in 2016. Private sector analysis reveals that loans to manufacturing businesses observed growth of 13.6% compared to 12.1% last year.

Inflation rate remained steady during the fiscal year 2017. Low oil and commodity prices, a relatively stable rupee, smooth supply of commodities and monitoring of prices at both federal and provincial levels were the major reasons behind a contained inflation. 2017 ended with inflation rate of 4.6% for December.

PKR's overvalued parity with US Dollar over the last 4 years has negatively impacted annual trade deficit and attracted attention from the IMF and leading Pakistani economists. As a result, the country saw 5% devaluation in the month of Dec'17.

**(National Summary Data - State Bank of Pakistan)*

1.2 INDUSTRY OVERVIEW

2017 was a challenging year for legitimate tobacco industry of Pakistan. 1st half of the year was severely impacted by the carry over impact of consumer down trading to cheap duty evaded cigarettes keeping with the trend of recent years.

As per FBR's press release dated 31st Jan 2018 and an independent retail audit, at the end of 2016, the market share of illegal cigarette trade in Pakistan stood at 40%. Illicit trade of cigarettes was a major issue hampering government's revenue targets from the tobacco industry. At the start of 2017, the FBR setup an Inland Revenue Enforcement Network (IREN) to combat this menace. As at 30th June 2017, market share of illicit sector stood at 40.8% (year to date) despite serious efforts by law enforcement agencies.

In recognition of these negative factors, the government introduced tax and policy reforms through the finance act in the federal budget 2017-18. As result, the legitimate industry revisited its portfolio pricing in H2'17 in line with the new fiscal measures. This strategic intervention reduced the stretch faced by consumers and narrowed the price gap between duty paid and duty non-paid cigarettes.

In the 2nd half of the year, IREN further enhanced its enforcement actions across the country. As quoted by FBR, vide its press release dated 31st January 2018, a lot of successful raids and activities were conducted in 2017. Around 1.63 billion non-duty paid cigarette sticks and raw material were seized that had caused a loss of PKR 2.7 billion to the National exchequer.

Government's fiscal intervention and enforcement measures had resulted in a revival of government revenues from tobacco industry and somewhat stabilized the legitimate tobacco industry. Market share of the illicit sector came down to 34.7% as on December 31st, 2017 resulting in government revenues going up by PKR 5 billion in H2'17 compared to that Same Period Last Year (SPLY).

1.3 COMPANY'S PERFORMANCE

In line with the negative impact on the legitimate tobacco industry, PTC's business performance was severely impacted in H1'17 by the rising market share of illicit sector. This is reflected in the business results of the 1st half in comparison to same period last year (SPLY). However, a healthy recovery was witnessed in H2'17 through the Company's strategy of addressing affordability needs of its consumers, winning in the marketplace and delivering efficiencies through process optimization.

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The Company managed to increase its market leadership in the legitimate sector from 70.2% to 71.2% and continued to improve operational results through robust commercial leadership and the grit of its people.

PTC remains committed to talent attraction and retention through fast paced career growth, good remuneration packages and international/ local training and development opportunities. People are the core pillar of the business and the Company remains committed to developing its talent for the future.

2. FINANCIAL REVIEW

Provided below are the key financial indicators for the year 2017:

	Rs. (million) Jan-Dec, 2017	Rs. (million) Jan-Dec, 2016
Gross Turnover	112,524	129,278
Net Turnover	44,318	44,867
Cost of Sales	23,075	22,093
Gross Profit	21,242	22,774
Operating Profit	12,834	15,000
Profit Before Tax	13,011	15,382
Profit After Tax	9,574	10,361
Earnings Per Share – EPS (Rs.)	37.47	40.55

2.1 PROFIT & LOSS ANALYSIS

Net Turnover has declined vs. last year owing to decline in sales volume in 2017 primarily driven by the rise in market share of the illicit sector.

Cost of sales has remained stable with inflationary increase offsetting the impact of reduction in volume. This is in line with Company's objective to manage costs effectively with increased production efficiency.

Selling and distribution cost has also remained stable despite inflationary pressures and investment in sales force automation. This was possible through effective cost management and smart resource allocation.

Other Operating expenses have decreased primarily because of reduction in profit based statutory charges.

Net Finance Income has reduced vs Last Year because of lower availability of funds for investments trickling down from lower revenue in H1'17.

Income Tax Expense has reduced vs Last Year. This is the direct impact of decline in sales volume resulting in decline in taxable income for the year.

2.2 FINANCIAL POSITION ANALYSIS

Property, plant & equipment has remained stable year on year as the impact of new capital expenditure was offset by asset disposal of obsolete & fully utilized assets and depreciation for the year.

Stock in trade has increased on account of annual statutory increase in tobacco leaf price.

Other receivables have decreased because of realization of receivables from other group companies.

Cash & Cash Equivalents, encompassing net position of short term investments, cash & bank balances and short term running finance, have increased because of availability of higher funds in H2'17 on account of better sales inflows and working capital management.

Current Liabilities have increased because of increased revenue and timing of capital expenditure as compared to last year.

Share capital & reserves have increased because of profit retained in the business for organic reinvestment.

DIRECTOR'S **REPORT**

2.3 LIQUIDITY ANALYSIS

The Treasury function is responsible for raising finance for the company, managing cash resources and financial risks arising from underlying operations. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Company. All these activities are carried out under defined policies, procedures and limits which are reviewed and approved by the Board or delegated for execution to the Finance Director and the Treasury Committee. Detailed review of Company's liquidity management and financing arrangements is provided separately in this Annual Report on page 81.

2.4 CONTRIBUTION TO NATIONAL EXCHEQUER

PTC remains one of the largest tax contributors in the private sector in Pakistan. PTC contributed PKR 38 billion in the H2'17 (Up by PKR 5 billion vs. SPLY) and a total of PKR 72 billion in 2017 to the National Exchequer in the form of excise duty, sales tax, customs duties and income tax.

The Company continues to stress the detrimental impact of sales of duty-evaded cigarettes on the sustainability of government revenues and legitimate industry. However, we expect that the continuous law enforcement efforts by relevant authorities together with the trend of business recovery carrying over from H2'17 will bring about sustainable growth in government revenues.

2.5 PROFIT DISTRIBUTION & RESERVE ANALYSIS

PTC carried reserves of Rs. 10.422 billion at the start of the year of which, final dividend of Rs. 2.810 billion was approved by the shareholders for 2016. During 2017, the Company earned a net profit of Rs. 9.574 billion and declared an interim dividend of Rs. 2.555 billion translating to Rs. 10.00 per share. As at 31st December 2017 reserves stood at Rs. 14.357 billion as detailed in the 'Appropriations' table below:

	Rs. (million)	Rs. Per Share
Opening Reserves	10,422	
Final Dividend 2016	(2,810)	11.00
Net Profit 2017	9,574	37.47
Other Comprehensive Income / (Loss)	(274)	
Available for Appropriation	16,912	
Appropriations:		
Interim Dividend 2017	(2,555)	10.00
Closing Reserves	**14,357**	

2.6 FINAL DIVIDEND

The Board of Directors of PTC (meeting held on 20th February 2018) is pleased to recommend a final cash dividend of Rs. 20.00 per share for the year ended December 31, 2017 (2016: Rs. 11.00 per share), for shareholder's approval bringing the full year payout to Rs. 30.00 per share. This shall be subject to the approval of shareholders in their meeting scheduled for April 20, 2018.

2.7 CONSOLIDATED FINANCIAL STATEMENTS AND SEGMENTAL REVIEW

Consolidated financial statements, as included in this Annual Report, combine performance of Pakistan Tobacco Company Limited and its wholly owned subsidiary Phoenix (Private) Limited. The subsidiary company is dormant and has not commenced its commercial operations.

3. OPERATIONS REVIEW

PTC, with a full seed to smoke business encapsulating two factories and one of the largest leaf operations in BAT group companies, remained focused on enhancing productivity throughout the value chain. This was ensured through effective cost management, delivering lean operations and continuous modernization of the machinery footprint.

PTC manufacturing is the heart of the Operations and a key function to ensure 100% On Time in Full. In 2017, manufacturing achieved 75.8% Optimum Equipment Efficiency (OEE) which is one of the highest in the BAT Group Companies.

The Company's aim is to constantly modernize its operations by introducing innovative concepts, optimal processes and the latest technology. PTC Operations continued the journey towards manufacturing excellence through the Integrated Work System (IWS) program. Manufacturing has been delivering outstanding results in IWS and has set new benchmarks.

Significant awareness and infrastructural improvements have been made in relation to Environment, Health & Safety (EH&S) processes and procedures at the manufacturing plants on the back of the launch of the EHS Pillar under IWS. Further, a focus on consumer centric quality of the product has ensured a significant reduction in consumer complaints during the year. PTC manufacturing has been globally recognized in BAT Group for the efforts and outstanding results delivered through this drive for excellence.

Operations has also supported the diversity agenda in the Company to support a fit for future organization. Female talent was placed in most critical roles in the factories across both sites and people were moved within the sub functions to create a diverse pool of talent ensuring readiness for future opportunities.

4. MARKETING REVIEW

PTC continued its legacy of building the best tobacco brands for its consumers.

In the premium segment, we continued to invest in our flagship brand, John Player Gold Leaf (JPGL) with the right marketing interventions and equity campaigns. We launched limited edition packs that were widely appreciated by consumers. JPGL remained the leading brand within the premium segment with a segment market share of 82%.

In the Value for Money (VFM) segment, Capstan by Pall Mall Original (CbPMO) further strengthened its position as the biggest volume brand of the Pakistan tobacco industry, registering exceptional growth to secure its highest market share to date of 26.1% of the total tobacco market at the end of 2017. An equity campaign was launched to reinforce the number one standing of CbPMO with its smooth taste and quality credentials. Gold Flake (GF) continued to maintain its equity by reiterating its core values of quality and strong taste. Its market share increased to 9.7% at the end of 2017.

The trade marketing team also stood up to the business challenge of growing illicit trade in first half and winning up-traders in second half of the year. The team led an aggressive winning strategy in the market throughout the year to deliver excellence of execution. This was done through putting in additional working hours, deploying the optimum level of additional resources to generate consumer contacts and effective collaboration with our Valued Business Partners (VBPs).

Further, significant investment was made in deploying latest IT tools in a phased approach to collect retail sales data and insights. Meanwhile capacity building of the team remained in focus through customized trainings and development programs.

5. CORPORATE GOVERNANCE

5.1 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 the accounting estimates are based on reasonable and prudent judgement.

d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departures therefrom have been adequately disclosed and explained.

DIRECTOR'S **REPORT**

e) The system of internal controls is sound in design and has been effectively implemented and monitored.

f) There are no significant 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, 2017 have been disclosed in the notes to the financial statements.

i) Key operating and financial data for last six years in summarized form is provided separately in this Annual Report.

j) Values of investments in employee's retirement funds based on audited accounts for the year ended December 31, 2016 are as follows. Further details are provided in note 31 to the separate financial statements.

	Rs. (million)
Staff Pension Fund	4,656
Employees' Gratuity Fund	1,416
Management Provident Fund	997
Pakistan Tobacco Company Limited Provident Fund	1,020
Staff Defined Contribution Pension Fund	306

5.2 COMPOSITION OF THE BOARD

PTC conforms to the regulatory requirements on the composition and qualification of the Board of Directors.

The Board comprises of 6 non-executive directors, one of whom is an independent director, and 3 executive directors.

Directors' detailed profiles including the names, status (independent, executive, non-executive), in addition to industry experience and directorship of other companies, have been provided separately in this Annual Report. The status of directorship (independent, executive, non-executive) is indicated in the Statement of Compliance with the Code of Corporate Governance.

5.3 CHANGES IN BOARD

The Board was reconstituted through an election on 20th April, 2016. There has been no change in the Board in 2017.

5.4 MEETINGS OF THE BOARD

Under the applicable regulatory framework, the Board is legally required to meet at least once in every quarter to ensure transparency, accountability and monitor Company's performance. Special meetings are also held during the year to discuss important matters as and when required. In 2017, 5 Board meetings were held, notices / agendas of which were circulated in advance, in a timely manner and in compliance with applicable laws. All meetings of the Board held during the year surpassed the minimum quorum requirements of attendance as prescribed by the applicable regulations.

Company Secretary acts as the Secretary to the Board. All decisions made by the Board during the meetings were clearly documented in the minutes of the meetings maintained by the Company Secretary, and were duly circulated to all the directors for endorsement and were approved in the subsequent Board meetings.

Name of Director	Attendance
Mr. Mueen Afzal *Chairman and Non-Executive Director*	5/5
Mr. Syed Javed Iqbal *Managing Director and CEO*	3/5
Ms. Hae In KIM *Non-Executive Director*	2/5
Mr. Wael Sabra *Finance & IT Director*	4/5
Mr. Tajamal Shah *Legal and External Affairs Director*	4/5
Lt. Gen.(Retd.) Ali Kuli Khan Khattak *Non-Executive Director*	4/5
Mr. Imran Maqbool *Non-Executive Director*	5/5
Mr. Zafar Mahmood *Independent Director*	5/5
Mr. Michael Koest *Non-Executive Director*	0/5

5.5 BOARD MEETINGS HELD OUTSIDE PAKISTAN

PTC conducted all its Board meetings in 2017 in Pakistan.

5.6 COMMITTEES OF THE BOARD

The Board has four committees, which assist the Board in performance of its functions. Details of all Board Committees, including attendance and their functions are provided separately in this Annual Report on page 58 & 59.

5.7 DIRECTORS' REMUNERATION

As per the requirements of Code of Corporate Governance, there is a formal and transparent procedure in place for fixing the remuneration packages of individual directors. No director is involved in deciding his/her own remuneration.

These remuneration packages are approved as per requirements of the regulatory framework and internal procedures while ensuring that they are not at a level that could be perceived to compromise the independence of non-executive directors.

The remuneration of executive directors including the CEO, key management personnel and other executives is given in note 35 to the financial statements.

5.8 EVALUATION OF BOARD'S PERFORMANCE

The Company has designed an "Evaluation Tool" to assist the Board to:

- understand and recognise what is working well;
- identify areas for improvement;
- discuss and agree on priorities for change which can be addressed in the short-and-long-term;
- agree on an action plan.

The Evaluation Tool comprises an evaluation questionnaire which is circulated amongst all the Directors in which each of the Director has to evaluate self as well as the Board. In order to encourage open and frank evaluations, as well as to offer anonymity, the evaluation process is directed by the Company Secretary, who mails the questionnaire to each Director and collate the results into a report including a summary of the results, and recommendations to the Board. The Report is then discussed in the next Board Meeting to address the areas of concern and improve the Board's performance.

5.9 OFFICES OF THE CHAIRMAN & CEO

To promote transparency and good governance, offices of the Chairman of the Board of Directors and the Chief Executive Officer are held by separate individuals with clear segregation of roles and responsibilities.

5.10 BRIEF ROLES & RESPONSIBILITIES OF THE CHAIRMAN & CEO

Roles and responsibilities of the Chairman and the CEO have been clearly and distinctly defined by the Board.

The Chairman is basically a leader and mediator to head the meeting of the Board of Directors effectively and take decisions after a free and open sharing of views within a limited time quickly and efficiently. The Chairman is responsible for the overall discharge of the Board's duties.

The CEO is the executive head of the company who heads all facets of the company through respective heads of functions and manages the day to day operations of the company and provides leadership toward the achievement of the Corporate Plan. The CEO is responsible for leading, development and execution of company's short/long term strategies with a view to enhance shareholders' value. The CEO liaise with the board and communicates on behalf of management.

5.11 CEO'S PERFORMANCE EVALUATION BY THE BOARD

The Board appoints the CEO for a term of 3 years, in compliance with applicable laws. His performance is reviewed annually on the yearly corporate plan, besides his responsibilities under the regulatory framework.

His performance for the year 2017 is demonstrated by achievement of corporate plan and compliance with the applicable regulatory requirements.

5.12 FORMAL ORIENTATION AT INDUCTION

Newly inducted Board members are taken through an Induction Plan for their orientation and familiarization towards the Company's vision, organizational structure, roles and responsibilities of senior executives, major pending or threatened litigation, policies relating to dividends, whistleblowing, summary of Company's major assets, liabilities and noteworthy contracts etc.

As part of the Induction Plan, senior executives of the Company present the performance of their respective department to the newly inducted Directors.

5.13 DIRECTORS' TRAINING PROGRAM

PTC has ensured compliance with the applicable regulatory requirements regarding directors training. More than half of the directors have obtained certification under Directors' Training Program (DTP) approved by SECP.

5.14 ISSUES RAISED AT LAST AGM

Company's 70th Annual General Meeting was held on April 20, 2017. General clarifications on the published financial statements and the impact of illicit trade were sought by the shareholders & investors but no issues were reported in that meeting.

5.15 AUDITORS

Statutory Audit for the Company for the financial year ended December 31, 2017 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 Messers KPMG Taseer Hadi & Co. shall retire at the conclusion of the annual general meeting, and they have indicated their willingness to continue as Auditors for PTC. They have confirmed to have achieved 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 appointment as Auditors for the financial year ending December 31, 2017 on the recommendation of the Audit Committee. This shall be subject to the approval of the shareholders in their meeting scheduled for April 20, 2018.

5.16 PATTERN OF SHAREHOLDING

The pattern of shareholding as at December 31, 2017 alongside the disclosure as required under Code of Corporate Governance is provided separately in this Annual Report on page 172 & 173.

5.17 TRADING IN SHARES BY DIRECTORS & EXECUTIVES

The Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minors have reportedly not performed any trading in the shares of the Company.

5.18 REVIEW OF BCP

PTC recognizes the importance of Business Continuity Management (BCM) as the means to ensure that the business can continue to succeed in times of crisis and during the recovery process. To this end, the Company has established a BCM Manual as per International Standards which enables the company to:

- Proactively plan and prepare in the case of an incident;
- Understand how to respond should an incident occur;
- Know, how to manage the situation effectively; and
- Return to Business as Usual (BAU) as quickly as possible to minimize the negative impact on the business.

The process has received recognition within the BAT group companies as on one of the best in the group. The Board reviews compliance with the BCM Manual on an annual basis. Responsibility and accountability for ensuring compliance with the Standards and for the implementation of the BCM process has been delegated to the Managing Director. Operational management of BCM is delegated to the Head of Security who is the lead for BCM in Pakistan Tobacco Company. Heads of Functions are the risk owners and are responsible for enabling and maintaining an effective BCM capability within their respective functions. The Business Continuity Manager facilitates and coordinates the BCM process in Pakistan Tobacco Company.

By implementing a BCM process, the Company ensures that:

- its people, assets and information are protected. Employees receive adequate support and communications in the event of a disruption;
- the relationships with other organizations, relevant regulators or government departments, local authorities and the emergency services are properly developed and documented. Stakeholder requirements are understood and can be delivered; &
- The Company has an enhanced capacity to protect its reputation and remains compliant with its legal and regulatory obligations

6. FORWARD LOOKING STATEMENT

6.1 ANALYSIS OF PRIOR PERIOD'S FORWARD-LOOKING DISCLOSURE

We had anticipated 2017 to be a very challenging year for the legitimate tobacco industry where sales volumes would be affected by the rising illicit sector. This is vindicated by the business performance compared to 2016 as disclosed in this Annual Report.

6.2 FORWARD LOOKING STATEMENT

2018 will be another challenging year. Illicit trade remains the biggest threat to the sustainability of the legitimate tobacco industry. This deprives the government of very substantial revenues and is in open contravention of the laws of the country.

The Company anticipates that government of Pakistan will be under immense revenue pressures due to a weak local currency, widening trade & fiscal deficits and increasing debt servicing needs. However, it is now clear that for the tobacco industry, government has decided to effectively deal with the duty evaded sector to ensure the sustainability of its revenue collection. The Company urges all relevant authorities to keep up and intensify their law enforcement actions in 2018 to curb the duty evaded sector further.

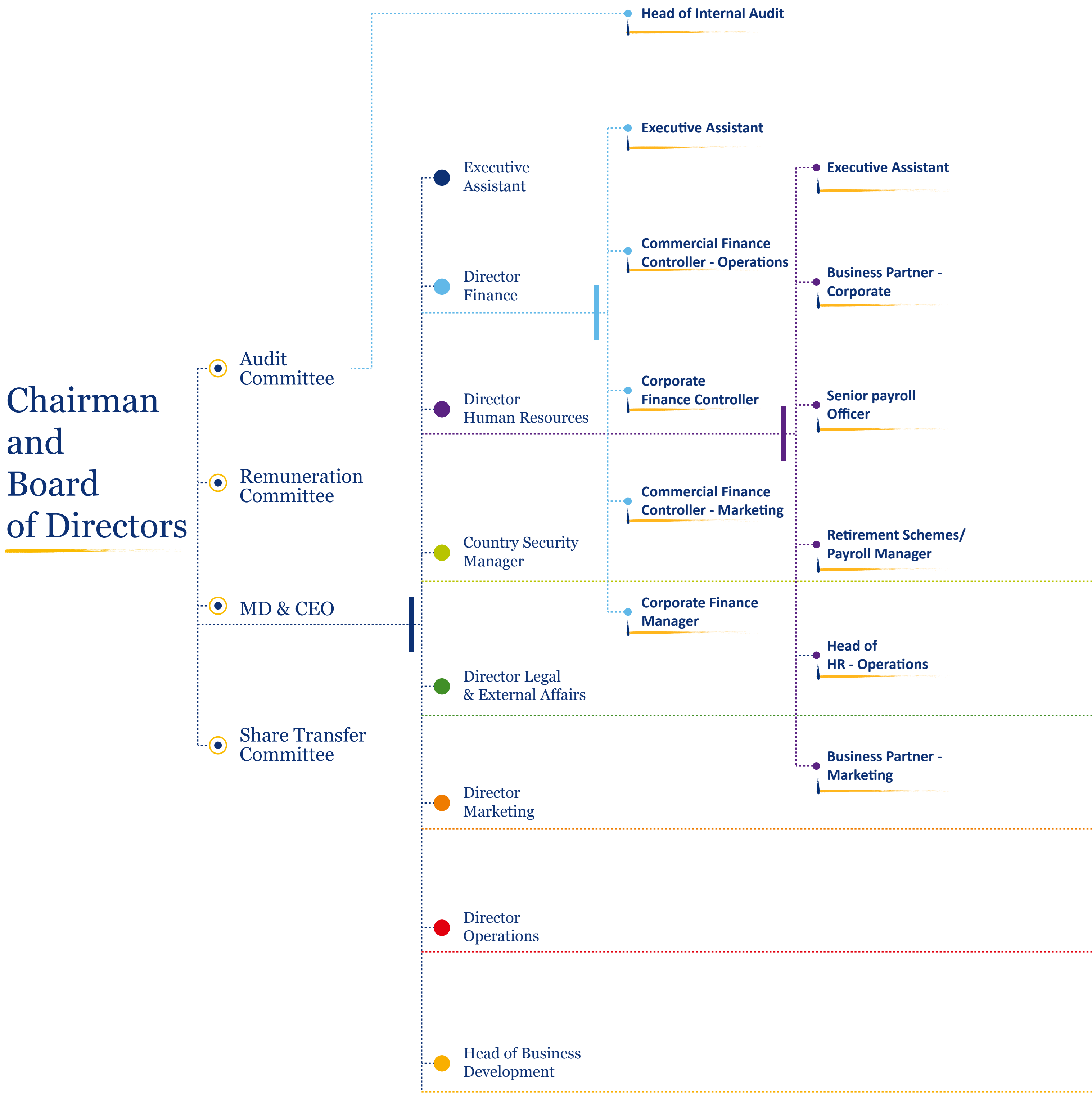
In PTC, business is driven by experience, commitment and leadership of its people and their ability to transform to the changing industry landscape. Our balanced brand portfolio, effective marketing initiatives supported by a very strong trade marketing team and continuous process improvements in operations has enabled us to deliver our responsibility to the society, value to shareholders and 70 years of leadership.

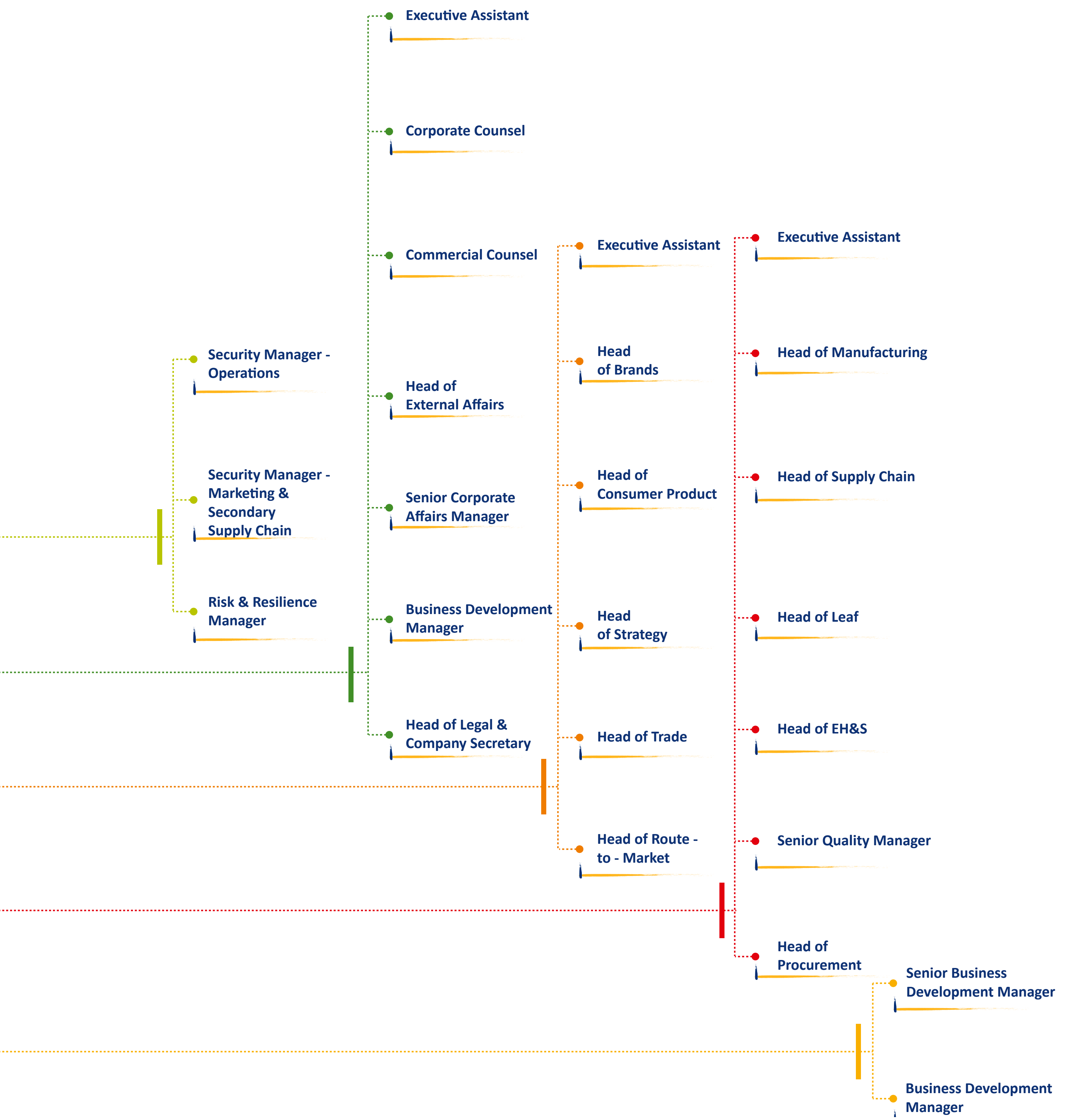
For and on behalf of the Board

Mueen Afzal
Chairman

Syed Javed Iqbal
Managing Director & CEO

ORGANIZATIONAL **STRUCTURE**




Executive Assistant
Corporate Counsel
Commercial Counsel
Head of External Affairs
Senior Corporate Affairs Manager
Business Development Manager
Head of Legal & Company Secretary
Security Manager - Operations
Security Manager - Marketing & Secondary Supply Chain
Risk & Resilience Manager
Executive Assistant
Head of Brands
Head of Consumer Product
Head of Strategy
Head of Trade
Head of Route - to - Market
Executive Assistant
Head of Manufacturing
Head of Supply Chain
Head of Leaf
Head of EH&S
Senior Quality Manager
Head of Procurement
Senior Business Development Manager
Business Development Manager

STRATEGIC **OBJECTIVES**

Our four key focus areas remain fundamental to our strategy as we focus on our transforming tobacco ambition

GROWTH

Constantly developing our portfolio of potentially reduced-risk products and new technologies while continuing to drive revenue growth from our traditional combustible products.

PRODUCTIVITY

Effectively deploying resources between product categories and managing our cost base to release fund for investment.

WINNING ORGANIZATION

Ensuring we have great people with the right skill sets in the right teams to drive the transformation of our business.

SUSTAINABILITY

Ensuring a sustainable business that meets the expectations of all our various stakeholders.

CRITICAL PERFORMANCE **INDICATORS**

34.8
BILLION STICKS
CIGARETTE VOLUME
-3.6%

112,524
PKR MILLION
NET TURNOVER
-13.0%

21,242
PKR MILLION
GROSS PROFIT
-6.7%

9,574
PKR MILLION
PROFIT AFTER TAX
-7.6%

37.47
PKR
EARNINGS PER SHARE
-7.6%

2,148
PKR
MARKET PRICE PER SHARE
49.9%

12,280
PKR MILLION
CASH GENERATED
FROM OPERATING ACTIVITES
16.3%

Non-Financial Indicators

Objective	CPIs monitored	Future Relevance
Maintain industry relationship and grow sales volume	Market Share of PTC	These CPIs shall remain relevant in future
Reduce downtrading of consumer to illicit trade	Market Share of Illicit Sector	
Address consumer affordability	Pricing and Excise	
Cost Economization	Gross Profit Margin & Overheads Margin	
Sustainability	Current Ration and Interest Cover	

PTC's business objectives are well planned and there was no change in these during the year.

2017
PERFORMANCE

Our Executive Committee

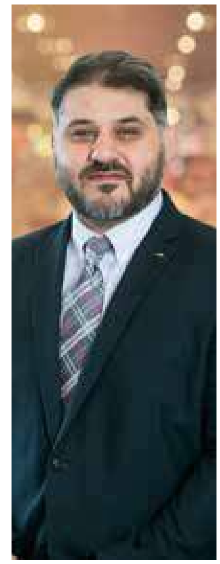
Syed Javed Iqbal
Managing Director & CEO

Wael Sabra
Director-Finance & IT

Tajamal Shah
Director-Legal & External Affairs

Usman Zahur
Director-Marketing

Husain Iqbal Jaffery
Director-Operations



Aly Taseer
Director-Human Resources

CIGARETTE VOLUME	34.8	billion sticks
NET TURN OVER	112,524	PKR million
PROFIT AFTER TAX	9,574	PKR million
CASH GENERATED FORM OPERATING ACTIVITIES	12,280	PKR million

CALENDAR OF **NOTABLE EVENTS**

JANUARY

Visit of Global and Regional BAT representatives

FEBRUARY

Farmer Training program

MARCH

Companywide strategy meeting

APRIL

Annual Employee Engagement

MAY

Companywide effort launched

JUNE

Conducted gender diversity sessions

JULY

National rollout of sales automation

AUGUST

Virtually connecting various locations of the Company

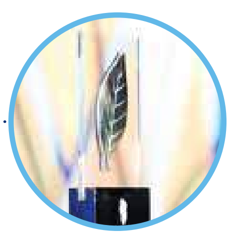
SEPTEMBER

Training - investing today in our future leaders

OCTOBER

Won the Finance Sterling Award of BAT

NOVEMBER



Won the Golden Leaf and the Regional Asia Pacific Award

DECEMBER

1st international companywide meeting

COMMITTEES OF **THE BOARD**

The board has a number of committees, which assist the board in the performance of its functions.

Executive Committee

The Executive Committee of the Board (ExCo) comprises of Executive Directors of the Company. The ExCo drives to achieve the strategic targets set by the Board of Directors.

Mr. Syed Javed Iqbal
Member and Chairman

Mr. Tajamal Shah
Member

Mr. Aly Ud din Taseer
Member

Mr. Wael Sabra
Member

Mr. Usman Zahur
Member

Mr. Husain Iqbal Jaffery
Member

Mr. M. Idries Ahmed
Secretary

Attendance of the Executive Committee

Name of Director	Attendance
Mr. Syed Javed Iqbal	16/16
Mr. Wael Sabra	15/16
Mr. Tajamal Shah	13/16
Mr. Usman Zahur	14/16
Mr. Husain Iqbal Jaffery	15/16
Mr. Sanzid Ahmed *(resigned from the ExCo in January 2017)*	1/16
Mr. Aly Ud din Taseer *(Joined ExCo in place of Sanzid Ahmed in February 2017)*	11/16
Mr. M. Idries Ahmed *(Secretary)*	16/16

AUDIT COMMITTEE:

Name of Director	Attendance
Mr. Zafar Mahmood (Chairman)	4/4
Lt. Gen. (Retd.) Ali Kuli Khan Khattak (Member)	4/4
Mr. Imran Maqbool (Member)	4/4
Mr. Michael Koest (Member)	0/4
Ms. Hae in KIM (Member)	2/4
Mr. Ahmed Iqbal (Secretary)	4/4

SHARES TRANSFER COMMITTEE:

Name of Director	Attendance
Mr. Syed Javed Iqbal (Chairman)	11/14
Mr. Tajamal Shah (Member)	14/14
Mr. Wael Sabra (Member)	14/14

HUMAN RESOURCES & REMUNERATION COMMITTEE:

Name of Director	Attendance
Lt. Gen. (Retd.) Ali Kuli Khan Khattak (Chairman)	1/1
Mr. Imran Maqbool (Member)	1/1
Mr. Syed Javed Iqbal (Member)	0/1
Mr. Aly Uddin Taseer (Secretary)	1/1

TORs / FUNCTIONS OF BOARD COMMITTEES

	Committees	Function
1.	Executive Committee of the Board (ExCo)	The Executive Committee of the Board (ExCo) is the central working nucleus of the organisation. Comprising of Executive Directors and Head of the Departments of the Company, the ExCo drives to achieve the strategic targets set by the Board of Directors.
2.	Audit Committee	The Audit Committee functions within the scope of the terms of reference approved by the Board, which sets out the roles and responsibilities of the Committee and as well as the requirements of the Code of Corporate Governance. The role and responsibilities of the Audit Committee include: • Seeking assurance on the measures taken by the management in identification, evaluation and mitigation of relevant business risks; • Reviewing quarterly, half-yearly and annual financial statements of the Company and preliminary announcements of results before approval by the Board and publication; • Reviewing the Company's statement on internal control systems, prior to their approval by the Board; • Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure, are adequate and effective; • Monitoring compliance with the best practices of corporate governance and instituting special projects and investigations on matters deemed appropriate by the Committee or desired by the Board; • Review and approve the scope and extent of internal audit, including the annual Internal Audit Plan, and regularly monitors the progress of the internal audit engagements
3.	Human Resources and Remuneration Committee	The Committee is responsible for : • Recommending human resources management policies to the Board; • Recommending to the Board the selection, evaluation, compensation (including retirement benefits) and succession planning of the MD/CEO; • Recommending to the Board, the selection, evaluation, compensation (including retirement benefits) of COO, CFO, Company Secretary and Head of Internal Audit; and • Consideration and approval on recommendations of MD/CEO on such matters for key management positions who report directly to MD/CEO or COO.
4.	Share Transfer Committee	The Committee is responsible for dealing with the day to day matters relating to the shares of the Company.

REPORT OF **AUDIT COMMITTEE**

The Audit Committee comprises of 5 directors. All members of audit committee are non-executive directors including the Chairman of the committee who is an Independent non-executive director. The Head of Internal Audit is the Secretary of the Committee and reports directly to the Chairman of the Audit Committee.

Mr. Zafar Mahmood	Independent Director
Lt. Gen. (Retd.) Ali Kuli Khan Khattak	Non-Executive Director
Mr. Imran Maqbool	Non-Executive Director
Mr. Michael Koest	Non-Executive Director
Ms. Hae in KIM	Non-Executive Director
Mr. Ahmed Iqbal	Head of Internal Audit

The Audit Committee assists the Board in carrying out its responsibilities relating to the management of business risks, internal controls and the conduct of business in accordance with Code of Corporate Governance. Meetings of the Audit Committee are held once every quarter. The Secretary prepares and circulates minutes to all members and attendees of the meeting. These minutes are approved by the committee in the next meeting.

In each its meeting, External Auditors are also present to assist the Committee on matters relating to financial accounts and reporting. Audit Committee also meets the external auditors without the CFO and Head of Internal Audit being present. The Managing Director and the Finance Director attend meetings of the Committee on standing invitation.

The Audit Committee functions within the scope of the terms of reference approved by the Board, which sets out the roles and responsibilities of the Committee and as well as the requirements of the Code of Corporate Governance.

FOR 2017 THE AUDIT COMMITTEE REPORTS:

1. The Company has complied, without any material departure, with the requirements of Listing Regulations, Code of Corporate Governance, Company's Standards of Business Conduct and other relevant statutory & regulatory requirements;
2. The Company has issued a Statement of Compliance with the Code of Corporate Governance which has also been reviewed and certified by the external auditors of the company;
3. The Audit Committee reviewed and approved quarterly, half-yearly and annual financial statements of the Company before approval by the Board;
4. The Audit Committee reviewed all preliminary announcements of results before publication;
5. The Audit Committee reviewed the Company's statement on internal control systems prior to endorsement by the Board;

INTERNAL AUDIT

1. For appraisal of internal controls and monitoring compliance, the Company has an Internal Audit department in place. The Audit Committee reviewed scope, extent and resources of Internal Audit to ensure that they are adequately resourced for the planned scope.
2. Based on the internal audit reports, Audit Committee reviewed the adequacy of controls and shortcomings in areas audited. Corrective actions were discussed with management considering their responses. This has ensured the continual evaluation of controls and improved compliance.
3. Head of Internal Audit has direct access to the Audit Committee. Internal Audit has carried out its duties under the plan approved by the Audit Committee.

EXTERNAL AUDIT

1. While the External Auditors M/s KPMG Taseer Hadi & Co. independently determine their audit plan the Audit Committee is informed of their progress, especially about issues stated in their letters to the management and the responses received.
2. Without interfering with the independence of the external and internal auditors, the Audit Committee encourages coordination between them in the discharge of their respective functions.
3. Being eligible for reappointment as auditors of the Company, the Audit Committee has recommended the appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants as External Auditors of the Company for the year ending 31 December 2018.

PRODUCT **PORTFOLIO**

Introduction	SKUs
Dunhill, our global drive brand and a true international premium offer, has been leading innovations in the market since its launch.	2
The story of **John Player Gold Leaf** starts from the story of its founder, John Player who started a small tobacco selling business in 1877 and turned it into a company, John Player and Sons. John Player Gold Leaf is the leading premium offer in the country.	2
In 1873, Richard Benson & William Hedges started a partnership in London. **Benson & Hedges** was launched in Pakistan in March 2003.	2
Capstan by Pall Mall is our global drive brand is the leading VFM brand.	1
Capstan Filter continues to operate as our Aspirational premium brand.	1
Gold Flake is our local hero with rich history and tradition.	2
Embassy has built its heritage over a number of years and thrives on its brand loyalty.	1

OPERATIONAL **EXCELLENCE**

The Environment, Health & Safety (EH&S) space has significantly improved by initiating an awareness campaign, Behavioral Observation system (PULSAR) and investment in the infrastructure. The same is being further strengthened with the Launch of the EH&S Pillar under IWS Program.

Control and Governance environment has also improved significantly which has been mandated by several excellence reviews/audits including International EH&S Review.

Efforts made to mitigate the adverse impact of industrial effluents

We at PTC always strive to improve our operational efficiencies, through continuous improvement efforts and year on year investments, to minimize our impact on the environment.

100% of the effluent produced in our operations is treated and recycled for reuse in-house. Use of advanced technologies and management techniques have helped us reduce our absolute energy usage, consequently resulting in lower carbon emissions.

We take pride in developing our suppliers and service providers through trainings and facilitation, helping us to drive the agenda of a greener tomorrow, not just in our operations, but also in the community.

Energy saving measures

The ever evolving and challenging targets have kept us on our toes in developing a sustainable energy road map for our factories. In order to do so, we have been innovative and have implemented initiatives out of the box. One example is the development and implementation of state of the art Energy Management Center that has been acknowledged as a best practice and appreciated regionally and globally within BAT. Moreover, we are pioneers of bringing latest energy efficient technologies to Pakistan such as Active Harmonics Filters and Rotary Claw Vacuum Pumps. This approach has not only helped us exceed our targets and has established us a benchmark for the industry to follow.

Consumer protection measures

Focus on consumer centric quality has ensured product superiority for all brands against competition and has resulted in a significant reduction in consumer complaints during the year. Quality Incidence and Quality Behaviour Observation System are the two main agendas under Q-Pillar initiative aimed at manufacturing excellence.

Industrial relations

The management and union extended support to each other working hand in hand to deliver outstanding results in the year 2017 and paving the way for success against all challenges as a team in the future.

Occupational safety & health

EH&S space has significantly improved by initiating awareness campaign, Behavioral Observation system (PULSAR) and investment in the infrastructure. The same is being further strengthened with the launch of the EH&S Pillar under IWS Program. PTC remained fully compliant to all applicable environment, health and safety standards.

CODE OF BUSINESS **CONDUCT** & ETHICAL **PRINCIPLES**

These Standards of Business Conduct and other internal policies set out the rules that everyone working for Pakistan Tobacco Company Limited must follow, while also providing support and guidance to assist our people to ensure that their conduct meets the high standards expected of them.

Syed Javed Iqbal
Managing Director & CEO

In our Guiding Principles, we express our commitment to 'freedom through responsibility' and 'strength through diversity'. Behaving responsibly will help you to protect the quality of our business relationships amongst ourselves our stakeholders and markets. Harnessing the diversity of our people, helps define our organization, our culture and makes working together enjoyable.

To ensure that these principles are applied everyday in our jobs, we needed to express them in detailed terms. We needed to explain the challenges and set standards so that people could identify situations that might cross the line and provide guidance as how to address such situations. To understand how these and other principles should be reflected in our daily business lives and in our own behaviors at work, we need to set ourselves standards. This is why we have the Standards of Business Conduct.

That's the purpose of our Standards of Business Conduct which in detail express the high standards of business integrity that we require from our employees. These Standards are designed to help you make the right decisions when conducting day to day business and to assist you in upholding the integrity upon which our reputation is founded. They are based on our beliefs and values and underpin our commitment to honesty, integrity and transparency. Our Standards have been in place for many years and are kept under review to ensure that they remain updated with the best business practice. This latest version has been updated and revised in alignment with the United States best practice, following the merger of BAT with R.J Reynolds Tobacco Company. Though these standards cannot cover every situation that we may encounter at work, but can help guide us in our conduct. Above all, we must always choose what we truly believe to be the right course of action.

These Standards also provide an extensive outline of the legal obligations that all employees of Pakistan Tobacco Company Limited need to comply with at all times. However these Standards are further intended to support all of us in ensuring, not only that our conduct remains lawful, but also that it is in line with the high standards that we expect of ourselves. They help to reinforce our purpose, ambitions, values and mindset that we require to succeed. They do this by making clear the rules that govern our business conduct and by providing guidance to help us make appropriate judgments and decisions in the course of our work. Everyone in Pakistan Tobacco Company Limited is responsible for upholding these requirements. Failure to observe the Standards is a cause for disciplinary action, which could lead to dismissal.

We should all feel secure in seeking advice or raising concerns relating to the Standards. If any employee is unsure of what to do in any situation or have concerns about wrongdoing at work, there are colleagues who can help, managers who will listen, and policies that are there to support you. Above all if anyone feels a violation of the Standards has occurred they are encouraged to raise their concerns using the channels available. Pakistan Tobacco Company Limited will not tolerate any retaliation against anyone who raises a concern in good faith.

CODE OF BUSINESS **CONDUCT** & ETHICAL **PRINCIPLES**

We all have a personal responsibility to uphold the Standards that we set for ourselves and to act in ways that maintain and improve the reputation of Pakistan Tobacco Company Limited. The Company encourages everyone to be familiar with these Standards, not just as a set of rules but as a way of working. By living up to the letter and the spirit of the Standards in our actions and judgements, we can all help to ensure that Pakistan Tobacco Company Limited continues to be an organisation which not only delivers excellent financial returns, but is also one for which we are proud to work.

Whistleblowing

Any employee who suspects wrongdoing at work is strongly encouraged to raise his concern in confidence through the whistleblowing procedure.

Conflicts of Interest

A conflict of interest will arise in any situation where your position or responsibilities within the Company present an opportunity for you or any close relative to obtain a personal gain or benefit (apart from the normal rewards of employment), or where there is scope for you to prefer your personal interests, or those of any close relative, above your duties and responsibilities to the Company.

Bribery and Corruption

Corruption causes distortion in markets and harms economic, social and political development, particularly in developing countries. It is wholly unacceptable for the Company and its employees to be involved or implicated in any way in corrupt practices.

Entertainment and Gifts

The exchange of entertainment and gifts with business partners can build goodwill in business relationships and, within limits, is perfectly acceptable. However, some gifts and entertainment can create improper influence (or the appearance of improper influence), and might even be seen as bribes.

Political Contributions

The Company or its employees in official capacity shall not make any donations or contributions to any political party or make any donations or contribution to any entity or individual for a political purpose.

Charitable Contributions

Pakistan Tobacco Company Limited recognises the role of business as a corporate citizen and the Company is encouraged to support local community and charitable projects.

Accurate Accounting and Record-Keeping

Honest, accurate and objective recording and reporting of information, both financial and non-financial, is essential to:

- the Company's credibility and reputation;
- its ability to meet its legal, tax, audit and regulatory obligations; and
- informing and supporting business decisions and actions by the Company.

Protection of Corporate Assets

Employees are responsible for safeguarding and making appropriate use of the Company assets with which they are entrusted in order to do their jobs and meet the Company's business objectives.

Confidentiality and Information Security

The Company and employees must protect and maintain the confidentiality of all commercially sensitive information, trade secrets and other confidential information relating to the Company and its business.

Insider Dealing and Market Abuse

PTC is committed to supporting fair and open securities markets. Accordingly, employees shall not deal on the basis of inside information or engage in other forms of market abuse.

Competition and Anti-Trust Laws

Pakistan Tobacco Company Limited believes in free competition. The Company must seek to compete fairly and ethically and within the framework of applicable 'competition' laws (or 'anti-trust' laws, as they are known in certain countries).

Money Laundering and Anti-Terrorism

Money laundering involves the possession of, or any dealing with, the proceeds of criminal activity. It includes the process of concealing the identity of illegally obtained money so that it appears to have come from a lawful source. PTC does not condone, facilitate or support money laundering.

Trade in the Company's Products

PTC engages only in lawful trade in its products. Illicit trade, involving smuggled or counterfeit products, harms our business and we would like to see our market free of it.

Sanctions

Various sanctions regimes exist throughout the world, ranging from comprehensive economic and trade sanctions to more specific measures such as arms embargoes, travel bans and financial or diplomatic restrictions. Economic and trade sanctions impact upon the business of our Company by restricting the extent to which they can operate within certain jurisdictions.

Respect in the workplace

All Company employees must treat all of their colleagues and business partners inclusively, with dignity, and with respect.

Human Rights and the Company's Operations

The Company is committed to ensuring that its operations are always conducted in a way that respects the human rights of its employees, the people it works with, and the communities in which the Company operates.

IT governance policy

PTC has a robust IT governance based on number of policies and IT standards, where strategy and respective plans are defined based on Company automation and technology needs, processes and procedures. IT Systems are defined and implemented as per the industry standard process and related requirements. All the controlling processes are governed using industry best practices, from leaf buying process to cigarette manufacturing to sales automation.

Being custodian of company's most important asset, the data, PTC IT is ensuring that right people have access to right information through Global IT standards ITIL (IT infrastructure library) processes and controls which are in place.

To ensure required standards and quality, all IT projects and initiatives are approved from IT steering committee and built as part of PTC IT plan.

All above is governed through policies and standards such as IT Security Policy, Approved product List (APL), Technical Security Standards (TSS) etc.

Leaf Buying System:

With this strength, PTC has state of the art Leaf buying process to secure best quality tobacco by its automated grading, weighting and processing system to generate payment voucher to ensure that there is no delay on paying the formers.

Automated production facility:

PTC cigarette manufacturing plants are fully automated production facility to manage and ensure high quality production to give best product to its consumers, using quality information system and product integrity solution implementation.

Robust ERP System:

We have enabled the business team on latest and most reliable ERP system, to ensure that all financial activities are recorded, and reporting facility is available to management for latest update on business results and quick decision making.

Cloud Based Infrastructure:

We have transformed all the local datacenters to globally hosted GEO redundant facility to ensure that its available to business is 24/7 and also make it possible to accessible from everywhere and anywhere. All applications and storage facility are in cloud with six levels of backups and geo redundant backup / failover servers.

Business Continuity Planning:

BCP planning is the most important activity, at PTC a companywide business continuity plan exists, reviewed on quarterly basis and tested twice a year to ensure that it is as per latest challenges and situations, also to ensures sustainable business operations during any disaster or climate situation.

CODE OF BUSINESS **CONDUCT** & ETHICAL **PRINCIPLES**

In the same spirit, PTC IT has ensured that a robust and proactive BCP plan is maintained. By having a hot backup site for core datacenters servers and key communication infrastructure but dual failover facility to provide 100% availability of IT facility for core business activities.

Warehouse Management Solution:

To ensure a well-managed inventory in row material and wrapping material warehouse and finish good warehouse, IT has enable the business team on a handheld based online warehouse management solution, which enabled the business to manage the inventory levels as per requirement and ordering are done before running out.

Sales Automation:

A recent jewel in the crown of IT, that gave an edge to Company as this provided real time information from the market directly to the marketing teams sitting in office making sure our product has more reach to every corner of the country.

Human resource talent management

The annual Talent Management process starts with the year and closes with the year end as well. It measures people performance against the mapped-out Performance Objectives which are linked to company objectives for the year. The same process also helps evaluate people potential for future progression in the organization. We place high value on quality of conversations between individuals and their line managers whereby the plans are laid out for the year and feedback and development is available to our people to help them not only meet but also go above & beyond their outlined business and people goals. People development is also a core focus area for HR in BAT. Extensive training calendars are mapped out with functional and leadership development trainings menu available to line managers to fulfill the development needs of their people. Some areas of development may require further strengthening and for that we have a global training calendar available as well for out talent. After the first step of performance management, our talent review mechanisms at the functional leadership team level begins. Talent Review is a thorough process which runs across all end markets in BAT and helps mark out High potential talent for future progression and also helps build careers of individuals across the globe. Through this process our talent gets opportunities for international exposure and development. Talent reviews also help build a vigorous succession plan where we mark out top talent for various critical roles across the organization. People are placed for short term and medium-term succession as per requirement of our structure. In the succession planning where we see that a probable gap may exists in the course of the year, our talent acquisition strategy comes into play to help fill those gaps. We have an extensive talent acquisition and branding strategy which is driven by the global team and managed by us in our end market as well. We run an annual program in select universities across Pakistan called "Battle of Minds" which helps build a select pool of top talent from these universities for recruitment throughout the year across our corporate office, factories and trade and marketing regions.

Records Management policy

The Company has its formal Records Management Policy as well as Information Security Policy, both approved by the Board. The Policies define Company's critical records (in any form) and their retention periods, commensurate with legal, audit and tax obligations, in addition to their business needs. The Policies not only ensure that critical records are properly saved and archived but their security is also uncompromised. For electronic records, backups are maintained and for hard records, the Company has its own offsite "Records Storage" where records with longer retention period are kept safely. Each year, "spot-checks" are carried out to ascertain the status of compliance with the Policies and the reports are then shared with the senior management of the Company.

Investors grievance policy

If any Investor has any grievance, he can contact the designated person for handling Investor Claims. On the official website of the Company under the head "Investor Relations" a name has been provided along with contact details of the person designated to handle investor grievances.

Whistle blowing policy and procedures

PTC's Whistleblowing Policy ("Policy") is there to support, encourage and in doing so, gives its employees (and people working with PTC), trust and confidence in how their concerns will be treated. The whistle blowing policy allows its employees to report their concerns on any breach or potential breach of the SoBC. The actions that can be reported include:

- Criminal Acts
- Putting Health or Safety at Risk
- Environmental Damage
- Bullying or Harassment
- Accounting Malpractice

- Failing to Comply with Legal Obligation
- Concealing any of the above activities

The Policy further ensures that the identity of the whistleblower will be kept confidential and if after investigation it is found that the individual was mistaken the whistleblower will not suffer any form of reprisal.

Procedures for raising concerns are provided below:

Informal reporting: voice concern with line manager or any other senior manager.

Formal reporting: report the matter formally for investigation with line manager either verbally or in writing.

Designated Officer: referred to by the individual directly or by the line manager for investigation but matter is kept confidential.

Anonymous reports: Individuals may wish to raise concerns anonymously. But a full investigation may not be possible without the employee's cooperation, and proper feedback.

Reporting a Wrongdoing: If you have a concern you wish to raise you may write in to any of the Designated Officers or contact them via telephone or fax.

The designated officers are:

- Managing Director and CEO
- Legal and External Affairs Director
- Head of Internal Audit
- Company Secretary

All employees of PTC are made aware of this policy and the safeguards it provides to the whistleblower.

Business ethics & anti-corruption measures

We are committed to operating our business fairly and ethically in line with applicable laws, right across the world. Conducting business ethically and with integrity amongst other things entails avoiding all forms of corrupt practices. As an organization we have a "zero tolerance" approach to corrupt practices and in no circumstance, will such conduct be tolerated.

The Integrity Guide ("Guide") designed by LEX department reflects our commitment to encouraging the application of PTC Standard of Business Conduct ("SoBC"). This Guide is designed to help everyone working for or with PTC to understand the Business Integrity Principles of PTC. It aims to define and determine your behavior in certain situations which are prone to risk and will serve as a basis for discussing ethical business issues with others. It expresses what your morals already tell you and provides arguments to help you resist pressure.

In order to improve corporate sustainability PTC further stresses and pushes it's contractors, agents or consultants, to act consistently with the SoBC and Business Integrity Principles of PTC, by applying similar standards within their own organization.

Actual and perceived conflicts of interest

PTC is determined to provide the best working environment to all its employees. It is part of SOBC of PTC that all employees must avoid situations where their personal interests might, or might appear to, be in conflict with the interests of the Company.In this behalf the guiding principle is that an employee must disclose to the higher management (a board member to the Board of Directors) of any actual or potential conflict of interest.

In the case of any director of the Company, disclosure should be made to, and approval sought from, the Board of the Company at its next meeting, and the decision should be recorded in the minutes.

All employees including directors must disclose any actual or potential conflicts of interest in the Standards of Business Conduct Compliance forms filled out by employees at the end of each year.

The Company maintains a 'conflicts log' which records the details of all actual or potential conflicts of interest disclosed by their employees and the action taken in respect of them.

The Company Secretary of PTC is responsible for maintaining the 'conflicts log'.

NOTICE OF THE
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventy first (71st) Annual General Meeting (Meeting) of Pakistan Tobacco Company Limited ("the Company") will be held at the Serena Hotel, Khayaban-e-Suhrwardy, Islamabad on Friday, the 20th April 2018 at 10.30 a.m. to transact the following business.

ORDINARY BUSINESS:

1) To receive, consider and adopt the audited Accounts for the year ended 31st December 2017, and the Report of the Directors and Auditors thereon.

2) To approve the Final Dividend for the year 2017 as recommended by the Board.

3) To appoint Auditors and to fix their remuneration.

By order of the Board

M. IDRIES AHMED
Company Secretary

Islamabad: March 27, 2018

NOTES:

1. Closure of Share Transfer Books

The Share Transfer Books of the Company will be closed from 14th April 2018 to 20th April 2018 both days inclusive. Transfers received at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, 8-F, Near Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi by the close of business on 13th April 2018, will be in time to be entitled to vote and for the entitlement of dividend.

2. Participation in the Annual General Meeting

A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy who will have the right to attend, speak and vote in place of that member. Forms of proxy must be deposited at Company's Share Registrar's office not less than 48 hours before the time of the Meeting (i.e. 20th April 2018 at 10.30 a.m.) Proxy form(s) received after the said 48 hours will not be treated as valid.

Attendance of members who have deposited their shares into Central Depository Company of Pakistan Limited shall be in accordance with the following mandatory requirements.

A) In Person:

i) Individual members 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 certified copy of the Board of Directors' Resolution/ Power of Attorney with specimen signatures of the nominee at the time of the Meeting.

B) By Proxy:

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

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

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

iv) 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.

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

3. Submission of CNIC/NTN Details (Mandatory)

The CNIC number/NTN details is now mandatory and is required for checking the tax status as per the Active Tax Payers List (ATL) issued by the Federal Board of Revenue (FBR) from time to time.

Individuals including all joint holders holding physical certificates are therefore requested to submit a copy of their valid CNIC to the Company or its Registrar if not already provided. For shareholders, other than individuals, the scrutiny will be done by matching the NTN number, therefore corporate shareholders having CDC accounts are requested in their own interest to provide a copy of NTN certificate to check their names in the ATL before the book closure date to their respective participants/CDC, whereas corporate shareholder(s) holding physical share certificates should send a copy of their NTN certificates to the Company or its Share Registrar. The shareholders while sending CNIC or NTN certificates, as the case may be must quote their respective folio numbers.

In cases of non-receipt of the copy of a valid CNIC, the Company would be constrained under Section 243 (3) of the Companies Act, 2017 to withhold dividend of such shareholders.

4. Dividend, Electronic Credit Mandate (Mandatory)

Pursuant to the provisions of Section 242 of the Companies Act, 2017, it is mandatory for a listed Company to pay cash dividend to its shareholders only through electronic mode by making direct remittance into their respective bank account designated by the entitled shareholder(s) ("the bank account"). Therefore, in order to receive dividends directly into their bank account, shareholders holding shares in physical form are requested to fill in "Electronic Credit Mandate Form" available on Company's website i.e. www.ptc.com.pk and send the completed form along with a copy of a valid CNIC or provide the following information to the registrar of the Company M/s. FAMCO Associates (Private) Limited, 8-F, Near Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi latest by 13th April, 2018.

NOTICE OF THE
ANNUAL GENERAL MEETING

Folio Number	
Name of Shareholder	
Title of the Bank Account	
International Bank Account (IBAN) (24 digits)	
Name of Bank	
Name of Bank Branch and Address	
Cellular Number of Shareholder	
Landline Number of Shareholder	
CNIC/NTN Number, in case of corporate shareholder (Attach Copy)	
Signature of Member	

5. Deduction of Income Tax from Dividend under Section 150 of the Income Tax Ordinance, 2001 (Mandatory)

(i) Pursuant to the provisions of the Finance Act 2016 effective July 1, 2017, the rates of deduction of income tax from dividend payments under the Income Tax Ordinance have been revised as follows:

1. Rate of tax deduction for filer of income tax return 15%
2. Rate of tax deduction for non-filers of income tax return 20%

To enable the Company to make tax deduction on the amount of cash dividend @ 15% instead of 20%, shareholders whose names are not entered into the Active Tax-payers List (ATL) provided on the website of FBR, despite the fact that they are filers, are advised to immediately make sure that their names are entered in ATL, otherwise tax on their cash dividend will be deducted @ 20% instead of 15%.

(ii) Withholding Tax exemption from the dividend income, shall only be allowed if a copy of valid tax exemption certificate is made available to FAMCO Associates (Pvt) Ltd., by the first day of Book Closure.

(iii) Further, according to clarification received from Federal Board of Revenue (FBR), with-holding tax will be determined separately on 'Filer/Non-Filer' status of Principal shareholder as well as joint-holder(s) based on their shareholding proportions, in case of joint accounts.

In this regard all shareholders either holding shares in physical form or in CDC, who hold shares jointly are requested to provide shareholding proportions of Principal shareholder and Joint-holder(s) in respect of shares held by them (only if not already provided) to our Share Registrar, in writing as follows:

Company Name	Folio/CDC Account #	Total Shares	Principal Shareholder		Joint Shareholder	
			Name and CNIC #	Shareholding Proportion (No. of Shares)	Name and CNIC #	Shareholding Proportion (No. of Shares)

The required information must reach our Share Registrar within 10 days of this notice; otherwise it will be assumed that the shares are equally held by Principal shareholder and Joint Holder(s).

(iv) The corporate shareholders having CDC accounts are required to have their National Tax Number (NTN) updated with their respective participants, whereas corporate physical shareholders should send a copy of their NTN certificate to the company or FAMCO Associates (Pvt.) Ltd. The shareholders while sending NTN or NTN certificates, as the case may be, must quote company name and their respective folio numbers.

6. Zakat Deductions.

To claim exemption from compulsory deduction of Zakat, shareholders are requested to submit a notarised copy of Zakat Declaration Form "CZ-50" on NJSP of Rs.50/- to the Share Registrar.

7. E-Voting

Members can exercise their right to demand a poll subject to meeting requirements of Section 143-145 of Companies Act, 2017 and applicable clauses of Companies (Postal Ballot) Regulation 2018.

8. Video-Link Facility

Pursuant to Section 134 (1) (b) of the Companies Act 2017 and SECP's circular No 10 of 2014 dated May 21, 2014, if the Company receives consent from members holding in aggregate 10% or more shareholding residing in a geographical location to participate in the meeting through video conference at least 10 days prior to the date of Annual General Meeting, the Company will arrange video conference facility in that city subject to availability of such facility in that city. To avail this facility, please provide the following information to the Share Registrar.

I/We, of being a member of Pakistan Tobacco Company Limited holding of Ordinary Shares(s) as per Register Folio No. _______________ hereby opt for the video conference facility at (Please insert name of the City).

9. Change of Address

Members are requested to notify any change in their addresses immediately. Members holding shares in physical form are requested to notify the Company's Share Registrar promptly of changes in their address.

Members holding shares in electronic form with CDC must notify change of address to their participants or CDC Investor Account Services with whom the account is maintained.

10. Contact Details:

Company Contact:
Company Secretary,
Pakistan Tobacco Company Limited,
Serena Business Complex, Khayaban-e-Suhrwardy,
Islamabad
Phone: (051) 2083200

Share Registrar:
FAMCO Associates (Pvt) Ltd.
8-F, Near Hotel Faran, Nursery, Block-6,
P.E.C.H.S., Shahrah-e-Faisal, Karachi
Phone: (021) 34380101-5
Email address: info.shares@famco.com.pk

PERFORMANCE INDICATORS
RATIOS FOR 6 YEARS

		2017	2016	2015	2014	2013	2012
Profitability Ratios							
Gross Profit ratio	%	47.93	50.76	43.24	37.81	34.65	32.63
Net Profit to Sales	%	21.60	23.09	16.42	13.24	10.20	6.68
EBITDA Margin to Sales	%	31.47	35.86	26.39	21.63	17.68	13.58
Operating leverage ratio	Times	(0.16)	0.51	0.51	0.59	0.73	3.26
Return on Equity	%	64.06	88.78	76.69	72.26	65.64	46.46
Return on Capital employed	%	52.37	71.83	59.61	50.99	46.50	32.65
Liquidity Ratios							
Current ratio	%	1.69	1.52	1.20	1.06	0.96	0.95
Quick / Acid Test Ratio	%	0.65	0.28	0.12	0.10	0.11	0.11
Cash to Current Liabilities	%	51.64	10.27	0.41	1.20	0.56	1.62
Cash flow from operations to Sales	%	10.91	8.16	4.14	5.95	2.64	2.35
Activity / Turnover Ratios							
Inventory turnover ratio	%	1.60	1.62	1.74	1.91	2.18	2.41
No. of Days in Inventory	Days	228.74	224.99	209.95	190.65	167.18	151.26
Debtor turnover ratio	%	-	-	-	-	-	-
No. of Days in Receivables	Days	-	-	-	-	-	-
Creditor turnover ratio	%	2.44	2.92	3.13	4.19	7.14	6.97
No. of Days in Payables	Days	149.51	124.81	116.64	87.19	51.09	52.34
Total Assets turnover ratio	%	3.50	5.09	5.05	4.89	5.16	5.44
Fixed Assets turnover ratio	%	13.04	14.98	13.61	12.30	12.69	13.26
Operating cycle	%	79.24	100.19	93.32	103.48	116.09	98.92
Investment /Market Ratios							
Earnings per share After Tax	Rs	37.47	40.55	27.58	18.98	12.23	6.77
Price-Earning Ratio	Rs	57.32	35.34	40.39	55.82	46.02	9.99
Dividend Yield ratio	%	1.40	1.74	2.15	1.42	1.78	9.32
Dividend Payout ratio	%	80.06	61.65	87.02	79.02	81.78	93.12
Dividend Cover ratio	%	1.25	1.62	1.15	1.27	1.22	1.07
Dividend Per Share	Rs	30.00	25.00	24.00	15.00	10.00	6.30
Stock Dividend per share	Rs	-	-	-	-	-	-
Market value per share at year end	Rs	2147.92	1433.25	1114.00	1059.74	562.70	67.56
Highest Market value per share during the year	Rs	2147.92	1433.25	1169.00	1538.99	562.70	72.58
Lowest Market value per share during the year	Rs	1081.00	950.00	742.90	567.80	55.50	46.00
Break-up value per share	Rs	66.19	50.79	40.57	31.36	21.18	16.08
Breakup value per share including the effect of Surplus on Revaluation of Fixed Assets	Rs	66.19	50.79	40.57	31.36	21.18	16.08
Capital Structure Ratios							
Financial leverage ratio	Times	1.92	2.15	2.54	2.93	3.29	1.80
Weighted average cost of debt	Times	7.35	7.25	8.73	10.36	9.84	11.51
Debt to Equity ratio	%	-	0.01	0.12	0.07	0.45	0.30
Interest Cover ratio	Times	231.95	336.64	148.21	73.56	65.80	20.17

ANALYSIS OF
PERFORMANCE INDICATORS

PROFITABILITY RATIOS

Profitability ratios has seen a steady rise in the past years since 2012 generating healthy Cumulative Average Growth Rates. This is driven by consistent growth in sales volume and revenue. Effective cost management and redesign of organizational structure over this period allowed for a smaller cost base generating more profits with healthy margins.

LIQUIDITY RATIOS

PTC's prepayment business model (minimal credit sales) is geared towards enhanced liquidity with operating activities generating enough cash to meet majority of company's needs including the investing activities. This is clearly reflected in healthy liquidity ratios throughout the past 6 years. Smart investment strategy allows for enhanced return on short term investments ensuring minimum dependency on external financing.

ACTIVITY/TURNOVER RATIOS

PTC has been efficiently utilizing its lean asset base to generate high multiples of revenue consistently. Operating cycle has been effectively kept between the range of 70-100 days each year. This significantly helped by minimal credit sales allowing for zero days in receivables. Additionally, better negotiation in procurement allows for enhanced credit period from our suppliers. No. of days in inventory are high primarily because of raw material in the form of tobacco leaf bought in second half of the year for production in first half of next year as per tobacco crop cycle.

INVESTMENT/MARKET RATIOS

PTC's core objective is to generate consistently high returns for its valued shareholders. This is reflected in steady increase in Earnings of the past years and consistently high dividend payouts. PTC's share is one of the constituents of KSE-100 index. It is regarded as a blue-chip investment reflected by the high P/E multiple at which it is valued. Share price has increased by more than 30 times since 2012 which is a testament to company's ability to generate sounds returns for shareholders and investment community's trust in the company's ability to achieve results.

CAPITAL STRUCTURE RATIOS

Capital structure of the company consists of very small proportion of debt. Operating cycle of the company allows for liquidity generated from operating activities hence the need for financing is reduced. Only long-term debt on the books is a Lease Finance Facility being used to finance vehicles for company's personnel. This is all reflected in the capital structure ratios of the company where debt to equity is almost zero, interest cover is extremely high and financial leverage is very sound.

HORIZONTAL & **VERTICAL ANALYSIS**

Source Data

Non Current Assets						
Property, plant and equipment	8,630,814	8,629,435	9,184,971	8,713,477	7,084,521	5,694,961
Investment in subsidiary company	5,000	5,000	5,000	5,000	5,000	5,000
Long term loans	–	–	–	19	75	457
Long term deposits and prepayments	32,319	33,571	29,072	32,453	21,478	20,286
	8,668,133	8,668,006	9,219,043	8,750,949	7,111,074	5,720,704
Current Assets						
Stock-in-trade	14,460,890	13,618,530	14,007,537	11,894,508	9,166,367	7,225,301
Stores and spares	593,909	570,224	675,564	472,029	488,213	341,855
Trade debts	2,636	1,839	906	3,225	764	1,073
Loans and advances	72,685	178,561	181,594	66,692	89,579	68,632
Short term prepayments	212,747	183,858	170,298	183,145	78,889	99,509
Other receivables	968,996	1,049,248	446,622	425,467	435,055	287,696
Cash and bank balances	7,153,970	1,127,227	53,089	149,573	60,128	139,030
	23,465,833	16,729,487	15,535,610	13,194,639	10,318,995	8,163,096
	32,133,966	25,397,493	24,754,653	21,945,588	17,430,069	13,883,800
Share Capital & Reserves						
Share capital	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938	2,554,938
Revenue reserves	14,356,260	10,421,692	7,811,221	5,456,425	2,857,270	1,552,462
	16,911,198	12,976,630	10,366,159	8,011,363	5,412,208	4,107,400
Non Current Liabilities						
Deferred income tax liabilities	1,108,225	1,132,463	1,038,997	1,100,229	1,014,118	1,090,892
Deferred finance lease obligation	260,050	314,950	415,123	400,354	293,044	96,024
	1,368,275	1,447,413	1,454,120	1,500,583	1,307,162	1,186,916
Current Liabilities						
Trade and other payables	13,023,524	9,094,982	10,417,040	11,266,499	7,724,746	6,991,911
Accrued interest / mark-up	3,414	3,438	11,807	24,166	27,048	40,880
Short term running finance	–	95,339	1,219,501	562,870	2,436,445	1,237,772
Finance lease obligation	165,245	164,383	154,365	119,375	92,559	50,009
Current income tax liabilities	662,310	1,615,308	1,131,661	460,732	429,901	268,912
	13,854,493	10,973,450	12,934,374	12,433,642	10,710,699	8,589,484
	32,133,966	25,397,493	24,754,653	21,945,588	17,430,069	13,883,800

Gross turnover	112,523,770	129,278,304	125,012,583	107,217,617	89,928,975	75,531,228
Excise duties	51,247,115	64,976,204	63,290,222	54,447,161	46,110,971	38,854,830
Sales tax	16,959,013	19,435,596	18,815,170	16,151,379	13,195,201	10,796,089
Net turnover	44,317,642	44,866,504	42,907,191	36,619,077	30,622,803	25,880,309
Cost of sales	23,075,361	22,092,836	24,351,991	22,771,684	20,012,587	17,434,790
Gross Profit	21,242,281	22,773,668	18,555,200	13,847,393	10,610,216	8,445,519
Selling and distribution costs	4,800,695	4,743,638	4,854,542	3,877,112	4,022,635	3,516,601
Administrative expenses	2,663,970	2,185,061	2,434,574	2,398,881	1,716,314	1,381,918
Other income	242,134	353,070	137,176	166,415	129,129	90,400
Other operating expenses	1,186,191	1,198,205	1,068,191	650,753	397,959	908,888
Operating profit	12,833,559	14,999,834	10,335,069	7,087,062	4,602,437	2,728,512
Finance income	234,124	428,143	315,866	199,795	136,487	65,057
Finance cost	56,338	45,829	71,862	99,056	72,019	138,533
Profit before income tax	13,011,345	15,382,148	10,579,073	7,187,801	4,666,905	2,655,036
Income tax expense	3,437,783	5,020,796	3,532,639	2,337,656	1,542,596	926,578
Profit for the year	9,573,562	10,361,352	7,046,434	4,850,145	3,124,309	1,728,458
Earnings per Share - basic and diluted (Rupees)	37.47	40.55	27.58	18.98	12.23	6.77

Horizontal Analysis					Vertical Analysis					
17 Vs 16	16 Vs 15	15 Vs 14	14 Vs 13	13 Vs 12	2017	2016	2015	2014	2013	2012
Variance (%)					Percentage					
0.02	(6.05)	5.41	22.99	24.40	26.86	33.98	37.10	39.70	40.65	41.02
–	–	–	–	–	0.02	0.02	0.02	0.02	0.03	0.04
0.00	0.00	(100.00)	(74.67)	(83.59)	0.00	0.00	0.00	0.00	0.00	0.00
(3.73)	15.48	(10.42)	51.10	5.88	0.10	0.13	0.12	0.15	0.12	0.15
0.00	(5.98)	5.35	23.06	24.30	26.97	34.13	37.24	39.88	40.80	41.20
6.19	(2.78)	17.76	29.76	26.86	45.00	53.62	56.59	54.20	52.59	52.04
4.15	(15.59)	43.12	(3.31)	42.81	1.85	2.25	2.73	2.15	2.80	2.46
43.34	102.98	(71.91)	322.12	(28.80)	0.01	0.01	0.00	0.01	0.00	0.01
(59.29)	(1.67)	172.29	(25.55)	30.52	0.23	0.70	0.73	0.30	0.51	0.49
15.71	7.96	(7.01)	132.16	(20.72)	0.66	0.72	0.69	0.83	0.45	0.72
(7.65)	134.93	4.97	(2.20)	51.22	3.02	4.13	1.80	1.94	2.50	2.07
534.65	2,023.28	(64.51)	148.76	(56.75)	22.26	4.44	0.21	0.68	0.34	1.00
40.27	7.68	17.74	27.87	26.41	73.03	65.87	62.76	60.12	59.20	58.80
26.52	2.60	12.80	25.91	25.54	100	100	100	100	100	100
–	–	–	–	–	7.95	10.06	10.32	11.64	14.66	18.40
37.75	33.42	43.16	90.97	84.05	44.68	41.03	31.55	24.06	16.39	11.18
30.32	25.18	29.39	48.02	31.77	52.63	51.09	41.88	36.51	31.05	29.58
(2.14)	9.00	(5.57)	8.49	(7.04)	3.45	4.46	4.20	5.01	5.82	7.86
(17.43)	(24.13)	3.69	36.62	205.18	0.81	1.24	1.68	1.82	1.68	0.69
(5.47)	(0.46)	(3.10)	14.80	10.13	4.26	5.70	5.88	6.83	7.50	8.55
43.19	(12.69)	(7.54)	45.85	10.48	40.53	35.81	42.08	51.34	44.32	50.36
(0.70)	(70.88)	(51.14)	(10.66)	(33.84)	0.01	0.01	0.05	0.11	0.16	0.29
(100.00)	(92.18)	116.66	(76.90)	96.84	0.00	0.38	4.93	2.56	13.98	8.92
0.52	6.49	29.31	28.97	85.08	0.51	0.65	0.62	0.54	0.53	0.36
(59.00)	42.74	145.62	7.17	59.87	2.06	6.36	4.57	2.11	2.47	1.94
26.25	(15.16)	4.03	16.09	24.70	43.11	43.21	52.25	56.66	61.45	61.87
26.52	2.60	12.80	25.91	25.54	100	100	100	100	100	100
(12.96)	3.41	16.60	19.22	19.06						
(21.13)	2.66	16.24	18.08	18.68						
(12.74)	3.30	16.49	22.40	22.22						
(1.22)	4.57	17.17	19.58	18.32	100	100	100	100	100	100
4.45	(9.28)	6.94	13.79	14.79	52.07	49.24	56.76	62.19	65.35	67.37
(6.72)	22.73	34.00	30.51	25.63	47.93	50.76	43.24	37.81	34.65	32.63
1.20	(2.28)	25.21	(3.62)	14.39	10.83	10.57	11.31	10.59	13.14	13.59
21.92	(10.25)	1.49	39.77	24.20	6.01	4.87	5.67	6.55	5.60	5.34
(31.42)	157.38	(17.57)	28.88	42.84	0.55	0.79	0.32	0.45	0.42	0.35
(1.00)	12.17	64.15	63.52	(56.21)	2.68	2.67	2.49	1.78	1.30	3.51
(14.44)	45.14	45.83	53.98	68.68	28.96	33.43	24.09	19.35	15.03	10.54
(45.32)	35.55	58.10	46.38	109.80	0.53	0.95	0.74	0.55	0.45	0.25
22.93	(36.23)	(27.45)	37.54	(48.01)	0.13	0.10	0.17	0.27	0.24	0.54
(15.41)	45.40	47.18	54.02	75.78	29.36	34.28	24.66	19.63	15.24	10.26
(31.53)	42.13	51.12	51.54	66.48	7.76	11.19	8.23	6.38	5.04	3.58
(7.60)	47.04	45.28	55.24	80.76	21.60	23.09	16.42	13.24	10.20	6.68
(7.60)	47.03	45.31	55.19	80.65	–	–	–	–	–	–

COMMENTARY ON HORIZONTAL **AND VERTICAL ANALYSIS**

SHAREHOLDERS' FUNDS/EQUITY

Share capital of the Company has remained constant at PKR 2.6 billion over the past six years. Reserves however have increased from PKR 1.55 billion in 2012 to Rs. 14.36 billion recording cumulative average growth rate of 56%. This is primarily because of profits retained in business for long term investments.

NON-CURRENT LIABILITIES

Non-current liabilities represent a very small percentage of capital structure of the company and constitute of long term lease finance facility plus the deferred tax liabilities. This is primarily because cash generated from operating activities of the company proves enough to meet investment needs. These have remained stable over the past 6 years moving within the range of PKR 1.2 billion to PKR 1.5 billion.

PROPERTY, PLANT AND EQUIPMENT

Property, plant & equipment registered an increase of Rs 2.94 billion since 2012. This shows company's journey of enhancement and alignment of production capacities and other ancillary assets to support and generate revenue and profitability growth. Company's has been consistently upgrading its production machinery to latest technology as well as implementation of best practices to generate efficient results.

WORKING CAPITAL

Working capital management has seen a major shift in the past 6 years. Company has moved from negative position of PKR 0.5 billion in 2012 to positive 9.6 billion in 2017. This has been enabled by consistent revenue and profitability growth supported by prepayment business model. Operating cycle of the company has been kept within the range of 70-100 days by availing maximum credit period from suppliers, keeping finished goods inventory for minimum days in stock and giving minimum credit period to customers.

SALES VOLUME AND NET TURNOVER

Sales volume was on a consistently increasing trend from 2012 till 2014 in line with company's biggest objective to achieve growth in sales. From 2014 however, sales volume started its journey towards decline because of rising market share of illicit trade in cigarettes. This however, did not affect net turnover of the company as it was able to manage consistently rising taxation on cigarettes through smart pricing strategies. Net turnover has grown from PKR 26 billion in 2012 to PKR 44 billion in 2017 recording CAGR of 11%.

GROSS PROFIT

Company's gross profit increased from PKR 8.5 billion in 2012 to PKR 21 billion in 2017 recording CAGR of 20%. Company has been working consistently and steadfastly to bring efficiencies in its operations through introduction of technologically advanced machinery, adopting global best practices and reorganizing itself in a lean structure. This arduous journey has paid dividends as growth in gross profit has been consistent and in line with growth in net turnover.

OPERATING PROFIT

Operating profit increased from PKR 2.7 billion to PKR 13 billion recording CAGR of 36%. This consistent growth goes one step beyond the growth in net turnover and gross profit. This has been generated primarily by company's long-term strategy to develop itself into a lean organization with minimum waste. Huge effort has gone into refining processes to generate efficient and effective ways of working resulting in maximum turnover of assets. The company has built best and strongest brands in the country with the help of best talent in the country. This has enabled it to operate at such high level of efficiency.

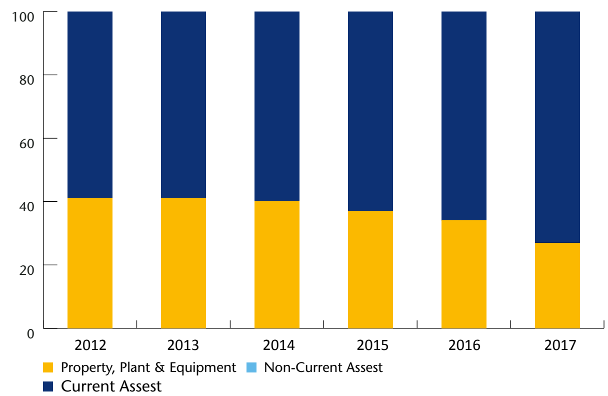
PROFITS

Minimal financing means miniscule finance cost resulting in profit before tax being close to operating profit. Income Tax exposure of the company has been effectively managed. Net profit and EBITDA has also seen consistent growth over the past 6 years.

GRAPHICAL REPRESENTATION **OF BALANCE SHEET AND P&L**

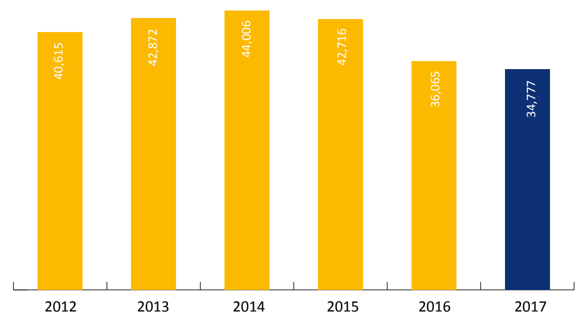
BALANCE SHEET **ANALYSIS - ASSETS**

Percentage



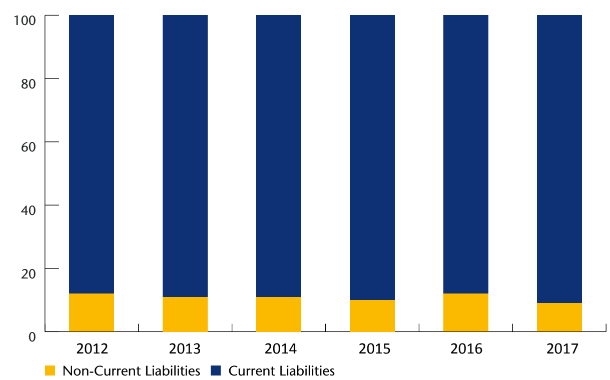
VOLUME

Sticks (million)



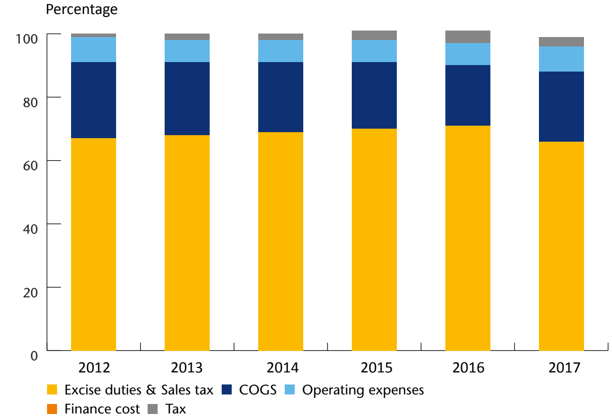
BALANCE SHEET **EQUITY & LIABILITIES**

Percentage



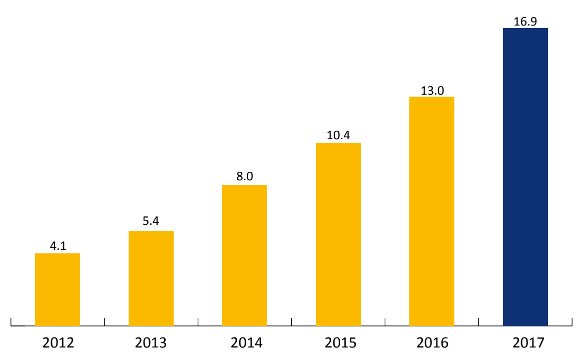
P&L ANALYSIS - **EXPENSES**

Percentage

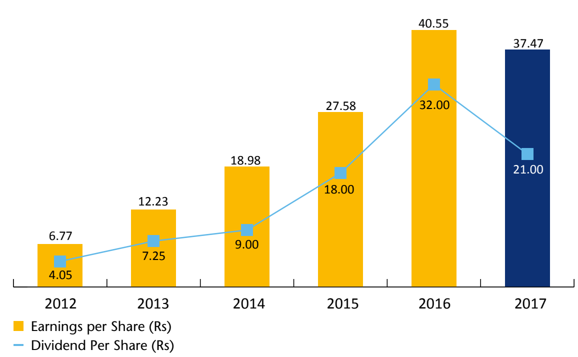


EQUITY

Rs in billion



EARNINGS PER SHARE AND **DIVIDEND PER SHARE**



QUARTERLY ANALYSIS **2017**

Rs '000	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Gross Turnover	22,025,693	28,448,866	30,184,714	31,864,497	112,523,770
Excise Duties	11,406,849	13,301,823	13,002,024	13,536,419	51,247,115
Sales tax	3,262,644	4,289,077	4,573,908	4,833,384	16,959,013
Net Turnover	7,356,200	10,857,966	12,608,782	13,494,694	44,317,642
Cost of sales	3,541,570	5,721,425	5,619,997	8,192,369	23,075,361
Gross Profit	3,814,630	5,136,541	6,988,785	5,302,325	21,242,281
Selling and distribution costs	718,586	1,309,055	918,681.000	1,854,373	4,800,695
Administrative expenses	427,809	683,679	404,658.000	1,147,824	2,663,970
Other operating expenses	815,048	250,012	435,990	(314,859)	1,186,191
Other income	2,689	23,885	106,700	108,860	242,134
	1,958,754	2,218,861	1,652,629	2,578,478	8,408,722
Operating profit	1,855,876	2,917,680	5,336,156	2,723,847	12,833,559
Finance income	20,562	41,449	25,999	146,114	234,124
Finance cost	11,396	15,498	23,503	5,941	56,338
Finance income - net	9,166	25,951	2,496	140,173	177,786
Profit before income tax	1,865,042	2,943,631	5,338,652	2,864,020	13,011,345
Income tax expense	349,638	1,482,558	1,560,098	45,489	3,437,783
Profit for the year	1,515,404	1,461,073	3,778,554	2,818,531	9,573,562

QUARTER **04**

SALES Bn Sticks 11.12
NET TURNOVER PKR Billion 13.5
NET PROFIT PKR Billion 2.8

QUARTER **03**

SALES Bn Sticks 10.30
NET TURNOVER PKR Billion 12.6
NET PROFIT PKR Billion 3.8

QUARTER **02**

SALES Bn Sticks 8.41
NET TURNOVER PKR Billion 10.9
NET PROFIT PKR Billion 1.5

QUARTER **01**

SALES Bn Sticks 4.95
NET TURNOVER PKR Billion 7.4
NET PROFIT PKR Billion 1.5

	SALES, TURNOVER AND INCOME	OPERATING COSTS (COST OF SALES AND ALL OPERATING COSTS)	PROFIT
QUARTER 1	Q1'17 accounted for 14% of total sales volume of the company for FY'17. Sales volume in Q1'17 declined by 48% compared to Q1'16 primarily because of exponential increase in illicit trade of cigarettes. This resulted in decline of 36% in net turnover. Income from short term investments declined by 46% compared to Q1'16 because of utilization of funds for other working capital needs.	Drop in sales volume had a direct impact on cost of sales which declined by 37% compared to Q1'16. Through better resource allocation and effective cost management, reduction of 24% was achieved in selling & distribution and administrative costs compared to Q1'16.	Net profit for Q1'17 was 46% less than net profit of Q1'16. This was primarily because of decline in sales volume and turnover lost to increased illicit trade.
QUARTER 2	Q2'17 accounted for 24% of total sales volume of the company for FY'17. Sales volume in Q2'17 improved by 70% compared to Q1'17 at the back of aggressive marketing campaigns. As a result, net turnover also improved by 48%. Income from short term investments doubled (increase of 102%) because of availability of funds and astute investment strategy. Compared to Q2'16, sales volume and net turnover was still lower declining by 42% and 37% respectively.	Increase in sales volume resulted in increase in cost of sales of 62% compared to Q1'17. It was 33% lower than Q2'16 because of lower sales volume. Marketing campaigns was the primary driver behind increase of 14% in all operating costs of the company compared to Q1'17, which was still lower by 11% compared to Q2'16.	Profit decreased by 4% compared to Q1'17 despite the increase in sales volume. This is primarily because of cost incurred and emphasis put on marketing activities. Compared to Q2'16 profit was lower by 66% because of significantly low sales volume.
QUARTER 3	Q3'17 accounted for 30% of total sales volume of the company for FY'17. Sales volume picked up strongly in Q3'17 (increase of 54% from average of Q1'17 & Q2'17) compared to both the previous quarters at the back of fiscal reform by government and strict enforcement actions on illicit trade by the law enforcement agencies. This was 108% higher than sales volume of Q3'16. Net turnover followed suit and increased by 38% compared to average of Q1 and Q2. This was 87% higher than the net turnover of Q3'16. Working capital was directed towards investment in production and marketing activities resulting in decline in income from short term investments of 16% compared to average of Q1'17 & Q2'17.	Pick up in sales volume resulted in increase in cost of sales of 21% compared to average of Q1'17 & Q2'17. This recorded an increase of 63% compared to Q3'16. With the rise in volumes, management turned its focus towards rationalizing costs and appropriate allocation of resources to drive towards achieving full year plans. Hence all operating costs of the company saw a reduction of 16% in Q3'17 compared to average of Q1'17 & Q2'17. This was 13% lower than the cost incurred in Q3'16.	Profit picked up by 154% in Q3'17 compared to average of Q1'17 and Q2'17 riding at the back of increase in sales volume and efficient cost management. This was 215% more than the profit earned by company in Q3'16.
QUARTER 4	Q4'17 accounted for 32% of total sales volume of the company for FY'17. Sales volume picked up pace further in the last quarter of the year rising by 31% compared to average of previous 3 quarters of 2017. This was 56% increase compared to Q4'16. Immense efforts were put into marketing activities and immediate investments in production capacities to complete the business turnaround. Net turnover increased by 31% and 46% compared to average of 3 quarters of 2017 and Q4'16 respectively.	Cost of sales rose by 65% and 82% respectively compared to average of 3 quarters of 2017 and Q4'16 respectively because of continuous pick up in sales volume. Q4'17 saw increase in investments in marketing and production to generate and meet market demands resulting in increase of 35% and 25% compared to average of 3 quarters of 2017 and Q4'16 respectively.	Driven by higher sales volumes, profit for Q4'17 increase by 30% and 35% compared to average of 3 quarters of 2017 and Q4'16 respectively.

ANALYSIS OF VARIATION IN INTERIM RESULTS COMPARED TO FULL YEAR RESULTS

2017 has been a story of two halves for PTC. H1 was deeply affected by high illicit trade of cigarettes. Only 38% of full year volume (13.36 Billion Sticks) was sold, 41% of net turnover (PKR 18.2 Billion) and 31% of net profit (PKR 2.9 Billion) was earned in H1'17. H2 witnessed recovery of business and pick of sales volume post fiscal reforms in June 2017. 62% of full year volume (21.42 Billion Sticks) was sold, 59% of net turnover (PKR 26.1 Billion) and 69% of net profit (PKR 6.6 Billion) was earned in H2'17.

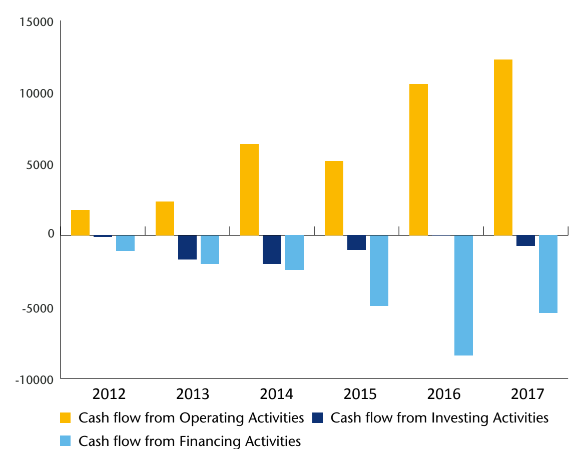
SUMMARY OF BALANCE SHEET, **P&L AND CASH FLOWS**

		2017	2016	2015	2014	2013	2012
BALANCE SHEET							
Share Capital	Rs million	2,555	2,555	2,555	2,555	2,555	2,555
Reserves	Rs million	14,356	10,422	7,811	5,456	2,857	1,552
Shareholders' funds/Equity	Rs million	16,911	12,977	10,366	8,011	5,412	4,107
Long term Liabilities	Rs million	1,368	1,447	1,454	1,501	1,307	1,187
Property, Plant & Equipment	Rs million	8,631	8,629	9,185	8,713	7,085	5,695
Net Current Assets less Liabilities (Working Capital)	Rs million	9,611	5,756	2,601	761	(392)	(426)
PROFIT & LOSS							
Sales Volume	Million Sticks	34,777	36,065	42,716	44,006	42,872	40,615
Net Turnover	Rs million	44,318	44,867	42,907	36,619	30,623	25,880
Gross Profit	Rs million	21,242	22,774	18,555	13,847	10,610	8,446
Operating Profit	Rs million	12,834	15,000	10,335	7,087	4,602	2,729
Profit Before Tax	Rs million	13,011	15,382	10,579	7,188	4,667	2,655
Net Profit	Rs million	9,574	10,361	7,046	4,850	3,124	1,728
EBITDA	Rs million	13,946	16,087	11,324	7,921	5,415	3,514
CASH FLOWS							
Cash flow from Operating Activities	Rs million	12,280	10,555	5,179	6,375	2,373	1,775
Cash flow from Investing Activities	Rs million	(740)	17	(1,015)	(1,982)	(1,665)	(119)
Cash flow from Financing Activities	Rs million	(5,418)	(8,374)	(4,917)	(2,430)	(1,985)	(1,081)
Net Change in Cash and Cash Equivalents	Rs million	6,122	2,198	(753)	1,963	(1,278)	575
Beginning Cash and Cash Equivalents	Rs million	1,032	(1,166)	(413)	(2,376)	(1,099)	(1,674)
Ending Cash and Cash Equivalents	Rs million	7,154	1,032	(1,166)	(413)	(2,376)	(1,099)
Cash and Cash Equivalents comprise							
Cash and Bank Balances	Rs million	7,154	1,127	53	150	60	139
Short Term Borrowings	Rs million	–	(95)	(1,220)	(563)	(2,436)	(1,238)
	Rs million	7,154	1,032	(1,166)	(413)	(2,376)	(1,099)

DIRECT METHOD **CASH FLOW**

(Rs million)	2017	2016
Cash flows from operating activities		
Cash receipts from customers	112,503	129,017
Cash paid to Government and suppliers	(92,845)	(112,621)
Cash paid to employees and retirement funds	(4,645)	(4,819)
Interest paid	(56)	(54)
Other cash payments	(2,677)	(969)
	12,280	10,555
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,163)	(676)
Proceeds from sale of property, plant and equipment	208	265
Interest received	215	428
	(740)	17
Cash flows from financing activities		
Dividends paid	(5,179)	(8,154)
Finance lease payments	(239)	(220)
	(5,418)	(8,374)
Increase in cash and cash equivalents	6,122	2,198
Cash and cash equivalents at beginning of year	1,032	(1,166)
Cash and cash equivalents at end of year	7,154	1,032
Cash and cash equivalents comprise:		
Cash and bank balances	390	147
Short term investments	6,764	980
Short term running finance	-	(95)
	7,154	1,032

CASH FLOW **ANALYSIS**



LIQUIDITY, CASH FLOWS **AND CAPITAL STRUCTURE**

The Treasury function is responsible for raising finance for the company, managing cash resources and financial risks arising from underlying operations. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Company. All these activities are carried out under defined policies, procedures and limits which are reviewed and approved by the Board or delegated for execution to the Finance Director and the Treasury Committee.

LIQUIDITY POSITION ANALYSIS

Cash and cash equivalents as at December 31, 2017 stand at PKR 7 billion. Major part of cash available has been invested in short term investments for enhanced liquidity and availability of funds elsewhere. PTC's prepayment business model (minimal credit sales) is geared towards enhanced liquidity with operating activities generating enough cash to meet majority of company's needs including the investing activities. This is clearly reflected in healthy liquidity ratios. Smart investment strategy allows for enhanced return on short term investments ensuring minimum dependency on external financing.

CASH FLOW ANALYSIS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities witnessed an increasing trend from 2012 to 2017 with an overall increase from Rs. 1.78 billion to Rs.12.28 billion indicating a healthy liquidity position of the company. This is because of consistent growth in turnover, better profitability and smart working capital management.

CASH FLOWS FROM INVESTING ACTIVITIES

Cash outflows from investing primarily comprise of investments made in fixed capital expenditure netted off by inflows from proceeds of sales of assets and interest income on short term investments. During 2013-15 company invested heavily in modernizaiton and upgradation of its production capacities. This trend continued till 2017 with the exception of 2016 where reduced outflows were netted off by strong inflows of interest income.

CASH FLOWS FROM FINANCING ACTIVITIES

Biggest component of PTC's financinig cash flow is the dividend payment to shareholders. Company kept consistently high dividend payout hence the outflows have grown considerably from PKR 1 billion in 2012 to PKR 5.5 billion in 2017. PTC paid record high dividend of PKR 8.4 billion in 2016.

FINANCING ARRANGEMENTS

With a view to maximize shareholders' returns, the Company places high priority on internal generation of funds. Exhaustive rolling cash flow forecasting is conducted keeping in view the various requirements of the business. Healthy operating cash flows allow company to avail external financing only on short term basis. Company has running finance facilities with multiple banks to drawn down funds in time of need.

CAPITAL STRUCTURE

Capital structure of the company consists of very small proportion of debt. Only long-term debt on the books is a Lease Finance Facility being used to finance vehicles for company's personnel. Minimal reliance is placed on external cash generation which ensures a lower finance cost.

HUMAN CAPITAL

PTC remains committed to talent attraction and retention through fast paced career growth, good remuneration packages and international/ local training and development opportunities. People are the core pillar of the business and the Company remains committed to developing its talent for the future. To manage human capital a Human Resource & Remuneration committee is also established. The responsibilities of the committee are detailed on page no 59.

LIQUIDITY AND CASH FLOW MANAGEMENT STRATEGY TO OVERCOME LIQUIDITY PROBLEMS

The Company has implemented a proactive cash management system to ensure smooth working capital management. Internal cash generation is used to meet liquidity requirements of the Company. Minimum utilization of external cash is done to ensures a very low finance cost base.

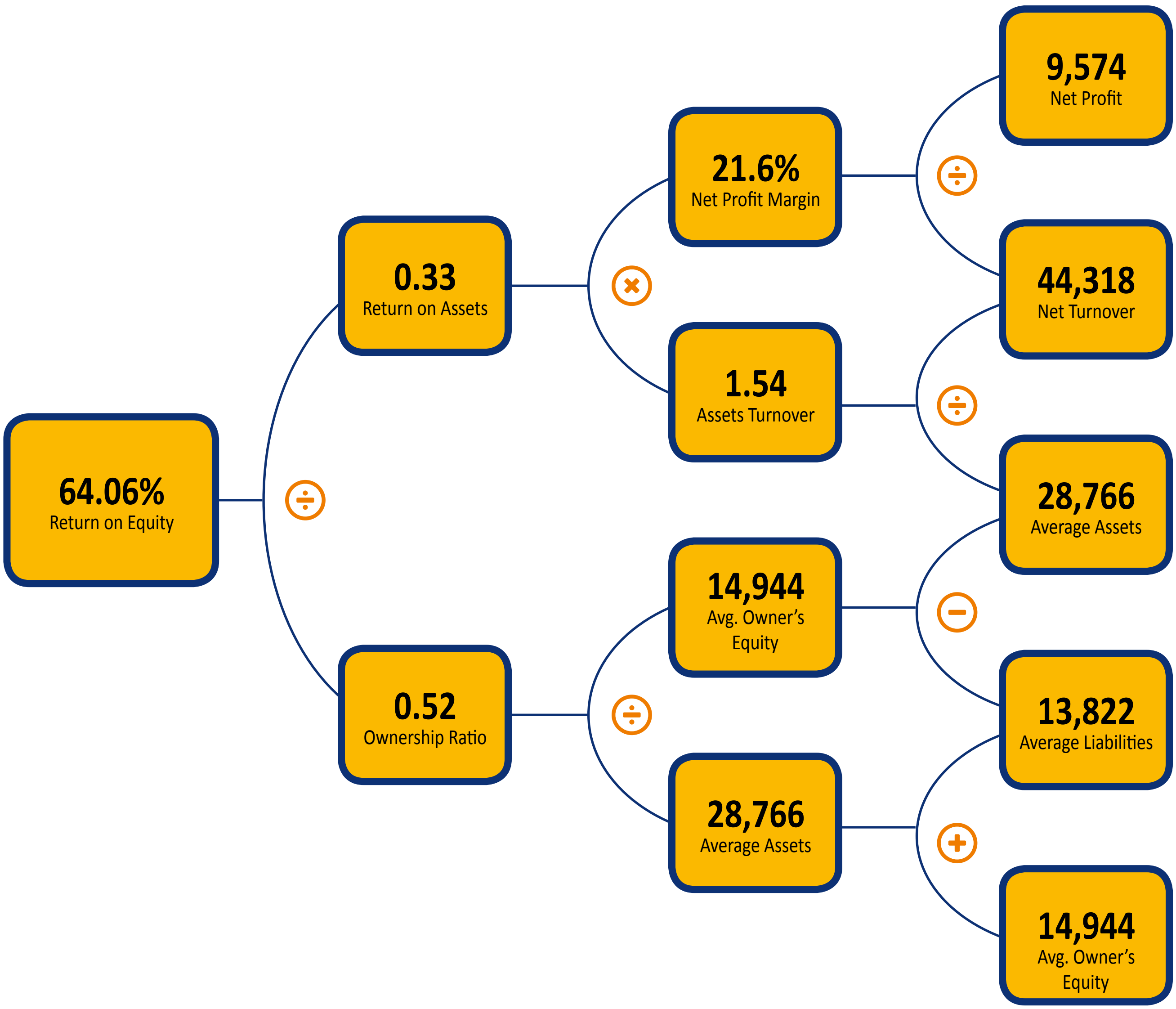
Cash flow management in PTC is handled by the Treasury Department of Finance which ensure achievement of following objectives through extensive daily planning and due diligence:

- Ensure adequate liquidity is available to the business at optimum cost
- Manage short-term investment of surplus cash
- Cash collection and disbursements while ensuring appropriate balance of control
- Currency management e.g. FX exposures
- Managing local banking arrangements
- Compliance with prudential regulations/restrictions on foreign exchange regime
- Cash flows forecasting and planning
- Provide treasury support across business & participate in Regional initiatives

REPAYMENT OF DEBTS AND RECOVERY OF LOSSES

The company does not rely on external cash generation in terms of long term borrowings. It has sufficient unutilized debt facilities available at its disposal for any business need besides managing recovery of any losses.

DUPONT ANALYSIS **2017**

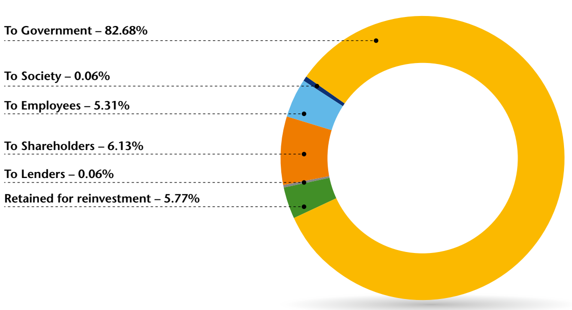


Decline in ROE in 2017 as compared to 2016 is a result of decrease in net profit margin, asset turnover as well as decrease in financial leverage. Net profit margin declined from 23.1% to 21.6% primarily due to the decrease in net profit from Rs.10.4 billion to Rs.9.6 billion. Decline in the net profit is majorly due to reduction in sales revenue primarily in the first half of 2017. Asset turnover decreased from 1.8 times to 1.5 times due to increase in average assets from Rs.25.1 billion to Rs.28.8 billion, the increase in assets is primarily driven from the increase in current assets. Current assets increased majorly due to increase in short term investments. Increase in short term investments from Rs.0.98 billion in 2016 to Rs. 6.76 billion in 2017 is mainly on account of sales pickup, post June fiscal reforms and better working capital management generating operating cash flows. Financial leverage decreased from 1.9 to 1.7 mainly due to increase in equity which is driven from the increase in revenue reserves from Rs.10.4 billion to Rs.14.4 billion.

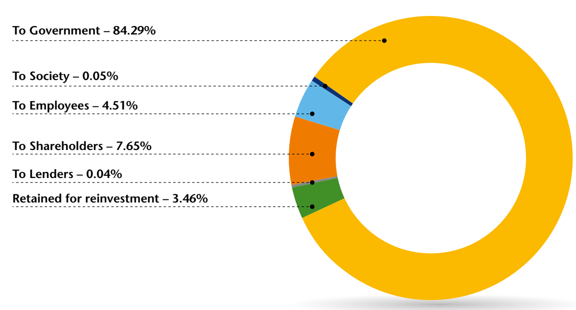
STATEMENT OF VALUE GENERATED **AND ITS DISTRIBUTION**

	2017 Rs in million	%	2016 Rs in million	%
Value Addition				
Gross Revenues	113,000		130,060	
Material, Services and Other Costs	25,480		23,172	
Value added	87,520		106,888	
Value Distribution				
To Government				
Taxes, duties and other levies	72,358	82.68	90,100	84.29
To Society				
Contribution towards health, environment & natural disaster	49	0.06	49	0.05
To Employees				
Salaries, benefits and other costs	4,645	5.31	4,819	4.51
To Shareholders				
Dividend to shareholders	5,365	6.13	8,176	7.65
To Lenders				
Mark-up/interest expense on borrowed money	56	0.06	46	0.04
Retained for reinvestment				
Depreciation and retained profit	5,047	5.77	3,698	3.46
	87,520	100.00	106,888	100.00

VALUE **DISTRIBUTION**
2017



VALUE **DISTRIBUTION**
2016



RISK & OPPORTUNITY REPORT

For PTC Risk is "any event, situation or circumstance which, if it occurs, will adversely impact the achievement of objectives, including the failure to capitalize on opportunities". This covers events, situations or circumstances that may be caused by either internal or external factors, in line with best practices.

1. IDENTIFICATION OF STRATEGIC, COMMERCIAL, OPERATIONAL & FINANCIAL RISKS

Risk management in PTC is based on following principle: "It is systematic application of principles and processes to the tasks of identifying, assessing and evaluating, managing and monitoring risks, aiming to control the organization with regards to risk and to provide a disciplined environment for proactive decision-making".

1.1 Strategic Risks:

Strategic risks, which are mostly external, emanate from the formation of Company's strategic objectives and business strategy decisions and may impact execution thereof. The Board of Directors actively oversee the management of these risk and creates mitigating strategies wherever required.

1.2 Commercial Risks:

These risks are associated with the commercial substance of an organization. Reduction in an entity's market share, product price regulation or other regulatory amendments posing threat to the organization's profitability and commercial viability are a few examples of these risks affecting the Company.

1.3 Operational Risks

Operational risks are such risks which may adversely impact the value of the company caused by internal factors, operational and administrative procedures, such as workforce turnover, supply-chain disruption, IT system shutdowns or control failures.

1.4 Financial Risks:

The Company has exposure to the following financial risks:

- **Credit Risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from trade debts, other receivables, deposits with banks and investment in T-Bills issued by the Government of Pakistan. The carrying amount of financial assets represents the maximum credit exposure.

Due to the Company's long-standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

- **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking to the Company's reputation.

- **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

- **Currency Risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This exists due to the Company's exposure resulting from outstanding payments on account of import of goods and services. The currencies in which these transactions are primarily denominated are Euro, Pound Sterling and US Dollar.

2. KEY SOURCES OF UNCERTAINITY

Key sources of uncertainty for PTC come from unpredictability of political, social & economic environment and financial markets we operate in. The Company's overall risk management Programme focuses on managing this unpredictability and seeks to minimize potential adverse effects on the Company's performance. Risk management is carried out by the Risk Management Committee (RMC) under policies approved by the Board of Directors (the Board).

3. PLANS AND STRATEGIES FOR MITIGATING RISKS AND CAPITALIZING ON POTENTIAL OPPORTUNITIES

The roles and responsibilities at various levels of our risk management program are outlined in our risk governance structure. Executive Committee (ExCO) has formulated A Risk Management Committee (RMC). The purpose of RMC is to assist ExCO and Audit Committee) to manage risks in all key areas of the business at all the locations in order to continue business operations consistent with the Company's objectives and operational requirements. Primary aim of RMC is to be satisfied that Company's business risk management focus is appropriate and effectively managed. This enables it to provide evidence to Audit Committee and EXCO that business risks of significance are identified and that appropriate mitigating actions are being taken. RMC is responsible for preparation of Business Continuity Plan (BCP).

4. MATERIALITY APPROACH ADOPTED BY THE MANAGEMENT

Materiality levels, other than those provided under regulations, are judgmental and may vary substantially from company to company. In PTC matters are considered to be material if, individually or in aggregate, they are expected to significantly affect the performance and profitability of the Company. Powers of the Board of Directors and the management have been defined with special reference to, and in compliance with the applicable regulatory framework. Authorizations for transactions have been clearly defined and documented in in the Statement of Delegated Authorities (SoDA). These authorities have been defined keeping in view materiality levels appropriate to a certain position. These are reviewed and approved by BoD each year.

Risk Level	Risk Description	Mitigating Strategy
Strategic risks		
Low	Dynamics of Manufacturing sector	RMC keeps a close eye on the industry situation in order to devise appropriate measures that can minimize the impact of variations.
Low	Price competition and price pressure	Excise led price increases by the Government are outside the control of the Company.
High	Maintain market leadership	Fast increase of illicit trade due to low prices has increased the risk of enhancing the market share. Close collaboration with the stakeholders and price regulators helps to mitigate this risk.
Commercial Risks		
High	Regulations on Brand Marketing	Brand marketing and advertising is strictly regulated. Measures are taken by the company in collaboration with the Marketing department to minimize the effect of such regulations on the sales of our product.
Low	Material Price Sensitivity	Increase in levies and duties on the purchase of imported leaf is beyond the control of the Company. The Company, however, is committed to improving operational efficiencies and implementation of effective cost controls to mitigate this risk to the maximum possible extent.
Operational Risks		
Low	Turnover of employees	PTC has detailed induction plans and L&D procedures in place. Employees' career paths are well managed and lucrative opportunities of promotion and rotation within and outside the country are provided.
Low	Climatic uncertainties including floods, water scarcity and drought	Business Continuity Management Guidelines help PTC to recover from natural disasters. Regular trainings are conducted for the employees to be fully robust in such cases. It also includes the safety and storage of the leaf crops.
Financial Risks		
Low	Exchange fluctuation	Robust Treasury management helps the Company to stay on top of the currency fluctuations in order to minimize the effect of volatile exchange rates on transactions.
Moderate	Liquidity crunch	Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Company. All these activities are carried out under defined policies, procedures and limits which are reviewed and approved by the Board or delegated for execution to the Finance Director and the Treasury Committee.

SHARE PRICE **SENSITIVITY ANALYSIS**

Share price of the Company is directly afflicted by its performance. The operations are subject to different variables, both critical and non-critical, which may impact profitability margins. However, most of these variables are external and are beyond the control of the Company. Following are some of the identified factors that influence performance of the Company and henceforth, share price:

The Manufacturing Sector

The dynamics of the manufacturing sector are linked directly to the tobacco industry. The growth in manufacturing sector can instill positive behavior of the share prices.

Political Uncertainty

In general, international investors are sensitive to any political disturbance. Political uncertainty imposes adverse impact on economic conditions of the Country hence affect the financial performance of the Company.

Government Policies & Tax structures

Tobacco being a highly regulated industry is directly influenced by the Government policies and tax legislations. Close monitoring of the tax regimes and infrastructure has to be maintained in order to assess the impact on share price valuation.

Material Price Sensitivity

Company's performance is directly linked to sensitivity in material prices. There are various raw materials which are used in the production which are locally procured or imported by the Company. Raw materials are directly influenced by international crude oil prices and hence affect the financial performance of the Company.

Illicit Trade

The growth of illicit trade of cigarettes adversely impacts the legit tobacco industry. PTC is not an exception to this rule and the impact has increased in the past few years, hence creating a sensitivity towards the share prices.

Exchange fluctuation

PKR's overvalued parity with US Dollar over the last 4 years has negatively impacted annual trade deficit. The exchange rate instability directly affects the operations, leading to share price changes.

Law & Order

Company's performance is influenced by varying law and order conditions in the country. Uncertainty in political conditions and law and order situation have a quick effect on Company's performance.

Energy Crisis

The energy crisis wreaks havoc on the operational activities of the Company. Hikes in energy rates and continuous appreciation of fuel prices effects the financial performance. Both these scenarios ultimately affect the stock market position of the Company.

FINANCIAL **CALENDAR**

2017	
1st Quarter Results issued on	April 20, 2017
2nd Quarter Results issued on	July 27, 2017
3rd Quarter Results issued on	October 19, 2017
Recommendation of Annual Results by the BOD	February 20, 2018
71st Annual General Meeting scheduled for	April 20, 2018

2016	
1st Quarter Results issued on	April 20, 2016
2nd Quarter Results issued on	July 27, 2016
3rd Quarter Results issued on	October 19, 2016
Recommendation of Annual Results by the BOD	February 20, 2017
70th Annual General Meeting held on	April 20, 2017

STATEMENT OF **COMPLIANCE**

WITH THE CODE OF CORPORATE GOVERNANCE
Year ended December 31, 2017

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No 5.19.24 of listing regulations of Pakistan Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

   Independent Director
   Mr. Zafar Mahmood

   Executive Directors
   Mr. Syed Javed Iqbal
   Mr. Tajamal Shah
   Mr. Wael Sabra

   Non-Executive Directors
   Mr. Mueen Afzal
   Mr. Lt. Gen. (Retd) Ali Kuli Khan
   Ms. Hae In. KIM
   Mr. Michael Koest
   Mr. Imran Maqbool

   The independent director meets the criteria of independence under Clause 5.19.1.(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).

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

4. No casual vacancy occurred on the Board during the year.

5. The Company has prepared a “Code of Conduct” namely Standard of Business Conduct (SoBC) and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board / shareholders.

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

9. Six directors of the Company have obtained certification under directors training program as required by clause 5.19.7, while one director is exempted from directors training program on the basis of his level of education and length of experience as required by CCG. Remaining directors will complete directors training program as per timelines given in the CCG.

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

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

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

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

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

15. The Board has formed an Audit Committee. It comprises of five members, all are non-executive directors and the chairman of the committee is an independent director.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. Chairman and a member of the committee are non-executive directors, while one member is an executive director.

18. The Board has set up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

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

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

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

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

23. The Company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.

24. We confirm that all other material principles enshrined in the CCG have been complied with. Further, the Company has continued to present the details of all related party transactions before the Audit Committee and upon their recommendation to the Board for review and approval. The definition of the related party is in accordance with repealed Companies Ordinance, 1984 and applicable financial reporting framework as the regulations under Section 208 of the Companies Act, 2017 have not yet been announced.

Mueen Afzal
Chairman

Syed Javed Iqbal
Managing Director & CEO

REVIEW REPORT
TO THE MEMBERS
on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Pakistan Tobacco Company Limited ("the Company") for the year ended December 31, 2017 to comply with the requirements of Listing Regulation No. 5.19.24 of the Pakistan Stock Exchange Limited, where the Company is listed.

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

As a part of our audit of the 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 of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended December 31, 2017.

KPMG Taseer Hadi & Co

KPMG Taseer Hadi & Co.
Chartered Accountants
Atif Zamurrad Malik

Islamabad
February 20, 2018

PAKISTAN TOBACCO COMPANY LIMITED

FINANCIAL **STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2017

AUDITOR'S REPORT **TO THE MEMBERS**

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited ("the Company") as at December 31, 2017 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 financial 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 polices consistently applied except for the changes as described in note 7 with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the 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, 2017 and of the profit, its cash flows and changes in equity for the year then ended; and

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

KPMG Taseer Hadi & Co

KPMG Taseer Hadi & Co.
Chartered Accountants
Atif Zamurrad Malik

Islamabad
February 20, 2018

PROFIT & **LOSS ACCOUNT**

For the year ended December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Gross turnover		112,523,770	129,278,304
Excise duties		(51,247,115)	(64,976,204)
Sales tax		(16,959,013)	(19,435,596)
Net turnover		44,317,642	44,866,504
Cost of sales	8	(23,075,361)	(22,092,836)
Gross profit		21,242,281	22,773,668
Selling and distribution costs	9	(4,800,695)	(4,743,638)
Administrative expenses	10	(2,663,970)	(2,185,061)
Other operating expenses	11	(1,186,191)	(1,198,205)
Other income	12	242,134	353,070
		(8,408,722)	(7,773,834)
Operating profit		12,833,559	14,999,834
Finance income		234,124	428,143
Finance cost	13	(56,338)	(45,829)
Net finance income		177,786	382,314
Profit before income tax		13,011,345	15,382,148
Income tax expense	14	(3,437,783)	(5,020,796)
Profit for the year		9,573,562	10,361,352
Earnings per share - (Rupees)	15	37.47	40.55

The annexed notes 1 to 40 form an integral part of these financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

STATEMENT OF **COMPREHENSIVE INCOME**

For the year ended December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Profit for the year		9,573,562	10,361,352
Other comprehensive income:			
Items that will not be reclassified to profit and loss account:			
- Remeasurement (loss) / gain on defined benefit pension and gratuity plans	31	(390,891)	806,722
- Tax credit / (charge) related to remeasurement gain on defined benefit pension and gratuity plans	14.3	117,267	(381,802)
		(273,624)	424,920
Items that may be subsequently reclassified to profit and loss account:		–	–
Other comprehensive income - net of tax		(273,624)	424,920
Total comprehensive income for the year		9,299,938	10,786,272

The annexed notes 1 to 40 form an integral part of these financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

BALANCE **SHEET**

As at December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Non current assets			
Property, plant and equipment	16	8,630,814	8,629,435
Long term investment in subsidiary company	17	5,000	5,000
Long term deposits and prepayments	18	32,319	33,571
		8,668,133	8,668,006
Current assets			
Stock-in-trade	19	14,460,890	13,618,530
Stores and spares	20	593,909	570,224
Trade debts	21	2,636	1,839
Loans and advances	22	72,685	178,561
Short term prepayments		212,747	183,858
Other receivables	23	968,996	1,049,248
Short term investments	24	6,763,842	979,903
Cash and bank balances	25	390,128	147,324
		23,465,833	16,729,487
Current liabilities			
Trade and other payables	26	10,796,865	7,921,533
Other liabilities	27	2,226,659	1,173,449
Short term running finance	28	–	95,339
Finance lease obligation	29	165,245	164,383
Accrued interest / mark-up		3,414	3,438
Current income tax liabilities		662,310	1,615,308
		(13,854,493)	(10,973,450)
Net current assets		9,611,340	5,756,037
Non current liabilities			
Finance lease obligation	29	(260,050)	(314,950)
Deferred income tax liabilities	30	(1,108,225)	(1,132,463)
		(1,368,275)	(1,447,413)
Net assets		16,911,198	12,976,630
Share capital and reserves			
Share capital	32	2,554,938	2,554,938
Revenue reserves		14,356,260	10,421,692
		16,911,198	12,976,630
Contingencies and commitments	33		

The annexed notes 1 to 40 form an integral part of these financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

STATEMENT OF **CHANGES IN EQUITY**

For the year ended December 31, 2017

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2016	2,554,938	7,811,221	10,366,159
Total comprehensive income for the year:			
Profit for the year	–	10,361,352	10,361,352
Other comprehensive income for the year	–	424,920	424,920
Total comprehensive income for the year	–	10,786,272	10,786,272
Transactions with owners of the Company:			
Final dividend of Rs 18.00 per share relating to the year ended December 31, 2015	–	(4,598,888)	(4,598,888)
Interim dividend of Rs 6.00 per share relating to the year ended December 31, 2016	–	(1,532,963)	(1,532,963)
Interim dividend of Rs 8.00 per share relating to the year ended December 31, 2016	–	(2,043,950)	(2,043,950)
Total transactions with owners of the Company	–	(8,175,801)	(8,175,801)
Balance at December 31, 2016	2,554,938	10,421,692	12,976,630
Balance at January 1, 2017	2,554,938	10,421,692	12,976,630
Total comprehensive income for the year:			
Profit for the year	–	9,573,562	9,573,562
Other comprehensive income for the year	–	(273,624)	(273,624)
Total comprehensive income for the year	–	9,299,938	9,299,938
Transactions with owners of the Company:			
Final dividend of Rs 11.00 per share relating to the year ended December 31, 2016	–	(2,810,432)	(2,810,432)
Interim dividend of Rs 10.00 per share relating to the year ended December 31, 2017	–	(2,554,938)	(2,554,938)
Total transactions with owners of the Company	–	(5,365,370)	(5,365,370)
Balance at December 31, 2017	2,554,938	14,356,260	16,911,198

The annexed notes 1 to 40 form an integral part of these financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

CASH FLOW **STATEMENT**

For the year ended December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Cash flows from operating activities			
Cash generated from operations	37	16,977,916	15,918,324
Finance cost paid		(56,362)	(54,198)
Income tax paid		(4,297,752)	(4,825,485)
Contribution to retirement benefit funds		(344,134)	(483,796)
Net cash generated from operating activities		12,279,668	10,554,845
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,162,779)	(675,788)
Proceeds from sale of property, plant and equipment		207,953	264,690
Interest received		215,291	428,143
Net cash (used in) / generated from investing activities		(739,535)	17,045
Cash flows from financing activities			
Dividends paid		(5,179,246)	(8,153,671)
Finance lease payments		(238,805)	(219,919)
Net cash used in financing activities		(5,418,051)	(8,373,590)
Net increase in cash and cash equivalents		6,122,082	2,198,300
Cash and cash equivalents at beginning of the year		1,031,888	(1,166,412)
Cash and cash equivalents at end of the year		7,153,970	1,031,888
Cash and cash equivalents comprise:			
Cash and bank balances	25	390,128	147,324
Short term investments	24	6,763,842	979,903
Short term running finance	28	–	(95,339)
		7,153,970	1,031,888

The annexed notes 1 to 40 form an integral part of these financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

1 The Company and its operations

Pakistan Tobacco Company Limited (the Company) is a public limited company incorporated in Pakistan on November 18, 1947 under the Companies Act, 1913 (now the Companies Act, 2017) and its shares are quoted on the Pakistan Stock Exchange. 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 Company is engaged in the manufacture and sale of cigarettes.

The registered office of the Company is situated at Serena Business Complex, Khayaban-e-Suharwardy, Islamabad, Pakistan.

These financial statements are the separate financial statements of the Company. Consolidated financial statements are prepared separately.

2 Statement of compliance

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

During the year, the Companies Act, 2017 (the Act) was enacted on May 30, 2017, which replaced and repealed the Companies Ordinance, 1984. However, the Securities and Exchange Commission of Pakistan (SECP) through its Circular No. 23 of 2017 dated October 4, 2017 has advised that the companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984.

3 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 Functional and presentation currency

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

5 Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 16 – useful lives of property, plant and equipment
- Notes 19 and 20 – Provision for obsolescence of stock in trade and stores and spares
- Notes 14 and 30 – provision for income tax and calculation of deferred tax
- Note 31 – retirement benefits
- Note 34 – financial instruments – fair values
- Note 33 – contingencies

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

6 New accounting standards, amendments and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 1, 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after January 1, 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on Company's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property'- effective for annual periods beginning on or after January 1, 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Company's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after January 1, 2018) clarifies that a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Company's financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after January 1, 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on Company's financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after January 1, 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Company's financial statements.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after July 1, 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Company is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after July 1, 2018 and January 1, 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. This amendment is not likely to have an impact on Company's financial statements.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after January 1, 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Company's financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

  – IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when the Company increases its interest in a joint operation that meets the definition of a business. The Company remeasures its previously held interest in a joint operation when it obtains control of the business. The Company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

  – IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transaction that generates the distributable profits.

  – IAS 23 Borrowing Costs - the amendment clarifies that the Company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

  The above amendments are effective from annual period beginning on or after January 1, 2019 and are not likely to have an impact on Company's financial statements.

- In addition, the Companies Act, 2017 was enacted on May 30, 2017 and SECP vide its circular 23 of 2017 has clarified that the companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 applicable for financial year beginning on January 1, 2018 requires certain additional disclosures in the financial statements. Management is in the process of assessing the impact of such changes on the financial statements.

7 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes as indicated below.

– During the year, the Company has changed the presentation of cash flow statement from direct method to indirect method. Comparative cash flow statement has been re-presented, however, the change has no impact on previously reported figures of cash flow statement, profit and loss account or balance sheet.

– Amendments to IAS 7 'Statement of Cash Flow' became effective during the year. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Accordingly, those disclosures have been included in the note 38 to these financial statements. However, there was no change in the reported figures of profit and loss account or balance sheet.

7.1 Revenue recognition

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

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

(a) Sale of goods

The Company manufactures and sells cigarettes to its appointed distributors. Sale of goods is recognised when the Company has delivered products to the distributor and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributor, and either the distributor has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(b) Income on bank deposits/investments

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 recognised on realised amounts. All other income is recognised on accrual basis.

7.2 Income tax

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

(a) Current

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. 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 recognised, 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

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

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

7.3 Provisions

Provisions are recognised 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 recognised for future operating losses. All provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

7.4 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

7.5 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 recognised until their realization becomes virtually certain.

7.6 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.

7.7 Employee benefits

(a) Retirement benefit plans

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

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

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

The Company operates:

(i) Defined benefit, approved funded pension scheme for management and certain grades of business support officers and approved gratuity scheme for all employees. Employees also contribute to the approved pension scheme. The liability recognised 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.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements. Past-service costs are recognised immediately in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

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 recognised as employee benefit expense when they are due. Prepaid contributions, if any, are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

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

(c) Medical benefits

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

(d) Bonus plans

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

(e) Share-based payments

The Company has two cash-settled share-based compensation plans. Share options are granted to key management personnel which vest over a period of 3 years. A liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date.

(i) **Long Term Incentive Plan (LTI**P)

Nil-cost option exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share, operating cash flow, total shareholder return and net turnover of the BAT Group. Total shareholder return combines the share price and dividend performance of the Group by reference to one comparator group.

(ii) **Deferred Share Bonus Scheme (DSBS)**

Free ordinary shares released three years from date of grant and may be subject to forefeit if a participant leaves employment before the end of the three years holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Share options are granted in March each year.

7.8 Leases

(a) Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets on finance lease are capitalized at the commencement of the lease term at the lower of fair value of leased assets and the present value of minimum lease payments, each determined at the inception of the lease. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long term payables. The finance cost is charged to profit and loss account and is included under finance costs. The assets acquired under finance lease are depreciated over the shorter of the useful life of the asset or the lease term. The Company has entered into Ijarah arrangements with a financial institution (associated company) in respect of vehicles. Islamic Financial Accounting Standard (IFAS) No.2 "Ijarah" was notified by SECP vide S.R.O 431 (I) /2007 on May 22, 2007. This said IFAS requires Ijrah payments under such arrangements to be recognised as an expense over the Ijarah terms. The Company intends to acquire such assets at the end of the lease term and management believes that the arrangements meet other conditions of finance lease and consequently such arrangements have been accounted for under International Accounting Standard – 17 "Leases".

(b) Operating leases

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

7.9 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised 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 derecognised. All other repairs and maintenance expenses are recognised in profit and loss account during the financial period in which they are incurred.

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

• Buildings on freehold and leasehold land	3%
• Plant and machinery	7%
• Air conditioners (included in plant and machinery)	20%
• Office and household equipment	20% to 33.3%
• Furniture and fittings	10% to 20%
• Vehicles – owned and leased	20%

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

7.10 Impairment of non-financial asset

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 recognised for the amount for which assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversals of the impairment losses are restricted to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no new impairment losses had been recognised. An impairment loss or reversal of impairment loss is recognised in the profit and loss account.

7.11 Long term investment in subsidiary

The investment in subsidiary company is carried at cost less any 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.

7.12 Stock in trade

Stock-in-trade is stated at the lower of cost and net realisable 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 realisable 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.

7.13 Stores and spares

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

7.14 Financial assets

(a) Classification

The Company classifies non-derivative financial assets into deposits, trade debts and other receivables category and financial liabilities into other financial liabilities category.

(b) Recognition and de-recognition

The Company initially recognises loans and receivables on the date when they are originated. Financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(c) Measurement

Financial assets categorised as loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Financial liabilities categorised as other financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(d) Impairment of financial assets

Financial assets, categorised as loans and receivables, are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indication that a debtor or issuer will enter bankruptcy, adverse changes in the payment status, the disappearance of an active market for a security because of financial difficulties or observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets. For financial assets measured at amortised cost, the Company considers evidence of impairment at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on the timings of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account. When the Company considers that there is no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the income statement.

7.15 Trade and other receivables

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 reorganisation, 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.

7.16 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.

7.17 Borrowing costs

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

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

7.18 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.

7.19 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Short term finance facilities availed by the Company, which are payable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

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

7.21 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (See Note 5). When one is available, the Company measures the fair value of an instrument using the quoted price in an active for that instrument. If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

NOTES TO THE **FINANCIAL STATEMENTS**

For the year ended December 31, 2017

		2017 Rs '000	2016 Rs '000
8	**Cost of sales**		
	Raw material consumed		
	Opening stock of raw materials and work in process	12,449,905	11,233,495
	Raw material purchases and expenses - note 8.1	16,102,177	15,466,189
	Closing stock of raw materials and work in process	(13,137,236)	(12,449,905)
		15,414,846	14,249,779
	Government taxes and levies		
	Customs duty and surcharges	407,705	380,395
	Provincial and municipal taxes and other duties	271,152	192,370
	Excise duty on royalty	53,348	56,566
		732,205	629,331
		16,147,051	14,879,110
	Royalty	533,488	565,657
	Severance benefits	2,168,043	182,000
	Production overheads		
	Salaries, wages and benefits	1,866,521	2,155,384
	Stores, spares and machine repairs	553,303	642,905
	Fuel and power	334,171	341,418
	Insurance	18,342	32,470
	Repairs and maintenance	491,752	597,840
	Postage, telephone and stationery	11,908	14,058
	Information technology	59,465	53,631
	Depreciation	841,277	812,766
	Provision for damaged stocks / stock written off	22,390	14,698
	Provision for slow moving items / stores written off	14,964	18,391
	Sundries	159,803	197,667
		4,373,896	4,881,228
	Cost of goods manufactured	23,222,478	20,507,995
	Cost of finished goods		
	Opening stock	1,189,201	2,774,042
	Closing stock	(1,336,318)	(1,189,201)
		(147,117)	1,584,841
	Cost of sales	23,075,361	22,092,836
8.1	Raw material purchases and expenses:		
	Materials	13,818,839	13,121,741
	Salaries, wages and benefits	1,088,693	1,036,385
	Stores, spares and machine repairs	171,624	261,411
	Fuel and power	306,148	350,093
	Property rentals	91,963	115,682
	Insurance	12,579	21,464
	Repairs and maintenance	122,766	135,310
	Postage, telephone and stationery	11,689	23,061
	Depreciation	85,737	93,740
	Sundries	392,139	307,302
		16,102,177	15,466,189

		2017 Rs '000	2016 Rs '000
9	**Selling and distribution costs**		
	Salaries, wages and benefits	798,974	745,957
	Selling expenses	3,567,108	3,439,271
	Freight	130,190	132,483
	Repairs and maintenance	20,052	52,799
	Postage, telephone and stationery	12,996	4,483
	Travelling	130,695	54,244
	Property rentals	51,507	50,993
	Insurance	12,260	13,372
	Provision for damaged stocks	8,186	9,967
	Finished goods / wrapping material stock written off	11,176	185,737
	Depreciation	57,551	54,332
		4,800,695	4,743,638
10	**Administrative expenses**		
	Salaries, wages and benefits	890,874	880,971
	Fuel and power	9,418	4,839
	Property rentals	156,224	125,625
	Insurance	4,933	4,630
	Repairs and maintenance	19,866	18,762
	Postage, telephone and stationery	9,325	11,577
	Legal and professional charges	101,550	87,998
	Donations - note 10.1	400	5,585
	Information technology	1,226,466	823,872
	Travelling	67,645	47,230
	Depreciation	127,777	126,396
	Auditor's remuneration and expenses - note 10.2	6,745	6,008
	Sundries	42,747	41,568
		2,663,970	2,185,061

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

		2017 Rs '000	2016 Rs '000
10.2	Auditor's remuneration and expenses include:		
	- Statutory audit fee	1,905	1,832
	- Group reporting, review of half yearly accounts, audit of consolidated accounts, audit of staff retirement benefit funds and special certifications & review of Code of Corporate Governance	4,098	3,941
	- Out-of-pocket expenses	742	235
		6,745	6,008

NOTES TO THE **FINANCIAL STATEMENTS**

For the year ended December 31, 2017

		2017 Rs '000	2016 Rs '000
11	**Other operating expenses**		
	Workers' profit participation fund	698,783	826,109
	Workers' welfare fund	265,538	313,921
	Bank charges and fees	37,299	44,491
	Interest paid to workers' profit participation fund	11,732	4,520
	Loss on disposal of property, plant and equipment	25,872	9,164
	Foreign exchange loss	146,967	–
		1,186,191	1,198,205
12	**Other income**		
	Income from sales / services rendered to associated companies:		
	- BAT SAA Services (Private) Limited	29,191	31,339
	- BAT Marketing (Singapore) Ltd	5,477	–
	- BAT Bangladesh, BAT Holdings and BAT Myanmar and Ceylon Tobacco Co., Srilanka	7,940	3,229
	Sale of stem tobacco	–	5,990
	Recharges / other payable to associated companies written back:		
	- BAT (Holdings) Ltd / BAT (Investments) Ltd	86,714	–
	- BAT ASPAC Service Center Sdn Bhd - Malaysia	50,553	132,757
	- BAT Marketing (Singapore) Ltd and BAT Singapore (Pte) Ltd	35,477	–
	- BAT Asia-Pacific Region Ltd - Hong Kong	17,977	161,093
	- BAT Australia Ltd	–	1,375
	Other liabilities written back - net	7,878	–
	Foreign exchange gain	–	15,286
	Miscellaneous	927	2,001
		242,134	353,070
13	**Finance cost**		
	Interest expense on:		
	Bank borrowings	22,750	7,218
	Finance lease	33,588	38,611
		56,338	45,829
14	**Income tax expense**		
	Current:		
	For the year	3,810,818	4,741,676
	For prior years - 14.1	(390,718)	317,372
		3,420,100	5,059,048
	Deferred	17,683	(38,252)
		3,437,783	5,020,796

14.1 This represents reversal of excess tax provision for prior years partially offset by super tax @ 3% of taxable income levied through Finance Act, 2017 and its levy is sub judice at various fora.

14.2 Effective tax rate reconciliation:

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

	2017 %	2016 %
Applicable tax rate	30.00	31.00
Tax effect of:		
Prior year (reversal) / charge	(3.00)	2.06
Change in applicable tax rate	(0.28)	(0.25)
Income taxed at different rate	(0.26)	(0.13)
Others	(0.04)	(0.04)
Average effective tax rate	26.42	32.64

The applicable income tax rate was reduced from 31% to 30% during the year on account of the changes made to Income tax Ordinance, 2001 in 2016.

	2017 Rs '000	2016 Rs '000
14.3 Tax on items directly credited to statement of other comprehensive income		
Current tax (credit) / charge on defined benefit plans	(75,346)	250,084
Deferred tax (credit) / charge on defined benefit plans	(41,921)	131,718
	(117,267)	381,802

	2017	2016
15 Earnings per share		
Profit after tax (Rs '000)	9,573,562	10,361,352
Number of fully paid weighted average ordinary shares ('000)	255,494	255,494
Earnings per share - Basic (Rs)	37.47	40.55

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

	2017 Rs '000	2016 Rs '000
16 Property, plant and equipment		
Operating assets - note 16.1	8,171,245	8,282,901
Capital work in progress - note 16.2	459,569	346,534
	8,630,814	8,629,435

16.1 Operating assets

	Free-hold land Rs '000	Buildings on free-hold land Rs '000	Buildings on leasehold land Rs '000	Plant and machinery Rs '000	Office and household equipment Rs '000	Furniture and fittings Rs '000	Vehicles owned Rs '000	Vehicles under finance lease Rs '000	Total Rs '000
At January 1, 2016									
Cost	30,570	922,242	20,004	11,795,892	1,246,226	369,460	197,280	916,403	15,498,077
Accumulated depreciation	–	(236,121)	(11,159)	(6,054,931)	(671,445)	(122,818)	(140,343)	(195,237)	(7,432,054)
Net book amount January 1, 2016	30,570	686,121	8,845	5,740,961	574,781	246,642	56,937	721,166	8,066,023
Year ended December 31, 2016									
Net book amount at January 1, 2016	30,570	686,121	8,845	5,740,961	574,781	246,642	56,937	721,166	8,066,023
Additions	–	10,593	–	1,157,844	267,380	12,385	60	129,704	1,577,966
Disposals	–	–	–	(175,681)	(107)	(253)	(6,026)	(91,787)	(273,854)
Depreciation charge	–	(23,280)	(410)	(711,055)	(178,563)	(50,639)	(4,674)	(118,613)	(1,087,234)
Net book amount at December 31, 2016	30,570	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,282,901
At December 31, 2016									
Cost	30,570	932,835	20,004	12,664,827	1,516,248	379,266	175,994	915,696	16,635,440
Accumulated depreciation	–	(259,401)	(11,569)	(6,652,758)	(852,757)	(171,131)	(129,697)	(275,226)	(8,352,539)
Net book amount at December 31, 2016	30,570	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,282,901
At January 1, 2017									
Cost	30,570	932,835	20,004	12,664,827	1,516,248	379,266	175,994	915,696	16,635,440
Accumulated depreciation	–	(259,401)	(11,569)	(6,652,758)	(852,757)	(171,131)	(129,697)	(275,226)	(8,352,539)
Net book amount January 1, 2017	30,570	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,282,901
Year ended December 31, 2017									
Net book amount at January 1, 2017	30,570	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,282,901
Additions	–	64,328	–	747,226	171,617	6,500	683	244,157	1,234,511
Disposals	–	(15,252)	–	(164,723)	(1,586)	(353)	(4,682)	(47,229)	(233,825)
Depreciation charge	–	(17,701)	(409)	(710,794)	(200,826)	(49,777)	(2,492)	(130,343)	(1,112,342)
Net book amount at December 31, 2017	30,570	704,809	8,026	5,883,778	632,696	164,505	39,806	707,055	8,171,245
At December 31, 2017									
Cost	30,570	978,444	20,004	13,841,474	1,685,267	383,923	162,305	1,087,283	18,189,270
Accumulated depreciation	–	(273,635)	(11,978)	(7,957,696)	(1,052,571)	(219,418)	(122,499)	(380,228)	(10,018,025)
Net book amount at December 31, 2017	30,570	704,809	8,026	5,883,778	632,696	164,505	39,806	707,055	8,171,245

		2017 Rs '000	2016 Rs '000
16.2	**Capital work in progress**		
	Carrying value at the beginning of the year	346,534	1,118,948
	Additions during the year	417,633	334,295
		764,167	1,453,243
	Transferred to operating fixed assets	(304,598)	(1,106,709)
	Carrying value at the end of the year - note 16.2.1	459,569	346,534
16.2.1	Plant and machinery - note 16.2.2	168,450	315,710
	Advances to suppliers	291,119	30,824
		459,569	346,534

16.2.2 CWIP includes capital expenditure on projects relating to enhancement of already installed machinery.

		2017 Rs '000	2016 Rs '000
16.3	Depreciation charge has been allocated as follows:		
	Cost of sales	841,277	812,766
	Raw material purchases and expenses	85,737	93,740
	Selling and distribution costs	57,551	54,332
	Administrative expenses	127,777	126,396
		1,112,342	1,087,234

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

	Cost Rs '000	Book value Rs '000	Sale proceeds less selling expenses Rs '000	Particulars of buyers
Plant and machinery				
- by negotiation	212,086	145,441	156,193	BAT Bangladesh - Associate Co.
	11,025	6,551	837	Contractor - Bahadar Khan
Vehicles				
- as per Company's policy	1,350	536	324	Nafees Malik - executive
	1,626	597	325	Hamid Usman - executive
	1,626	654	325	Waqas A.Khan - executive
	1,626	610	325	Javaid Khan - executive
	1,691	607	338	Khawar Qayum - executive
	1,691	607	338	Tariq Shaheen- executive
	1,691	607	338	Ghazanfar Ali - executive
	1,691	607	338	Aimal Khattak - executive
	1,691	709	700	Zainul Abideen - executive
	1,972	1,105	907	Osman Habib - ex executive
	1,972	1,203	946	M Riaz - ex executive
	1,972	1,032	763	Asif Qayum - ex executive
	2,047	1,360	1,147	Nadeem Aqeel Butt - ex executive
	2,047	1,404	1,173	Hamzah Fazal - executive
	2,047	1,426	1,186	Noor Aftab - executive
	2,047	1,470	1,310	Saad Ikram - executive

	Cost	Book value	Sale proceeds less selling expenses	Particulars of buyers
	Rs '000	Rs '000	Rs '000	
	2,047	1,759	1,637	Anwar Sadiq - ex executive
	2,047	1,515	1,326	S.Bilal Firdous - executive
	2,047	1,337	1,009	Muhammad Ahsan - ex executive
	2,092	2,001	1,981	Ussama Bin Shabbir - executive
	2,104	1,967	1,962	Waqas A.Khan - executive
	2,106	902	646	Ihsan Ahmed - ex executive
	2,322	1,718	1,239	M.Idries Ahmed - executive
	2,322	1,718	1,392	Sadaf Saeed - executive
	5,774	2,973	1,155	Talat Mehmood - executive
	13,500	11,599	9,205	Mustanser A.Khan - ex executive
- auction				
	9,244	3,111	8,068	Through bidding in auction
- by insurance claim				
	5,171	4,695	5,492	EFU General Insurance Ltd

17 Long term investment in subsidiary company

This represents 500,001 (2016: 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 (2016: Rs 10 per share) based on audited accounts for the year ended December 31, 2017.

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

	2017 Rs '000	2016 Rs '000
18 Long term deposits and prepayments		
Security deposits	25,465	25,053
Prepayments	6,854	8,518
	32,319	33,571
19 Stock-in-trade		
Raw materials	12,694,176	12,088,273
Raw materials in transit	405,300	293,102
Work in process	37,760	68,530
Finished goods	1,336,318	1,189,201
	14,473,554	13,639,106
Provision for damaged stocks - note 19.1	(12,664)	(20,576)
	14,460,890	13,618,530
19.1 Movement in provision for damaged stocks is as follows:		
Balance as at January 1	20,576	–
Provision for the year	12,664	20,576
Written off during the year	(20,576)	–
Balance as at December 31	12,664	20,576

		2017 Rs '000	2016 Rs '000
20	**Stores and spares**		
	Stores and spares	723,712	735,605
	Provision for slow moving items - note 20.1	(129,803)	(165,381)
		593,909	570,224
	20.1 Movement in provision for slowing moving items is as follows:		
	Balance as at January 1	165,381	153,611
	Provision for the year	(6,460)	18,391
	Written off during the year	(29,118)	(6,621)
	Balance as at December 31	129,803	165,381

21 Trade debts

These are unsecured, considered good.

22 Loans and advances

	2017 Rs '000	2016 Rs '000
Related parties:		
Advances to key management personnel for house rent and expenses	7,701	2,848
Others:		
Loans to executives and other employees	–	15
Advances to executives for house rent and expenses	34,252	42,709
Advances to other parties	30,732	132,989
	72,685	178,561

These loans and advances are unsecured and considered good.

23 Other receivables

	2017 Rs '000	2016 Rs '000
Related parties - unsecured:		
Due from holding company / associated companies - note 23.1	52,145	76,349
Due from subsidiary company	20,021	20,021
Unbilled receivable from related parties	–	35,595
Staff pension fund - note 31	765,618	855,329
Employees' gratuity fund - note 31	–	52,951
Workers' profit participation fund	101,217	–
Others:		
Claims against suppliers	6,576	6,576
Interest income on short term investment	19,133	300
Others	4,286	2,127
	968,996	1,049,248

	2017 Rs '000	2016 Rs '000
23.1 The amount due from holding company / associated companies comprises:		
Holding company:		
British American Tobacco p.l.c. - UK	10,252	11,734
Associated companies:		
BAT SAA Services (Private) Limited - Pakistan	16,022	13,141
PT Bentoel Prima - Indonesia	8,451	–
BAT Marketing (Singapore) Pte Ltd - Singapore	4,396	5,105
BAT Myanmar - Myanmar	3,634	6,449
BAT (Singapore) Pte Ltd - Singapore	2,437	3,377
BAT ASPAC Service Center Sdn Bhd - Malaysia	2,157	–
Tobacco Importers & Manufacturers - Malaysia	2,152	–
BAT Tutun Mamulleri - Turkey	1,322	–
BAT PNG Ltd - Papua New Guinea	786	–
BAT Cambodia - Cambodia	468	843
BAT GLP Ltd - UK	68	65
BAT Bangladesh - Bangladesh	–	34,822
BAT JV HCMC - Vietnam	–	813
	52,145	76,349

24 Short term investments

This represents short term investment in treasury bills issued by the Government of Pakistan. Treasury bills carry effective interest rate ranges between 5.58% and 5.75% (2016 : 5.86%) per annum. These have been disposed off subsequent to the year-end.

	2017 Rs '000	2016 Rs '000
25 Cash and bank balances		
Deposit account	9,460	27,314
Current accounts:		
Local currency	282,537	62,487
Foreign currency	96,741	55,399
	388,738	145,200
Cash in hand	1,390	2,124
	390,128	147,324
26 Trade and other payables		
Related parties - unsecured:		
Due to holding company / associated companies - note 26.1	1,593,422	1,744,070
Others:		
Creditors	4,608,085	2,362,703
Federal excise duty - note 26.2	2,089,200	1,001,669
Sales tax	1,387,650	523,989
Workers' welfare fund	265,538	313,921
Dividend payable / unclaimed dividend	264,303	78,179
Other accrued liabilities	171,035	578,848
Employee incentive schemes - note 26.4	166,442	290,114
Employees' gratuity fund - note 31	139,736	–
Tobacco excise duty / Tobacco development cess - note 26.3	94,509	154,242
Security deposits	9,460	27,314

		2017 Rs '000	2016 Rs '000
	Staff pension fund - defined contribution	7,285	–
	Advances from customers	150	20,375
	Employees' provident fund	50	–
	Workers' profit participation fund	–	826,109
		10,796,865	7,921,533

		2017 Rs '000	2016 Rs '000
26.1	The amount due to holding company / associated companies comprises:		
	Holding company:		
	British American Tobacco p.l.c. - UK	164,654	228,410
	Associated companies:		
	BAT Singapore (Pte) Ltd - Singapore	390,895	463,602
	BAT ASPAC Service Center Sdn Bhd - Malaysia	363,874	304,636
	BAT GSD Ltd. - UK	216,385	385,165
	BAT Marketing (Singapore) Pte Ltd - Singapore	154,049	158,006
	BAT JSC-Spb - Russia	125,319	–
	BAT Bangladesh Co. Ltd- Bangladesh	73,258	–
	BAT GLP Ltd - UK	49,258	137,138
	BAT Myanmar - Myanmar	16,912	31,957
	BAT Fiji Ltd - Fiji	16,070	–
	BAT PNG Ltd - Papua New Guinea	11,270	39
	BAT Asia-Pacific Region Ltd - Hong Kong	10,706	9,675
	BAT South Africa (Pty) Ltd - South Africa	406	–
	BAT Germany GmbH - Germany	199	393
	BAT Souza Cruz Ltd - Brazil	112	–
	BAT Korea Manufacturing - South Korea	55	1,257
	BAT Australia Ltd - Australia	–	11,572
	Tobacco Importers & Manufacturers - Malaysia	–	6,588
	Ceylon Tobacco Company Plc - Sri Lanka	–	4,419
	BAT Romania Investment - Romania	–	373
	BAT Chile Tobacco - Chile	–	263
	BAT Tutun Mamulleri - Turkey	–	220
	BAT Suisse - Switzerland	–	158
	BAT SCWE Ltd. - UK	–	132
	BAT Kenya Ltd - Kenya	–	47
	BAT PECSI Dohanygyar - Hungary	–	20
		1,593,422	1,744,070
26.2	**Federal excise duty**		
	Balance as at January 1	1,001,669	2,259,089
	Charged during the year	51,247,115	64,976,204
	Payment to the Government during the year	(50,159,584)	(66,233,624)
	Balance as at December 31	2,089,200	1,001,669
26.3	**Tobacco excise duty / tobacco development cess:**		
	Balance as at January 1	154,242	187,143
	Charge for the year	182,212	120,584
	Payment to the Government during the year	(241,945)	(153,485)
	Balance as at December 31	94,509	154,242

26.4 Employee incentive schemes

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

	2017 Rs '000	2016 Rs '000
Long Term Incentive Plan (LTIP) - note 26.4.1		
Balance as at January 1	114,138	49,930
Charge for the year	22,119	81,521
Share options exercised	(93,137)	(17,313)
Balance as at December 31	43,120	114,138
Deferred Share Bonus Scheme (DSBS) - note 26.4.2		
Balance as at January 1	111,101	70,478
Charge for the year	51,942	74,304
Share options exercised	(86,908)	(33,681)
Balance as at December 31	76,135	111,101
Other employee benefit	47,187	64,875
	166,442	290,114

26.4.1 Long Term Incentive Plan (LTIP)

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

	2017	2016
	Number of options	
Outstanding as at January 1	20,697	18,214
Granted during the year	5,369	8,945
Exercised during the year	(11,474)	(6,462)
Outstanding as at December 31	14,592	20,697

There are no exercisable options as at December 31, 2017.

26.4.2 Deferred Share Bonus Scheme (DSBS)

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

	2017	2016
	Number of options	
Outstanding as at January 1	23,485	22,096
Granted during the year	5,313	9,957
Exercised during the year	(11,358)	(8,568)
Outstanding as at December 31	17,440	23,485

There are no exercisable options as at December 31, 2017.

27 Other liabilities

During the year, the Company has consumed amounts aggregating Rs. 952 million and recorded further obligations of Rs 2,005 million. The balance relates to provisions for employee benefits, litigation and restructuring consequent to modernization of production processes. The comparative balance has been reclassified and separately presented for appropriate presentation.

28 Short term running finance - secured

(a) Short term running finance

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 6,500 million (2016: Rs 6,500 million), out of which the amount unavailed at the year end was Rs 6,500 million (2016: Rs 6,405 million). These facilities are secured by hypothecation of stock in trade and plant and machinery amounting to Rs 7,222 million (2016: Rs 7,222 million). The mark-up ranges between 6.34% and 6.54% (2016: 6.39% and 6.77%) 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 (2016: Rs 2,500 million) and Rs 420 million (2016: Rs 420 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 387 million (2016: Rs 151 million) and Rs 276 million (2016: Rs 241 million). The letter of credit and guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 670 million (2016: Rs 670 million).

29 Liability against assets subject to finance lease

This represents finance lease agreements entered into with a leasing company for vehicles. Total lease rentals due under various lease agreements aggregate to Rs 470,168 thousand (2016: Rs 525,825 thousand) and are payable in equal monthly installments latest by December 2022. Taxes, repairs, replacement and insurance costs are to be borne by the Company. Financing rates of 7.30% to 7.40% (2016: 7.19% to 7.58%) per annum have been used as discounting factor.

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

	2017 Rs '000	2016 Rs '000
Present value of minimum lease payments	425,295	479,333
Current maturity shown under current liabilities	(165,245)	(164,383)
	260,050	314,950
Minimum lease payments		
Not later than one year	188,989	194,720
Later than one year and not later than five years	281,179	331,105
	470,168	525,825
Future finance charges on finance leases	(44,873)	(46,492)
Present value of finance lease liabilities	425,295	479,333
Present value of finance lease liabilities		
Not later than one year	165,245	164,383
Later than one year and not later than five years	260,050	314,950
	425,295	479,333

	2017 Rs '000	2016 Rs '000
30 Deferred income tax liability		
Deferred tax liability is in respect of:		
Accelerated tax depreciation	1,101,064	1,107,235
Leased assets	88,025	76,498
	1,189,089	1,183,733
Deferred tax asset is in respect of:		
Remeasurement loss arising on employees' retirement benefit	(41,921)	–
Provision for stock and stores	(38,943)	(51,270)
	1,108,225	1,132,463
The gross movement on deferred income tax account is as follows:		
At January 1	1,132,463	1,038,997
Charge / (credit) for the year - profit and loss account	17,683	(38,252)
(Credit) / charge for the year - statement of other comprehensive income	(41,921)	131,718
At December 31	1,108,225	1,132,463
31 Retirement benefits		
Staff pension fund - asset - note 23	(765,618)	(855,329)
Employees' gratuity fund - liability / (asset) - note 26 and 23	139,736	(52,951)

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2017 using the projected unit credit method. Details of the defined benefit plans are:

	Defined benefit pension plan		Defined benefit gratuity plan	
	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000
(a) The amounts recognised in the balance sheet:				
Present value of defined benefit obligations	4,759,609	4,654,000	1,416,319	1,433,183
Fair value of plan assets	(5,525,227)	(5,509,329)	(1,276,583)	(1,486,134)
Net (assets) / liability	(765,618)	(855,329)	139,736	(52,951)
(b) Movement in the (asset) / liability recognised in the balance sheet is as follows:				
Balance as at January 1	(855,329)	(346,701)	(52,951)	415,493
Charge for the year - profit and loss	(17,047)	41,909	70,270	116,805
Employer's contribution during the year	(54,133)	53,091	(107,583)	(382,154)
Remeasurement loss/(gain) recognised in Other Comprehensive Income (OCI) during the year	160,891	(603,628)	230,000	(203,095)
Balance as at December 31	(765,618)	(855,329)	139,736	(52,951)

		Defined benefit pension plan		Defined benefit gratuity plan	
		2017 Rs '000	**2016 Rs '000**	**2017 Rs '000**	**2016 Rs '000**
(c)	The amounts recognised in the profit and loss account:				
	Current service cost	107,823	127,772	84,999	86,182
	Interest cost	427,176	447,849	132,118	145,043
	Expected return on plan assets	(502,871)	(480,906)	(136,804)	(105,427)
	Net interest	(75,695)	(33,057)	(4,686)	39,616
	Members' own contribution	(26,747)	(30,073)	-	-
	Secondees' own contribution	(7,457)	(7,442)	-	-
	Contribution by employer in respect of secondees	(14,971)	(15,291)	(10,043)	(8,993)
		(17,047)	41,909	70,270	116,805
(d)	Re-measurements recognised in Other Comprehensive Income (OCI) during the year:				
	Actuarial (gain) / loss on obligation	(157,193)	(198,793)	116,246	(85,617)
	Net return on plan assets over interest income	318,084	(404,835)	113,754	(117,478)
	Total remeasurements loss / (gain) recognised in OCI	160,891	(603,628)	230,000	(203,095)
(e)	Movement in the present value of defined benefit obligation:				
	Present value of defined benefit obligation at January 1	4,654,000	4,506,581	1,433,183	1,458,102
	Current service cost	107,823	127,772	84,999	86,182
	Interest cost	427,176	447,849	132,118	145,043
	Actual benefits paid during the year	(272,197)	(229,409)	(350,227)	(170,527)
	Remeasurements: Actuarial (gain)/loss on obligation	(157,193)	(198,793)	116,246	(85,617)
	Present value of defined benefit obligation at December 31	4,759,609	4,654,000	1,416,319	1,433,183
(f)	Movement in the fair value of plan assets:				
	Fair value of plan assets at January 1	5,509,329	4,853,282	1,486,134	1,042,609
	Interest income	502,871	480,906	136,804	105,427
	Contribution by employer in respect of members	54,133	(53,091)	107,583	382,154
	Members' own contribution	26,747	30,073	–	–
	Secondees' own contribution	7,457	15,291	–	–
	Contribution by employer in respect of secondees	14,971	7,442	10,043	8,993
	Actual benefits paid during the year	(272,197)	(229,409)	(350,227)	(170,527)
	Return on plan assets, excluding amounts included in interest income	(318,084)	404,835	(113,754)	117,478
	Fair value of plan assets at December 31	5,525,227	5,509,329	1,276,583	1,486,134
	Actual return on plan assets	200,019	1,215,664	38,908	287,310

The Company expects to credit Rs 11 million for pension plan and charge Rs 91 million for gratuity plan for the year ending December 31, 2018.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2017 Rs '000	**2016 Rs '000**	**2017 Rs '000**	**2016 Rs '000**
(g)	The major categories of plan assets:				
	Investment in listed equities	1,158,693	1,422,468	263,733	355,434
	Investment in bonds	4,211,797	4,061,852	951,836	1,122,197
	Cash and other assets	154,737	25,009	61,014	8,503
		5,525,227	5,509,329	1,276,583	1,486,134
(h)	Significant actuarial assumptions at the balance sheet date:				
	Discount rate	9.50%	9.25%	9.25%	9.25%
	Pension increase rate	6.50%	7.50%	–	–
	Expected rate of increase in salary				
	First year	11%	11%	11%	11%
	Second year onwards	8%	8%	8%	8%

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

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

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

(i) Sensitivity analysis on significant actuarial assumptions

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

	Defined benefit pension plan		Defined benefit gratuity plan	
	1 percent increase Rs '000	**1 percent decrease Rs '000**	**1 percent increase Rs '000**	**1 percent decrease Rs '000**
Discount rate	(600,530)	755,945	(118,506)	136,428
Salary increase	186,160	(167,239)	129,639	(114,796)
Increase in post retirement pension	535,576	(439,082)	–	–

If life expectancy increases by 1 year, the obligation of the Pension Fund increases by Rs 319.781 million (2016: 258.684 million).

Expected maturity profile

Following are the expected distribution and timing of benefits payments at the year end.

	Defined benefit pension plan		Defined benefit gratuity plan	
	2017	2016	2017	2016
Weighted average duration of the PBO (Years)	12.62	17.14	8.37	8.25

Risks associated with defined benefit plan

Longevity risk

The risk arises when the actual lifetime of retiree is longer than the estimate of future employee lifetime expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than the expectations and impacts the liability accordingly.

Withdrawal risk

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

	Defined benefit pension plan		Defined benefit gratuity plan	
	Present value of defined benefit obligation	Net liability at the end of the year	Present value of defined benefit obligation	Net liability at the end of the year
	Rs '000	Rs '000	Rs '000	Rs '000
2017	4,759,609	(765,618)	1,416,319	139,736
2016	4,654,000	(855,329)	1,433,183	(52,951)
2015	4,506,581	(346,701)	1,458,102	415,493
2014	4,034,421	(319,535)	1,257,137	308,042
2013	3,582,353	(345,253)	1,082,176	265,349

31.1 Salaries, wages and benefits as appearing in note 8, 9 and 10 include amounts in respect of the following:

	2017 Rs '000	2016 Rs '000
Defined Contribution Provident Fund	88,198	85,218
Defined Benefit Pension Fund	–	41,909
Defined Contribution Pension Fund	77,173	69,514
Defined Benefit Gratuity Fund	70,270	116,805
	235,641	313,446

31.2 Defined Contribution Plan

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

		2017	2016
(a)	Net assets	1,755,255	2,025,756
	Cost of investments made	1,455,098	1,650,824
	Percentage of investments made	83%	81%
	Fair value of investments made	1,593,668	1,858,893

		2017 Rs '000	2017 % age	2016 Rs '000	2016 % age
(b)	Breakup of investments at cost				
	Treasury bills	–	–	105,101	5%
	Pakistan Investment Bonds	305,196	17%	507,199	25%
	Investment plus deposit certificates	499,600	29%	484,100	24%
	Investment in savings account with bank	144,859	8%	62,048	3%
	Investment in securities	286,593	16%	298,024	15%
	Accrued interest	218,850	13%	194,352	9%
		1,455,098	83%	1,650,824	81%

(c) Investments out of provident fund have been made in accordance with the provisions of section 218 of the Companies Act 2017 and the rules formulated for the purpose.

32. Share capital

32.1 Authorized share capital

2017 Number of shares	2016 Number of shares		2017 Rs '000	2016 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

32.2 Issued, subscribed and paid-up capital

2017 Number of shares	2016 Number of shares		2017 Rs '000	2016 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 (2016: 241,045,141) ordinary shares at the year end and 12,274 (2016:12,274) and 798,282 (2016:798,282) ordinary shares are held by the directors and associated company respectively.

	2017 Rs '000	2016 Rs '000
33 Contingencies and commitments		
33.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Company not acknowledged as debt	72,474	69,450
(ii) Guarantees issued by banks on behalf of the Company	276,051	241,451

(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.

33.2 Commitments

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

	2017 Rs '000	2016 Rs '000
Not later than one year	124,824	21,900
Later than one year and not later than five years	473,930	421,411
Later than five years	45,765	–

(b) Letters of credit outstanding at December 31, 2017 were Rs 386,925 thousand (2016: Rs 151,299 thousand).

34 Financial instruments - Fair values and risk management

34.1 Accounting classification and fair value

The following tables shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	December 31, 2017			December 31, 2016		
		Loans and receivables	Other financial liabilities	Total	Loans and receivables	Other financial liabilities	Total
		Rs '000			Rs '000		
Financial assets measured at fair value							
Financial assets not measured at fair value							
Deposits	18	25,465	–	25,465	25,053	–	25,053
Trade debts	21	2,636	–	2,636	1,839	–	1,839
Other receivables	23	968,996	–	968,996	1,049,248	–	1,049,248
Short–term investments	24	6,763,842	–	6,763,842	979,903	–	979,903
Cash and bank balances	25	390,128	–	390,128	147,324	–	147,324
		8,151,067	–	8,151,067	2,203,367	–	2,203,367
Financial liabilities measured at fair value							
Financial liabilities not measured at fair value							
Trade and other payables	26	–	(6,624,273)	(6,624,273)	–	(6,239,628)	(6,239,628)
Short–term running finance	28	–	–	–	–	(95,339)	(95,339)
Finance lease obligation	29	–	(425,295)	(425,295)	–	(479,333)	(479,333)
Accrued interest/mark–up		–	(3,414)	(3,414)	–	(3,438)	(3,438)
		–	(7,052,982)	(7,052,982)	–	(6,817,738)	(6,817,738)

The Company has not disclosed the fair values of financial assets and financial liabilities as these are for short–term or reprice over short–term. Therefore, the carrying amounts are reasonable approximation of their values.

34.2 Financial risk management

The Company has exposure to the following risks from financial instruments:
- credit risk
- liquidity risk
- market risk

34.2.1 Risk management framework

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 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.

34.2.2 Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from trade debts, other receivables, deposits with banks and investment in T-Bills issued by the Government of Pakistan. The carrying amount of financial assets represents the maximum credit exposure.

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

Financial assets amounting to Rs 8,151 million (2016: Rs 2,203 million) do not include any amounts which are past due or impaired. The table below shows bank balances held with counterparties at the balance sheet date.

Counterparty	Rating		Rating agency	(Rs in million)	
	Short term	Long term		2017	2016
MCB Bank Ltd	A-1+	AAA	PACRA	136.99	29.53
Habib Bank Ltd	A-1+	AAA	JCR-VIS	125.79	37.66
Deutsche Bank AG	F2	A-	FITCH	117.61	70.98
MCB Islamic Bank	A1	A	PACRA	4.22	3.29
National Bank	A1+	AAA	PACRA	1.72	3.28
Standard Chartered Bank	A1+	AAA	PACRA	1.93	0.13
Citibank N.A.	P-1	A1	Moody's	0.48	0.33
Government of Pakistan	–	B3	Moody's	6,763.84	979.90
				7,152.58	1,125.10

As at December 31, 2017, all deposits, trade debts, short-term investments and bank balances are held in Pakistan whereas maximum exposure to credit risk for other receivables by geographic was as follows:

	Carrying amount	
	2017 Rs '000	2016 Rs '000
Pakistan	932,873	986,040
United Kingdom	10,320	11,799
Asia & other	25,803	51,409
	968,996	1,049,248

As at December 31, 2017, the ageing of other receivables was as follows:

	Carrying amount	
	2017 Rs '000	2016 Rs '000
Not past due	932,338	1,009,185
Past due 1-30 days	8,585	13,281
Past due 31-90 days	1,407	120
Past due 90 days	26,666	26,662
	968,996	1,049,248

34.2.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking to the Company's reputation.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of the netting arrangements:

	Carrying	Contractual cash flows		
	amount Rs '000	Total Rs '000	12 months or less Rs '000	1 to 5 years Rs '000
December 31, 2017				
Financial liabilities				
Trade and other payables	6,624,273	(6,624,273)	(6,624,273)	–
Finance lease obligation	425,295	(470,168)	(188,989)	(281,179)
Accrued interest/mark-up	3,414	(3,414)	(3,414)	–
	7,052,982	(7,097,855)	(6,816,676)	(281,179)
December 31, 2016				
Financial liabilities				
Trade and other payables	6,239,628	(6,239,628)	(6,239,628)	–
Short-term running finance	95,339	(95,339)	(95,339)	–
Finance lease obligation	479,333	(525,825)	(194,720)	(331,105)
Accrued interest/mark-up	3,438	(3,438)	(3,438)	–
	6,817,738	(6,864,230)	(6,533,125)	(331,105)

Cash flows included in the maturity analysis are not expected to occur significantly earlier or at significantly different amounts.

34.2.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This exists due to the Company's exposure resulting from outstanding payments on account of import of goods and services. The currencies in which these transactions are primarily denominated are euro, sterling and US dollar.

The summary quantitative data about the Company's exposure to currency risk is as follows:

	December 31, 2017			December 31, 2016		
	Euro	Sterling	US dollars	Euro	Sterling	US dollars
Other receivables	–	53,831	207,282	–	360,979	70,486
Cash and bank balances	–	–	876,674	–	–	530,743
Trade and other payables	1,224,386	660,177	11,484,601	6,767	3,495,178	10,331,470
Net exposure	1,224,386	714,008	12,568,557	6,767	3,856,157	10,932,699

The following significant exchange rates have been applied:

	Average rate		Year-end spot rate	
	2017	2016	2017	2016
Euro 1	119.05	115.89	132.51	110.09
Sterling 1	135.81	141.85	149.28	128.97
US dollar 1	105.36	104.68	110.35	104.38

A 10 percent strengthening (weakening) of the Rupee against euro, sterling and US dollar at the reporting date would have affected the measurement of financial instruments denominated in a foreign currency and affected the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant and ignores any impact of forecast sales and purchases.

	Profit or loss		Equity, net of tax	
	Strengthening Rs '000	Weakening Rs '000	Strengthening Rs '000	Weakening Rs '000
December 31, 2017				
Euro	15,902	(15,902)	11,701	(11,701)
Sterling	9,407	(9,407)	6,922	(6,922)
US dollar	116,838	(116,838)	85,969	(85,969)
December 31, 2016				
Euro	90	(90)	61	(61)
Sterling	62,544	(62,544)	42,530	(42,530)
US dollar	118,970	(118,970)	80,900	(80,900)

Interest rate risk

This represents the risk that the fair value of 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 does not have any significant long-term interest-bearing financial assets or financial liabilities whose fair value or future cash flows will fluctuate because of changes in market interest rates.

Financial liabilities include balances of Rs 425,295 thousand (2016: Rs 574,672 thousand) which are subject to interest rate risk. Applicable interest rates for these financial liabilities have been indicated in respective notes.

At balance sheet date, if interest rates had been 1% higher/lower, with all other variables remain constant, profit for the year would have been Rs 4.252 million (2016: Rs 5.746 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

35 Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Executive Directors		Executives				Total	
					Key management personnel		Other executives			
	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000
Managerial remuneration	36,827	59,801	64,035	37,578	203,718	274,135	862,989	899,474	1,167,569	1,270,988
Corporate bonus	38,441	30,396	41,141	50,367	139,071	260,252	258,139	165,938	476,792	506,953
Leave fare assistance	1,254	1,966	2,870	2,914	9,452	5,013	3,041	519	16,617	10,412
Housing and utilities	7,686	19,302	9,972	9,312	71,821	74,797	353,018	357,587	442,497	460,998
Medical expenses	1,212	103	1,782	1,697	10,048	10,216	64,180	54,316	77,222	66,332
Post employment benefits	6,560	5,433	4,145	7,869	32,795	39,241	181,187	223,995	224,687	276,538
	91,980	117,001	123,945	109,737	466,905	663,654	1,722,554	1,701,829	2,405,384	2,592,221
Number of persons	1	1	2	2	25	31	532	640	560	674

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

35.2 The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to six (2016: six) non-executive directors of the Company amounted to Rs 6,643 thousand (2016: Rs 4,335 thousand).

36 Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2016: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT-IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Company. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise significant 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 35 to the financial statements. Transactions with employee funds and associated payable/receivable balances are provided in note 31 to the financial statements.

As MCB Bank Limited is an associated company under the repealed Companies Ordinance, 1984 due to common directorship, yet does not fall under the definition of related party as interpreted from IAS 24 "Related Party Disclosures". Accordingly, transactions and balances with MCB Bank Limited and its subsidiary company that includes transactions and balances relating to leasing, short term running finance and bank accounts have not been disclosed in the related party disclosure.

	2017 Rs '000	2016 Rs '000
Purchase of goods and services from:		
Holding company	739,713	662,216
Associated companies	1,718,660	1,452,875
Sale of goods and services to:		
Holding company	30,330	51,807
Associated companies	622,479	387,700
Dividend paid to:		
Holding company	5,078,922	7,739,310
Royalty charged by:		
Holding company	533,488	565,657
Expenses reimbursed to:		
Holding company	2,803	17,306
Associated companies	1,368	2,963
Expenses reimbursed by:		
Holding company	9,378	17,390
Associated companies	130,676	82,475
Payment under employee incentive schemes:		
Key management personnel	54,928	35,594
Other income:		
Associated company:		
Recharges written back	190,721	295,225

37 Cash generated from operations

	2017 Rs '000	2016 Rs '000
Profit before taxation	13,011,345	15,382,148
Adjustment for non-cash items:		
- Depreciation	1,112,342	1,087,234
- Loss on disposal of property, plant and equipment	25,872	9,164
- Finance cost	56,338	45,829
- Finance income	(234,124)	(428,143)
- (Reversal of) / provision for slow moving stores and spares	(35,578)	11,770
- (Reversal of) / provision for stock-in-trade	(7,912)	20,576
- Provision for staff retirement benefit plans	235,641	313,446
	1,152,579	1,059,876
Changes in working capital:		
- Stock-in-trade	(834,448)	368,431
- Stores and spares	11,893	93,570
- Trade debts	(797)	(933)
- Loans and advances	105,876	3,033
- Short term prepayments	(28,889)	(13,560)
- Other receivables	(43,577)	(41,047)
- Trade and other payables	2,549,472	(939,846)
- Other liabilities	1,053,210	11,151
	2,812,740	(519,201)
Changes in long term deposits and prepayments	1,252	(4,499)
	16,977,916	15,918,324

38 Reconciliation of movement of liabilities to cash flows arising from financing activities

	Liabilities	Equity	Total
	Finance lease obligations Rs '000	Revenue reserves Rs '000	Rs '000
Balance at January 1, 2017	479,333	10,421,692	10,901,025
Changes from financing cash flows:			
Finance lease payments	(238,805)	–	(238,805)
Dividend paid	–	(5,179,246)	(5,179,246)
Total changes from financing cash flows	(238,805)	(5,179,246)	(5,418,051)
Other changes:			
New finance leases	184,767	–	184,767
Total liability-related other changes	184,767	–	184,767
Total equity-related other changes	–	9,113,814	9,113,814
Balance at December 31, 2017	425,295	14,356,260	14,781,555

39 Post balance sheet event

In respect of the year ended December 31, 2017 final dividend of Rs 20.00 (2016: Rs 11.00) per share amounting to a total dividend of Rs 5,109,876 thousand (2016: Rs 2,810,432 thousand) has been proposed at the Board of Directors meeting held on February 20, 2018. These financial statements do not reflect this proposed dividend.

40 General

40.1 Capacity and production

Against an estimated manufacturing capacity of 43,600 million cigarettes (2016: 50,700 million cigarettes) actual production was 35,307 million cigarettes (2016: 33,243 million cigarettes). Actual production has increased because of increase in market demand.

40.2 Number of employees

Total number of employees as at December 31, 2017 were 1,029 (2016: 1,205). Average number of employees during the year were 1,044 (2016 : 1,209)

40.3 Date of authorization for issue

These financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Company on February 20, 2018.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

PAKISTAN TOBACCO COMPANY LIMITED

CONSOLIDATED FINANCIAL **STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2017

AUDITORS' REPORT TO THE MEMBERS ON **CONSOLIDATED FINANCIAL STATEMENTS**

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan Tobacco Company Limited (the Holding Company) and its subsidiary company, as at December 31, 2017 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 Holding Company and its subsidiary company namely Pheonix (Private) Limited. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of the Holding Company and its subsidiary company as at December 31, 2017 and the results of their operations for the year then ended.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
Atif Zamurrad Malik

Islamabad
February 20, 2018

CONSOLIDATED **PROFIT & LOSS ACCOUNT**

For the year ended December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Gross turnover		112,523,770	129,278,304
Excise duties		(51,247,115)	(64,976,204)
Sales tax		(16,959,013)	(19,435,596)
Net turnover		44,317,642	44,866,504
Cost of sales	8	(23,075,361)	(22,092,836)
Gross profit		21,242,281	22,773,668
Selling and distribution costs	9	(4,800,695)	(4,743,638)
Administrative expenses	10	(2,663,970)	(2,185,061)
Other operating expenses	11	(1,186,191)	(1,198,205)
Other income	12	242,134	353,070
		(8,408,722)	(7,773,834)
Operating profit		12,833,559	14,999,834
Finance income		234,124	428,143
Finance cost	13	(56,338)	(45,829)
Net finance income		177,786	382,314
Profit before income tax		13,011,345	15,382,148
Income tax expense	14	(3,437,783)	(5,020,796)
Profit for the year		9,573,562	10,361,352

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

For the year ended December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Profit for the year		9,573,562	10,361,352
Other comprehensive income:			
Items that will not be reclassified to profit and loss account:			
- Remeasurement (loss) / gain on defined benefit pension and gratuity plans	29	(390,891)	806,722
- Tax credit / (charge) related to remeasurement gain on defined benefit pension and gratuity plans	14.3	117,267	(381,802)
		(273,624)	424,920
Items that may be subsequently reclassified to profit and loss account:		–	–
Other comprehensive income - net of tax		(273,624)	424,920
Total comprehensive income for the year		9,299,938	10,786,272

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

CONSOLIDATED **BALANCE SHEET**

As at December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Non current assets			
Property, plant and equipment	15	8,655,862	8,654,483
Long term deposits and prepayments	16	32,319	33,571
		8,688,181	8,688,054
Current assets			
Stock-in-trade	17	14,460,890	13,618,530
Stores and spares	18	593,909	570,224
Trade debts	19	2,636	1,839
Loans and advances	20	72,685	178,561
Short term prepayments		212,747	183,858
Other receivables	21	948,975	1,029,227
Short term investments	22	6,763,842	979,903
Cash and bank balances	23	390,128	147,324
		23,445,812	16,709,466
Current liabilities			
Trade and other payables	24	10,796,892	7,921,560
Other liabilities	25	2,226,659	1,173,449
Short term running finance	26	–	95,339
Finance lease obligation	27	165,245	164,383
Accrued interest / mark-up		3,414	3,438
Current income tax liabilities		662,310	1,615,308
		(13,854,520)	(10,793,477)
Net current assets		9,591,292	5,735, 989
Non current liabilities			
Finance lease obligation	27	(260,050)	(314,950)
Deferred income tax liabilities	28	(1,108,225)	(1,132,463)
		(1,368,275)	(1,447,413)
Net assets		16,911,198	12,976,630
Share capital and reserves			
Share capital	30	2,554,938	2,554,938
Revenue reserves		14,356,260	10,421,692
		16,911,198	12,976,630
Contingencies and commitments	31		

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

For the year ended December 31, 2017

	Share capital Rs '000	Revenue reserves Rs '000	Total Rs '000
Balance at January 1, 2016	2,554,938	7,811,221	10,366,159
Total comprehensive income for the year:			
Profit for the year	–	10,361,352	10,361,352
Other comprehensive income for the year	–	424,920	424,920
Total comprehensive income for the year	–	10,786,272	10,786,272
Transactions with owners of the Company:			
Final dividend of Rs 18.00 per share relating to the year ended December 31, 2015	–	(4,598,888)	(4,598,888)
Interim dividend of Rs 6.00 per share relating to the year ended December 31, 2016	–	(1,532,963)	(1,532,963)
Interim dividend of Rs 8.00 per share relating to the year ended December 31, 2016	–	(2,043,950)	(2,043,950)
Total transactions with owners of the Company	–	(8,175,801)	(8,175,801)
Balance at December 31, 2016	2,554,938	10,421,692	12,976,630
Balance at January 1, 2017	2,554,938	10,421,692	12,976,630
Total comprehensive income for the year:			
Profit for the year	–	9,573,562	9,573,562
Other comprehensive income for the year	–	(273,624)	(273,624)
Total comprehensive income for the year	–	9,299,938	9,299,938
Transactions with owners of the Company:			
Final dividend of Rs 11.00 per share relating to the year ended December 31, 2016	–	(2,810,432)	(2,810,432)
Interim dividend of Rs 10.00 per share relating to the year ended December 31, 2017	–	(2,554,938)	(2,554,938)
Total transactions with owners of the Company	–	(5,365,370)	(5,365,370)
Balance at December 31, 2017	2,554,938	14,356,260	16,911,198

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

CONSOLIDATED **CASH FLOW STATEMENT**

For the year ended December 31, 2017

	Note	2017 Rs '000	2016 Rs '000
Cash flows from operating activities			
Cash generated from operations	35	16,977,916	15,918,324
Finance cost paid		(56,362)	(54,198)
Income tax paid		(4,297,752)	(4,825,485)
Contribution to retirement benefit funds		(344,134)	(483,796)
Net cash generated from operating activities		12,279,668	10,554,845
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,162,779)	(675,788)
Proceeds from sale of property, plant and equipment		207,953	264,690
Interest received		215,291	428,143
Net cash (used in) / generated from investing activities		(739,535)	17,045
Cash flows from financing activities			
Dividends paid		(5,179,246)	(8,153,671)
Finance lease payments		(238,805)	(219,919)
Net cash used in financing activities		(5,418,051)	(8,373,590)
Net increase in cash and cash equivalents		6,122,082	2,198,300
Cash and cash equivalents at beginning of the year		1,031,888	(1,166,412)
Cash and cash equivalents at end of the year		7,153,970	1,031,888
Cash and cash equivalents comprise:			
Cash and bank balances	23	390,128	147,324
Short term investments	22	6,763,842	979,903
Short term running finance	26	–	(95,339)
		7,153,970	1,031,888

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

For the year ended December 31, 2017

1 The Group and its operations

Pakistan Tobacco Company Limited (the Company) is a public limited company incorporated in Pakistan on November 18, 1947 under the Companies Act, 1913 (now the Companies Act, 2017) and its shares are quoted on the Pakistan Stock Exchange. 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 Company is engaged in the manufacture and sale of cigarettes.

The registered office of the Company is situated at Serena Business Complex, Khayaban-e-Suharwardy, Islamabad, Pakistan.

Phoenix (Private) Limited (PPL) is a private limited company incorporated on March 9, 1992 in Azad Jammu and Kashmir under the Companies Ordinance, 1984 (now the Companies Act, 2017. The registered office of PPL is situated at Bin Khurma, Chichian Road, Mirpur, Azad Jammu and Kashmir. The object for which the PPL has been incorporated is to operate and manage an industrial undertaking in Azad Jammu and Kashmir to deal in tobacco products. PPL is dormant and has not commenced its commercial operations.

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

2 Statement of compliance

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

During the year, the Companies Act, 2017 (the Act) was enacted on May 30, 2017, which replaced and repealed the Companies Ordinance, 1984. However, the Securities and Exchange Commission of Pakistan (SECP) through its Circular No. 23 of 2017 dated October 4, 2017 has advised that the companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984.

3 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 Functional and presentation currency

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

5 Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 15 – useful lives of property, plant and equipment
- Notes 17 and 18 – Provision for obsolescence of stock in trade and stores and spares
- Notes 14 and 28 – provision for income tax and calculation of deferred tax
- Note 29 – retirement benefits
- Note 32 – financial instruments – fair values
- Note 31 – contingencies

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

6 New accounting standards, amendments and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January, 1 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after January, 1 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on Group's consolidated financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' -effective for annual periods beginning on or after January 1, 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Group's consolidated financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after January 1, 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Group's consolidated financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after January 1, 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on Group's consolidated financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after January 1, 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Group's consolidated financial statements.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after July 1, 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Group is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after July 1, 2018 and January 1, 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. This amendment is not likely to have an impact on Group's consolidated financial statements.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after January 1, 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Group's consolidated financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

  – IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when the Group increases its interest in a joint operation that meets the definition of a business. The Group remeasures its previously held interest in a joint operation when it obtains control of the business. The Group does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

  – IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transaction that generates the distributable profits.

  – IAS 23 Borrowing Costs - the amendment clarifies that the Group treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

  The above amendments are effective from annual period beginning on or after January 1, 2019 and are not likely to have an impact on Group's consolidated financial statements.

- In addition, the Companies Act, 2017 was enacted on May 30, 2017 and SECP vide its circular 23 of 2017 has clarified that the companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 applicable for financial year beginning on January 1, 2018 requires certain additional disclosures in the financial statements. Management is in the process of assessing the impact of such changes on the financial statements.

7 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes as indicated below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

– During the year, the Group has changed the presentation of consolidated cash flow statement from direct method to indirect method. Comparative consolidated cash flow statement has been re-presented, however, the change has no impact on previously reported figures of consolidated cash flow statement, consolidated profit and loss account or consolidated balance sheet.

– Amendments to IAS 7 'Statement of Cash Flow' became effective during the year. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Accordingly, those disclosures have been included in the note 36 to these consolidated financial statements. However, there was no change in the reported figures of consolidated profit and loss account or consolidated balance sheet.

7.1 Basis of consolidation

These consolidated financial statements include the financial statements of the Company and it wholly owned subsidiary company i.e. PPL, collectively called "the Group".

Subsidiaries are all entities over which the Group has the control or a shareholding of more than half of the voting rights. The Group controls an entity when it is expose to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are derecognised from the date the control ceases.

7.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods; stated net of discounts, in the ordinary course of the Group's activities. Revenue is recognised 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. Sale of goods is recognised 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.

(b) Income on bank deposits/investments

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 recognised on realized amounts. All other income is recognised on accrual basis.

7.3 Income tax

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

(a) Current

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. 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 recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.
Deferred income tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

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

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

7.4 Provisions

Provisions are recognised 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 recognised for future operating losses. All provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

7.5 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 recognised until their realization becomes virtually certain.

7.6 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.

7.7 Employee benefits

(a) Retirement benefit plans

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

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

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

The Group operates:

(i) Defined benefit, approved funded pension scheme for management and certain grades of business support officers and approved gratuity scheme for all employees. Employees also contribute to the approved pension scheme. The liability recognised 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.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements. Past-service costs are recognised immediately in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

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 recognised as employee benefit expense when they are due. Prepaid contributions, if any, are recognised 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 recognises termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

(c) Medical benefits

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

(d) Bonus plans

The Group recognises 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 recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Share-based payments

The Group has two cash-settled share-based compensation plans. Share options are granted to key management personnel which vest over a period of 3 years. A liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date.

(i) Long Term Incentive Plan (LTIP)

Nil-cost option exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share, operating cash flow, total shareholder return and net turnover of the British American Tobacco Group. Total shareholder return combines the share price and dividend performance of the Group by reference to one comparator group.

(ii) Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forefeit if a participant leaves employment before the end of the three years holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Share options are granted in March each year.

7.8 Leases

(a) Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets on finance lease are capitalized at the commencement of the lease term at the lower of fair value of leased assets and the present value of minimum lease payments, each determined at the inception of the lease. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long term payables. The finance cost is charged to profit and loss account and is included under finance costs. The assets acquired under finance lease are depreciated over the shorter of the useful life of the asset or the lease term. The Group has entered into Ijarah arrangements with a financial institution (associated company) in respect of vehicles. Islamic Financial Accounting Standard (IFAS) No.2 "Ijarah" was notified by SECP vide S.R.O 431 (I) /2007 on May 22, 2007. This said IFAS requires Ijrah payments under such arrangements to be recognised as an expense over the Ijarah terms. The Group intends to acquire such assets at the end of the lease term and management believes that the arrangements meet other conditions of finance lease and consequently such arrangements have been accounted for under International Accounting Standard – 17 "Leases".

(b) Operating leases

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

7.9 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised 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 derecognised. All other repairs and maintenance expenses are recognised in profit and loss account during the financial period in which they are incurred.
Free-hold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less residual value over their estimated useful lives at the following annual rates:

• Buildings on freehold and leasehold land	3%
• Plant and machinery	7%
• Air conditioners (included in plant and machinery)	20%
• Office and household equipment	20% to 33.3%
• Furniture and fittings	10% to 20%
• Vehicles – owned and leased	20%

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

7.10 Impairment of non-financial asset

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 recognised for the amount for which assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversals of the impairment losses are restricted to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no new impairment losses had been recognised. An impairment loss or reversal of impairment loss is recognised in the profit and loss account.

7.11 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.

7.12 Stores and spares

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

7.13 Financial assets

(a) Classification

The Group classifies non-derivative financial assets into deposits, trade debts and other receivables category and financial liabilities into other financial liabilities category.

(b) Recognition and de-recognition

The Group initially recognises loans and receivables on the date when they are originated. Financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(c) Measurement

Financial assets categorised as loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Financial liabilities categorised as other financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(d) Impairment of financial assets

Financial assets, categorised as loans and receivables, are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indication that a debtor or issuer will enter bankruptcy, adverse changes in the payment status, the disappearance of an active market for a security because of financial difficulties or observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets. For financial assets measured at amortised cost, the Group considers evidence of impairment at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical information on the timings of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account. When the Group considers that there is no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the income statement.

7.14 Trade debts

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

7.15 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.

7.16 Borrowing costs

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

7.17 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.

7.18 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Short term finance facilities availed by the Group, which are payable on demand and form an integral part of the Group's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

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

7.20 Fair value measurement

'Fair value' is the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see note 5). When one is available, the Group measures the fair value of an instrument using the quoted price in an active for that instrument. If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

	2017 Rs '000	2016 Rs '000
8 Cost of sales		
Raw material consumed		
Opening stock of raw materials and work in process	12,449,905	11,233,495
Raw material purchases and expenses - note 8.1	16,102,177	15,466,189
Closing stock of raw materials and work in process	(13,137,236)	(12,449,905)
	15,414,846	14,249,779
Government taxes and levies		
Customs duty and surcharges	407,705	380,395
Provincial and municipal taxes and other duties	271,152	192,370
Excise duty on royalty	53,348	56,566
	732,205	629,331
	16,147,051	14,879,110
Royalty	533,488	565,657
Severance benefits	2,168,043	182,000
Production overheads		
Salaries, wages and benefits	1,866,521	2,155,384
Stores, spares and machine repairs	553,303	642,905
Fuel and power	334,171	341,418
Insurance	18,342	32,470
Repairs and maintenance	491,752	597,840
Postage, telephone and stationery	11,908	14,058
Information technology	59,465	53,631
Depreciation	841,277	812,766
Provision for damaged stocks / stock written off	22,390	14,698
Provision for slow moving items / stores written off	14,964	18,391
Sundries	159,803	197,667
	4,373,896	4,881,228
Cost of goods manufactured	23,222,478	20,507,995
Cost of finished goods		
Opening stock	1,189,201	2,774,042
Closing stock	(1,336,318)	(1,189,201)
	(147,117)	1,584,841
Cost of sales	23,075,361	22,092,836

	2017 Rs '000	2016 Rs '000
8.1 Raw material purchases and expenses:		
Materials	13,818,839	13,121,741
Salaries, wages and benefits	1,088,693	1,036,385
Stores, spares and machine repairs	171,624	261,411
Fuel and power	306,148	350,093
Property rentals	91,963	115,682
Insurance	12,579	21,464
Repairs and maintenance	122,766	135,310
Postage, telephone and stationery	11,689	23,061
Depreciation	85,737	93,740
Sundries	392,139	307,302
	16,102,177	15,466,189

		2017 Rs '000	2016 Rs '000
9	**Selling and distribution costs**		
	Salaries, wages and benefits	798,974	745,957
	Selling expenses	3,567,108	3,439,271
	Freight	130,190	132,483
	Repairs and maintenance	20,052	52,799
	Postage, telephone and stationery	12,996	4,483
	Travelling	130,695	54,244
	Property rentals	51,507	50,993
	Insurance	12,260	13,372
	Provision for damaged stocks	8,186	9,967
	Finished goods / wrapping material stock written off	11,176	185,737
	Depreciation	57,551	54,332
		4,800,695	4,743,638
10	**Administrative expenses**		
	Salaries, wages and benefits	890,874	880,971
	Fuel and power	9,418	4,839
	Property rentals	156,224	125,625
	Insurance	4,933	4,630
	Repairs and maintenance	19,866	18,762
	Postage, telephone and stationery	9,325	11,577
	Legal and professional charges	101,550	87,998
	Donations - note 10.1	400	5,585
	Information technology	1,226,466	823,872
	Travelling	67,645	47,230
	Depreciation	127,777	126,396
	Auditor's remuneration and expenses - note 10.2	6,745	6,008
	Sundries	42,747	41,568
		2,663,970	2,185,061

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

		2017 Rs '000	2016 Rs '000
10.2	Auditor's remuneration and expenses include:		
	- Statutory audit fee	1,905	1,832
	- Group reporting, review of half yearly accounts, audit of consolidated accounts, audit of staff retirement benefit funds and special certifications & review of Code of Corporate Governance	4,098	3,941
	- Out-of-pocket expenses	742	235
		6,745	6,008

		2017 Rs '000	2016 Rs '000
11	**Other operating expenses**		
	Workers' profit participation fund	698,783	826,109
	Workers' welfare fund	265,538	313,921
	Bank charges and fees	37,299	44,491
	Interest paid to workers' profit participation fund	11,732	4,520
	Loss on disposal of property, plant and equipment	25,872	9,164
	Foreign exchange loss	146,967	–
		1,186,191	1,198,205
12	**Other income**		
	Income from sales / services rendered to associated companies:		
	- BAT SAA Services (Private) Limited	29,191	31,339
	- BAT Marketing (Singapore) Ltd	5,477	–
	- BAT Bangladesh, BAT Holdings and BAT Myanmar and Ceylon Tobacco Co., Srilanka	7,940	3,229
	Sale of stem tobacco	–	5,990
	Recharges / other payable to associated companies written back:		
	- BAT (Holdings) Ltd / BAT (Investments) Ltd	86,714	–
	- BAT ASPAC Service Center Sdn Bhd - Malaysia	50,553	132,757
	- BAT Marketing (Singapore) Ltd and BAT Singapore (Pte) Ltd	35,477	–
	- BAT Asia-Pacific Region Ltd - Hong Kong	17,977	161,093
	- BAT Australia Ltd	–	1,375
	Other liabilities written back - net	7,878	–
	Foreign exchange gain	–	15,286
	Miscellaneous	927	2,001
		242,134	353,070
13	**Finance cost**		
	Interest expense on:		
	Bank borrowings	22,750	7,218
	Finance lease	33,588	38,611
		56,338	45,829
14	**Income tax expense**		
	Current:		
	For the year	3,810,818	4,741,676
	For prior years - 14.1	(390,718)	317,372
		3,420,100	5,059,048
	Deferred	17,683	(38,252)
		3,437,783	5,020,796

14.1 This represents reversal of excess tax provision for prior years partially offset by super tax @ 3% of taxable income levied through Finance Act, 2017 and its levy is sub judice at various fora.

14.2 Effective tax rate reconciliation:

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

	2017 %	2016 %
Applicable tax rate	30.00	31.00
Tax effect of:		
Prior year (reversal) / charge	(3.00)	2.06
Change in applicable tax rate	(0.28)	(0.25)
Income taxed at different rate	(0.26)	(0.13)
Others	(0.04)	(0.04)
Average effective tax rate	26.42	32.64

The applicable income tax rate was reduced from 31% to 30% during the year on account of the changes made to Income tax Ordinance, 2001 in 2016.

	2017 Rs '000	2016 Rs '000
14.3 Tax on items directly credited to statement of other comprehensive income		
Current tax (credit) / charge on defined benefit plans	(75,346)	250,084
Deferred tax (credit) / charge on defined benefit plans	(41,921)	131,718
	(117,267)	381,802

	2017 Rs '000	2016 Rs '000
15 Property, plant and equipment		
Operating assets - note 15.1	8,174,609	8,286,265
Capital work in progress - note 15.2	481,253	368,218
	8,655,862	8,654,483

15.1 Operating assets

	Free-hold land Rs '000	Buildings on free-hold land Rs '000	Buildings on leasehold land Rs '000	Plant and machinery Rs '000	Office and household equipment Rs '000	Furniture and fittings Rs '000	Vehicles owned Rs '000	Vehicles under finance lease Rs '000	Total Rs '000
At January 1, 2016									
Cost	33,934	922,242	20,004	11,795,892	1,246,226	369,460	197,280	916,403	15,501,441
Accumulated depreciation	–	(236,121)	(11,159)	(6,054,931)	(671,445)	(122,818)	(140,343)	(195,237)	(7,432,054)
Net book amount January 1, 2016	33,934	686,121	8,845	5,740,961	574,781	246,642	56,937	721,166	8,069,387
Year ended December 31, 2016									
Net book amount at January 1, 2016	33,934	686,121	8,845	5,740,961	574,781	246,642	56,937	721,166	8,069,387
Additions	–	10,593	–	1,157,844	267,380	12,385	60	129,704	1,577,966
Disposals	–	–	–	(175,681)	(107)	(253)	(6,026)	(91,787)	(273,854)
Depreciation charge	–	(23,280)	(410)	(711,055)	(178,563)	(50,639)	(4,674)	(118,613)	(1,087,234)
Net book amount at December 31, 2016	33,934	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,286,265
At December 31, 2016									
Cost	33,934	932,835	20,004	12,664,827	1,516,248	379,266	175,994	915,696	16,638,804
Accumulated depreciation	–	(259,401)	(11,569)	(6,652,758)	(852,757)	(171,131)	(129,697)	(275,226)	(8,352,539)
Net book amount at December 31, 2016	33,934	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,286,265
At January 1, 2017									
Cost	33,934	932,835	20,004	12,664,827	1,516,248	379,266	175,994	915,696	16,638,804
Accumulated depreciation	–	(259,401)	(11,569)	(6,652,758)	(852,757)	(171,131)	(129,697)	(275,226)	(8,352,539)
Net book amount January 1, 2017	33,934	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,286,265
Year ended December 31, 2017									
Net book amount at January 1, 2017	33,934	673,434	8,435	6,012,069	663,491	208,135	46,297	640,470	8,286,265
Additions	–	64,328	–	747,226	171,617	6,500	683	244,157	1,234,511
Disposals	–	(15,252)	–	(164,723)	(1,586)	(353)	(4,682)	(47,229)	(233,825)
Depreciation charge	–	(17,701)	(409)	(710,794)	(200,826)	(49,777)	(2,492)	(130,343)	(1,112,342)
Net book amount at December 31, 2017	33,934	704,809	8,026	5,883,778	632,696	164,505	39,806	707,055	8,174,609
At December 31, 2017									
Cost	33,934	978,444	20,004	13,841,474	1,685,267	383,923	162,305	1,087,283	18,192,634
Accumulated depreciation	–	(273,635)	(11,978)	(7,957,696)	(1,052,571)	(219,418)	(122,499)	(380,228)	(10,018,025)
Net book amount at December 31, 2017	33,934	704,809	8,026	5,883,778	632,696	164,505	39,806	707,055	8,174,609

		2017 Rs '000	2016 Rs '000
15.2	**Capital work in progress**		
	Carrying value at the beginning of the year	368,218	1,140,632
	Additions during the year	417,633	334,295
		785,851	1,474,927
	Transferred to operating fixed assets	(304,598)	(1,106,709)
	Carrying value at the end of the year - note 15.2.1	481,253	368,218
15.2.1	Plant and machinery - note 15.2.2	190,134	337,394
	Advances to suppliers	291,119	30,824,
		481,253	368,218

15.2.2 CWIP includes capital expenditure on projects relating to enhancement of already installed machinery.

		2017 Rs '000	2016 Rs '000
15.3	Depreciation charge has been allocated as follows:		
	Cost of sales	841,277	812,766
	Raw material purchases and expenses	85,737	93,740
	Selling and distribution costs	57,551	54,332
	Administrative expenses	127,777	126,396
		1,112,342	1,087,234

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:

	Cost Rs '000	Book value Rs '000	Sale proceeds less selling expenses Rs '000	Particulars of buyers
Plant and machinery				
- by negotiation	212,086	145,441	156,193	BAT Bangladesh - Associate Co.
	11,025	6,551	837	Contractor - Bahadar Khan
Vehicles				
- as per Company's policy	1,350	536	324	Nafees Malik - executive
	1,626	597	325	Hamid Usman - executive
	1,626	654	325	Waqas A.Khan - executive
	1,626	610	325	Javaid Khan - executive
	1,691	607	338	Khawar Qayum - executive
	1,691	607	338	Tariq Shaheen- executive
	1,691	607	338	Ghazanfar Ali - executive
	1,691	607	338	Aimal Khattak - executive
	1,691	709	700	Zainul Abideen - executive
	1,972	1,105	907	Osman Habib - ex executive
	1,972	1,203	946	M Riaz - ex executive
	1,972	1,032	763	Asif Qayum - ex executive
	2,047	1,360	1,147	Nadeem Aqeel Butt - ex executive
	2,047	1,404	1,173	Hamzah Fazal - executive
	2,047	1,426	1,186	Noor Aftab - executive
	2,047	1,470	1,310	Saad Ikram - executive

	Cost Rs '000	Book value Rs '000	Sale proceeds less selling expenses Rs '000	Particulars of buyers
	2,047	1,759	1,637	Anwar Sadiq - ex executive
	2,047	1,515	1,326	S.Bilal Firdous - executive
	2,047	1,337	1,009	Muhammad Ahsan - ex executive
	2,092	2,001	1,981	Ussama Bin Shabbir - executive
	2,104	1,967	1,962	Waqas A.Khan - executive
	2,106	902	646	Ihsan Ahmed - ex executive
	2,322	1,718	1,239	M.Idries Ahmed - executive
	2,322	1,718	1,392	Sadaf Saeed - executive
	5,774	2,973	1,155	Talat Mehmood - executive
	13,500	11,599	9,205	Mustanser A.Khan - ex executive
- auction				
	9,244	3,111	8,068	Through bidding in auction
- by insurance claim				
	5,171	4,695	5,492	EFU General Insurance Ltd

	2017 Rs '000	2016 Rs '000
16 Long term deposits and prepayments		
Security deposits	25,465	25,053
Prepayments	6,854	8,518
	32,319	33,571
17 Stock-in-trade		
Raw materials	12,694,176	12,088,273
Raw materials in transit	405,300	293,102
Work in process	37,760	68,530
Finished goods	1,336,318	1,189,201
	14,473,554	13,639,106
Provision for damaged stocks - note 17.1	(12,664)	(20,576)
	14,460,890	13,618,530
17.1 Movement in provision for damaged stocks is as follows:		
Balance as at January 1	20,576	–
Provision for the year	12,664	20,576
Written off during the year	(20,576)	–
Balance as at December 31	12,664	20,576

	2017 Rs '000	2016 Rs '000
18 Stores and spares		
Stores and spares	723,712	735,605
Provision for slow moving items - note 18.1	(129,803)	(165,381)
	593,909	570,224

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

For the year ended December 31, 2017

		2017 Rs '000	2016 Rs '000
18.1	**Movement in provision for slowing moving items is as follows:**		
	Balance as at January 1	165,381	153,611
	Provision for the year	(6,460)	18,391
	Written off during the year	(29,118)	(6,621)
	Balance as at December 31	129,803	165,381

19 Trade debts

These are unsecured, considered good.

20 Loans and advances

	2017 Rs '000	2016 Rs '000
Related parties:		
Advances to key management personnel for house rent and expenses	7,701	2,848
Others:		
Loans to executives and other employees	–	15
Advances to executives for house rent and expenses	34,252	42,709
Advances to other parties	30,732	132,989
	72,685	178,561

These loans and advances are unsecured and considered good.

21 Other receivables

	2017 Rs '000	2016 Rs '000
Related parties - unsecured:		
Due from holding company / associated companies - note 21.1	52,145	76,349
Unbilled receivable from related parties	–	35,595
Staff pension fund - note 29	765,618	855,329
Employees' gratuity fund - note 29	–	52,951
Workers' profit participation fund	101,217	–
Others:		
Claims against suppliers	6,576	6,576
Interest income on short term investment	19,133	300
Others	4,286	2,127
	948,975	1,029,227

	2017 Rs '000	2016 Rs '000
21.1 The amount due from holding company / associated companies comprises:		
Holding company:		
British American Tobacco p.l.c. - UK	10,252	11,734
Associated companies:		
BAT SAA Services (Private) Limited - Pakistan	16,022	13,141
PT Bentoel Prima - Indonesia	8,451	–
BAT Marketing (Singapore) Pte Ltd - Singapore	4,396	5,105
BAT Myanmar - Myanmar	3,634	6,449
BAT (Singapore) Pte Ltd - Singapore	2,437	3,377
BAT ASPAC Service Center Sdn Bhd - Malaysia	2,157	–
Tobacco Importers & Manufacturers - Malaysia	2,152	–
BAT Tutun Mamulleri - Turkey	1,322	–
BAT PNG Ltd - Papua New Guinea	786	–
BAT Cambodia - Cambodia	468	843
BAT GLP Ltd - UK	68	65
BAT Bangladesh - Bangladesh	–	34,822
BAT JV HCMC - Vietnam	–	813
	52,145	76,349

22 Short term investments

This represents short term investment in treasury bills issued by the Government of Pakistan. Treasury bills carry effective interest rate ranges between 5.58% and 5.75% (2016 : 5.86%) per annum. These have been disposed off subsequent to the year-end.

	2017 Rs '000	2016 Rs '000
23 Cash and bank balances		
Deposit account	9,460	27,314
Current accounts:		
Local currency	282,537	62,487
Foreign currency	96,741	55,399
	388,738	145,200
Cash in hand	1,390	2,124
	390,128	147,324
24 Trade and other payables		
Related parties - unsecured:		
Due to holding company / associated companies - note 24.1	1,593,422	1,744,070
Others:		
Creditors	4,608,112	2,362,730
Federal excise duty - note 24.2	2,089,200	1,001,669
Sales tax	1,387,650	523,989
Workers' welfare fund	265,538	313,921
Dividend payable / unclaimed dividend	264,303	78,179
Other accrued liabilities	171,035	578,848
Employee incentive schemes - note 24.4	166,442	290,114
Employees' gratuity fund - note 29	139,736	–
Tobacco excise duty / Tobacco development cess - note 24.3	94,509	154,242
Security deposits	9,460	27,314

		2017 Rs '000	2016 Rs '000
	Staff pension fund - defined contribution	7,285	–
	Advances from customers	150	20,375
	Employees' provident fund	50	–
	Workers' profit participation fund	–	826,109
		10,796,892	7,921,560
24.1	The amount due to holding company / associated companies comprises:		
	Holding company:		
	British American Tobacco p.l.c. - UK	164,654	228,410
	Associated companies:		
	BAT Singapore (Pte) Ltd - Singapore	390,895	463,602
	BAT ASPAC Service Center Sdn Bhd - Malaysia	363,874	304,636
	BAT GSD Ltd. - UK	216,385	385,165
	BAT Marketing (Singapore) Pte Ltd - Singapore	154,049	158,006
	BAT JSC-Spb - Russia	125,319	–
	BAT Bangladesh Co. Ltd- Bangladesh	73,258	–
	BAT GLP Ltd - UK	49,258	137,138
	BAT Myanmar - Myanmar	16,912	31,957
	BAT Fiji Ltd - Fiji	16,070	–
	BAT PNG Ltd - Papua New Guinea	11,270	39
	BAT Asia-Pacific Region Ltd - Hong Kong	10,706	9,675
	BAT South Africa (Pty) Ltd - South Africa	406	–
	BAT Germany GmbH - Germany	199	393
	BAT Souza Cruz Ltd - Brazil	112	–
	BAT Korea Manufacturing - South Korea	55	1,257
	BAT Australia Ltd - Australia	–	11,572
	Tobacco Importers & Manufacturers - Malaysia	–	6,588
	Ceylon Tobacco Company Plc - Sri Lanka	–	4,419
	BAT Romania Investment - Romania	–	373
	BAT Chile Tobacco - Chile	–	263
	BAT Tutun Mamulleri - Turkey	–	220
	BAT Suisse - Switzerland	–	158
	BAT SCWE Ltd. - UK	–	132
	BAT Kenya Ltd - Kenya	–	47
	BAT PECSI Dohanygyar - Hungary	–	20
		1,593,422	1,744,070
24.2	**Federal excise duty**		
	Balance as at January 1	1,001,669	2,259,089
	Charged during the year	51,247,115	64,976,204
	Payment to the Government during the year	(50,159,584)	(66,233,624)
	Balance as at December 31	2,089,200	1,001,669
24.3	**Tobacco excise duty / tobacco development cess:**		
	Balance as at January 1	154,242	187,143
	Charge for the year	182,212	120,584
	Payment to the Government during the year	(241,945)	(153,485)
	Balance as at December 31	94,509	154,242

24.4 Employee incentive schemes

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

	2017 Rs '000	2016 Rs '000
Long Term Incentive Plan (LTIP) - note 24.4.1		
Balance as at January 1	114,138	49,930
Charge for the year	22,119	81,521
Share options exercised	(93,137)	(17,313)
Balance as at December 31	43,120	114,138
Deferred Share Bonus Scheme (DSBS) - note 24.4.2		
Balance as at January 1	111,101	70,478
Charge for the year	51,942	74,304
Share options exercised	(86,908)	(33,681)
Balance as at December 31	76,135	111,101
Other employee benefit	47,187	64,875
	166,442	290,114

24.4.1 Long Term Incentive Plan (LTIP)

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

	2017	2016
	Number of options	
Outstanding as at January 1	20,697	18,214
Granted during the year	5,369	8,945
Exercised during the year	(11,474)	(6,462)
Outstanding as at December 31	14,592	20,697

There are no exercisable options as at December 31, 2017.

24.4.2 Deferred Share Bonus Scheme (DSBS)

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

	2017	2016
	Number of options	
Outstanding as at January 1	23,485	22,096
Granted during the year	5,313	9,957
Exercised during the year	(11,358)	(8,568)
Outstanding as at December 31	17,440	23,485

There are no exercisable options as at December 31, 2017.

25 Other liabilities

During the year, the Group has consumed amounts aggregating Rs. 952 million and recorded further obligations of Rs 2,005 million. The balance relates to provisions for employee benefits, litigation and restructuring consequent to modernization of production processes. The comparative balance has been reclassified and separately presented for appropriate presentation.

26 Short term running finance - secured

(a) Short term running finance

Short term running finance facilities available under mark-up arrangements with banks amount to Rs 6,500 million (2016: Rs 6,500 million), out of which the amount unavailed at the year end was Rs 6,500 million (2016: Rs 6,405 million). These facilities are secured by hypothecation of stock in trade and plant and machinery amounting to Rs 7,222 million (2016: Rs 7,222 million). The mark-up ranges between 6.34% and 6.54% (2016: 6.39% and 6.77%) 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 (2016: Rs 2,500 million) and Rs 420 million (2016: Rs 420 million) is available for letter of credit and letter of guarantee respectively, out of which the facility availed at the year end is Rs 387 million (2016: Rs 151 million) and Rs 276 million (2016: Rs 241 million). The letter of credit and guarantee facility is secured by second ranking hypothecation charge over stock-in-trade amounting to Rs 670 million (2016: Rs 670 million).

27 Liability against assets subject to finance lease

This represents finance lease agreements entered into with a leasing company for vehicles. Total lease rentals due under various lease agreements aggregate to Rs 470,168 thousand (2016: Rs 525,825 thousand) and are payable in equal monthly installments latest by December 2022. Taxes, repairs, replacement and insurance costs are to be borne by the Group. Financing rates of 7.30% to 7.40% (2016: 7.19% to 7.58%) per annum have been used as discounting factor.

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

	2017 Rs '000	2016 Rs '000
Present value of minimum lease payments	425,295	479,333
Current maturity shown under current liabilities	(165,245)	(164,383)
	260,050	314,950
Minimum lease payments		
Not later than one year	188,989	194,720
Later than one year and not later than five years	281,179	331,105
	470,168	525,825
Future finance charges on finance leases	(44,873)	(46,492)
Present value of finance lease liabilities	425,295	479,333
Present value of finance lease liabilities		
Not later than one year	165,245	164,383
Later than one year and not later than five years	260,050	314,950
	425,295	479,333

	2017 Rs '000	2016 Rs '000
28 Deferred income tax liability		
Deferred tax liability is in respect of:		
Accelerated tax depreciation	1,101,064	1,107,235
Leased assets	88,025	76,498
	1,189,089	1,183,733
Deferred tax asset is in respect of:		
Remeasurement loss arising on employees' retirement benefit	(41,921)	–
Provision for stock and stores	(38,943)	(51,270)
	1,108,225	1,132,463
The gross movement on deferred income tax account is as follows:		
At January 1	1,132,463	1,038,997
Charge / (credit) for the year - profit and loss account	17,683	(38,252)
(Credit) / charge for the year - statement of other comprehensive income	(41,921)	131,718
At December 31	1,108,225	1,132,463
29 Retirement benefits		
Staff pension fund - asset - note 21	(765,618)	(855,329)
Employees' gratuity fund - liability / (asset) - note 24 and 21	139,736	(52,951)

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2017 using the projected unit credit method. Details of the defined benefit plans are:

		Defined benefit pension plan		Defined benefit gratuity plan	
		2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000
(a)	The amounts recognised in the balance sheet:				
	Present value of defined benefit obligations	4,759,609	4,654,000	1,416,319	1,433,183
	Fair value of plan assets	(5,525,227)	(5,509,329)	(1,276,583)	(1,486,134)
	Net (assets) / liability	(765,618)	(855,329)	139,736	(52,951)
(b)	Movement in the (asset) / liability recognised in the balance sheet is as follows:				
	Balance as at January 1	(855,329)	(346,701)	(52,951)	415,493
	Charge for the year - profit and loss	(17,047)	41,909	70,270	116,805
	Employer's contribution during the year	(54,133)	53,091	(107,583)	(382,154)
	Remeasurement loss/(gain) recognised in Other Comprehensive Income (OCI) during the year	160,891	(603,628)	230,000	(203,095)
	Balance as at December 31	(765,618)	(855,329)	139,736	(52,951)

		Defined benefit pension plan		Defined benefit gratuity plan	
		2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000
(c)	The amounts recognised in the profit and loss account:				
	Current service cost	107,823	127,772	84,999	86,182
	Interest cost	427,176	447,849	132,118	145,043
	Expected return on plan assets	(502,871)	(480,906)	(136,804)	(105,427)
	Net interest	(75,695)	(33,057)	(4,686)	39,616
	Members' own contribution	(26,747)	(30,073)	-	-
	Secondees' own contribution	(7,457)	(7,442)	-	-
	Contribution by employer in respect of secondees	(14,971)	(15,291)	(10,043)	(8,993)
		(17,047)	41,909	70,270	116,805
(d)	Re-measurements recognised in Other Comprehensive Income (OCI) during the year:				
	Actuarial (gain) / loss on obligation	(157,193)	(198,793)	116,246	(85,617)
	Net return on plan assets over interest income	318,084	(404,835)	113,754	(117,478)
	Total remeasurements loss / (gain) recognised in OCI	160,891	(603,628)	230,000	(203,095)
(e)	Movement in the present value of defined benefit obligation:				
	Present value of defined benefit obligation at January 1	4,654,000	4,506,581	1,433,183	1,458,102
	Current service cost	107,823	127,772	84,999	86,182
	Interest cost	427,176	447,849	132,118	145,043
	Actual benefits paid during the year	(272,197)	(229,409)	(350,227)	(170,527)
	Remeasurements: Actuarial (gain)/loss on obligation	(157,193)	(198,793)	116,246	(85,617)
	Present value of defined benefit obligation at December 31	4,759,609	4,654,000	1,416,319	1,433,183
(f)	Movement in the fair value of plan assets:				
	Fair value of plan assets at January 1	5,509,329	4,853,282	1,486,134	1,042,609
	Interest income	502,871	480,906	136,804	105,427
	Contribution by employer in respect of members	54,133	(53,091)	107,583	382,154
	Members' own contribution	26,747	30,073	–	–
	Secondees' own contribution	7,457	15,291	–	–
	Contribution by employer in respect of secondees	14,971	7,442	10,043	8,993
	Actual benefits paid during the year	(272,197)	(229,409)	(350,227)	(170,527)
	Return on plan assets, excluding amounts included in interest income	(318,084)	404,835	(113,754)	117,478
	Fair value of plan assets at December 31	5,525,227	5,509,329	1,276,583	1,486,134
	Actual return on plan assets	200,019	1,215,664	38,908	287,310

The Group expects to credit Rs 11 million for pension plan and charge Rs 91 million for gratuity plan for the year ending December 31, 2018.

		Defined benefit pension plan		Defined benefit gratuity plan	
		2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000
(g)	The major categories of plan assets:				
	Investment in listed equities	1,158,693	1,422,468	263,733	355,434
	Investment in bonds	4,211,797	4,061,852	951,836	1,122,197
	Cash and other assets	154,737	25,009	61,014	8,503
		5,525,227	5,509,329	1,276,583	1,486,134
(h)	Significant actuarial assumptions at the balance sheet date:				
	Discount rate	9.50%	9.25%	9.25%	9.25%
	Pension increase rate	6.50%	7.50%	–	–
	Expected rate of increase in salary				
	First year	11%	11%	11%	11%
	Second year onwards	8%	8%	8%	8%

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

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

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

(i) Sensitivity analysis on significant actuarial assumptions

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

	Defined benefit pension plan		Defined benefit gratuity plan	
	1 percent increase Rs '000	1 percent decrease Rs '000	1 percent increase Rs '000	1 percent decrease Rs '000
Discount rate	(600,530)	755,945	(118,506)	136,428
Salary increase	186,160	(167,239)	129,639	(114,796)
Increase in post retirement pension	535,576	(439,082)	–	–

If life expectancy increases by 1 year, the obligation of the Pension Fund increases by Rs 319.781 million (2016: 258.684 million).

Expected maturity profile

Following are the expected distribution and timing of benefits payments at the year end.

	Defined benefit pension plan		Defined benefit gratuity plan	
	2017	2016	2017	2016
Weighted average duration of the PBO (Years)	12.62	17.14	8.37	8.25

Risks associated with defined benefit plan

Longevity risk

The risk arises when the actual lifetime of retiree is longer than the estimate of future employee lifetime expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than the expectations and impacts the liability accordingly.

Withdrawal risk

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

	Defined benefit pension plan		Defined benefit gratuity plan	
	Present value of defined benefit obligation	Net liability at the end of the year	Present value of defined benefit obligation	Net liability at the end of the year
	Rs '000	Rs '000	Rs '000	Rs '000
2017	4,759,609	(765,618)	1,416,319	139,736
2016	4,654,000	(855,329)	1,433,183	(52,951)
2015	4,506,581	(346,701)	1,458,102	415,493
2014	4,034,421	(319,535)	1,257,137	308,042
2013	3,582,353	(345,253)	1,082,176	265,349

29.1 Salaries, wages and benefits as appearing in note 8, 9 and 10 include amounts in respect of the following:

	2017 Rs '000	2016 Rs '000
Defined Contribution Provident Fund	88,198	85,218
Defined Benefit Pension Fund	–	41,909
Defined Contribution Pension Fund	77,173	69,514
Defined Benefit Gratuity Fund	70,270	116,805
	235,641	313,446

29.2 Defined Contribution Plan

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

		2017	2016
(a)	Net assets	1,755,255	2,025,756
	Cost of investments made	1,455,098	1,650,824
	Percentage of investments made	83%	81%
	Fair value of investments made	1,593,668	1,858,893

		2017 Rs '000	2017 % age	2016 Rs '000	2016 % age
(b)	Breakup of investments at cost				
	Treasury bills	–	–	105,101	5%
	Pakistan Investment Bonds	305,196	17%	507,199	25%
	Investment plus deposit certificates	499,600	29%	484,100	24%
	Investment in savings account with bank	144,859	8%	62,048	3%
	Investment in securities	286,593	16%	298,024	15%
	Accrued interest	218,850	13%	194,352	9%
		1,455,098	83%	1,650,824	81%

(c) Investments out of provident fund have been made in accordance with the provisions of section 218 of the Companies Act 2017 and the rules formulated for the purpose.

30. Share capital

30.1 Authorized share capital

2017 Number of shares	2016 Number of shares		2017 Rs '000	2016 Rs '000
300,000,000	300,000,000	Ordinary shares of Rs 10 each	3,000,000	3,000,000

30.2 Issued, subscribed and paid-up capital

2017 Number of shares	2016 Number of shares		2017 Rs '000	2016 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 (2016: 241,045,141) ordinary shares at the year end and 12,274 (2016:12,274) and 798,282 (2016:798,282) ordinary shares are held by the directors and associated company respectively.

	2017 Rs '000	2016 Rs '000
31 Contingencies and commitments		
31.1 Contingencies		
(a) Claims and guarantees		
(i) Claims against the Group not acknowledged as debt	72,474	69,450
(ii) Guarantees issued by banks on behalf of the Group	276,051	241,451

(b) Litigation

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

31.2 Commitments

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

	2017 Rs '000	2016 Rs '000
Not later than one year	124,824	21,900
Later than one year and not later than five years	473,930	421,411
Later than five years	45,765	–

(b) Letters of credit outstanding at December 31, 2017 were Rs 386,925 thousand (2016: Rs 151,299 thousand).

32 Financial instruments - Fair values and risk management

32.1 Accounting classification and fair value

The following tables shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	December 31, 2017			December 31, 2016		
		Loans and receivables	Other financial liabilities	Total	Loans and receivables	Other financial liabilities	Total
		Rs '000			Rs '000		
Financial assets measured at fair value							
Financial assets not measured at fair value							
Deposits	16	25,465	–	25,465	25,053	–	25,053
Trade debts	19	2,636	–	2,636	1,839	–	1,839
Other receivables	21	948,975	–	948,975	1,029,227	–	1,029,227
Short–term investments	22	6,763,842	–	6,763,842	979,903	–	979,903
Cash and bank balances	23	390,128	–	390,128	147,324	–	147,324
		8,131,046	–	8,131,046	2,183,346	–	2,183,346
Financial liabilities measured at fair value							
Financial liabilities not measured at fair value							
Trade and other payables	24	–	(6,624,300)	(6,624,300)	–	(6,239,655)	(6,239,655)
Short–term running finance	26	–	–	–	–	(95,339)	(95,339)
Finance lease obligation	27	–	(425,295)	(425,295)	–	(479,333)	(479,333)
Accrued interest/mark–up		–	(3,414)	(3,414)	–	(3,438)	(3,438)
		–	(7,053,009)	(7,053,009)	–	(6,817,765)	(6,817,765)

The Group has not disclosed the fair values of financial assets and financial liabilities as these are for short–term or reprice over short–term. Therefore, the carrying amounts are reasonable approximation of their values.

32.2 Financial risk management

The Group has exposure to the following risks from financial instruments:
- credit risk
- liquidity risk
- market risk

32.2.1 Risk management framework

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 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.

32.2.2 Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from trade debts, other receivables, deposits with banks and investment in T-Bills issued by the Government of Pakistan. The carrying amount of financial assets represents the maximum credit exposure.

Due to the Group's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Group. Accordingly the credit risk is minimal.

Financial assets amounting to Rs 8,131 million (2016: Rs 2,183 million) do not include any amounts which are past due or impaired. The table below shows bank balances held with counterparties at the balance sheet date.

Counterparty	Rating		Rating agency	(Rs in million)	
	Short term	Long term		2017	2016
MCB Bank Ltd	A-1+	AAA	PACRA	136.99	29.53
Habib Bank Ltd	A-1+	AAA	JCR-VIS	125.79	37.66
Deutsche Bank AG	F2	A-	FITCH	117.61	70.98
MCB Islamic Bank	A1	A	PACRA	4.22	3.29
National Bank	A1+	AAA	PACRA	1.72	3.28
Standard Chartered Bank	A1+	AAA	PACRA	1.93	0.13
Citibank N.A.	P-1	A1	Moody's	0.48	0.33
Government of Pakistan	–	B3	Moody's	6,763.84	979.90
				7,152.58	1,125.10

As at December 31, 2017, all deposits, trade debts, short-term investments and bank balances are held in Pakistan whereas maximum exposure to credit risk for other receivables by geographic was as follows:

	Carrying amount	
	2017 Rs '000	2016 Rs '000
Pakistan	912,852	966,019
United Kingdom	10,320	11,799
Asia & other	25,803	51,409
	948,975	1,029,227

As at December 31, 2017, the ageing of other receivables was as follows:

	Carrying amount	
	2017 Rs '000	2016 Rs '000
Not past due	932,338	1,009,185
Past due 1-30 days	8,585	13,281
Past due 31-90 days	1,407	120
Past due 90 days	6,645	6,641
	948,975	1,029,227

32.2.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking to the Group's reputation.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of the netting arrangements:

	Carrying	Contractual cash flows		
	amount Rs '000	Total Rs '000	12 months or less Rs '000	1 to 5 years Rs '000
December 31, 2017				
Financial liabilities				
Trade and other payables	6,624,300	(6,624,300)	(6,624,300)	–
Finance lease obligation	425,295	(470,168)	(188,989)	(281,179)
Accrued interest/mark-up	3,414	(3,414)	(3,414)	–
	7,053,009	(7,097,882)	(6,816,703)	(281,179)
December 31, 2016				
Financial liabilities				
Trade and other payables	6,239,655	(6,239,655)	(6,239,655)	–
Short-term running finance	95,339	(95,339)	(95,339)	–
Finance lease obligation	479,333	(525,825)	(194,720)	(331,105)
Accrued interest/mark-up	3,438	(3,438)	(3,438)	–
	6,817,765	(6,864,257)	(6,533,152)	(331,105)

Cash flows included in the maturity analysis are not expected to occur significantly earlier or at significantly different amounts.

32.2.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This exists due to the Group's exposure resulting from outstanding payments on account of import of goods and services. The currencies in which these transactions are primarily denominated are euro, sterling and US dollar.

The summary quantitative data about the Group's exposure to currency risk is as follows:

	December 31, 2017			December 31, 2016		
	Euro	Sterling	US dollars	Euro	Sterling	US dollars
Other receivables	–	53,831	207,282	–	360,979	70,486
Cash and bank balances	–	–	876,674	–	–	530,743
Trade and other payables	1,224,386	660,177	11,484,601	6,767	3,495,178	10,331,470
Net exposure	1,224,386	714,008	12,568,557	6,767	3,856,157	10,932,699

The following significant exchange rates have been applied:

	Average rate		Year-end spot rate	
	2017	2016	2017	2016
Euro 1	119.05	115.89	132.51	110.09
Sterling 1	135.81	141.85	149.28	128.97
US dollar 1	105.36	104.68	110.35	104.38

A 10 percent strengthening (weakening) of the Rupee against euro, sterling and US dollar at the reporting date would have affected the measurement of financial instruments denominated in a foreign currency and affected the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant and ignores any impact of forecast sales and purchases.

	Profit or loss		Equity, net of tax	
	Strengthening Rs '000	Weakening Rs '000	Strengthening Rs '000	Weakening Rs '000
December 31, 2017				
Euro	15,902	(15,902)	11,701	(11,701)
Sterling	9,407	(9,407)	6,922	(6,922)
US dollar	116,838	(116,838)	85,969	(85,969)
December 31, 2016				
Euro	90	(90)	61	(61)
Sterling	62,544	(62,544)	42,530	(42,530)
US dollar	118,970	(118,970)	80,900	(80,900)

Interest rate risk

This represents the risk that the fair value of 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 does not have any significant long-term interest-bearing financial assets or financial liabilities whose fair value or future cash flows will fluctuate because of changes in market interest rates.

Financial liabilities include balances of Rs 425,295 thousand (2016: Rs 574,672 thousand) which are subject to interest rate risk. Applicable interest rates for these financial liabilities have been indicated in respective notes.

At balance sheet date, if interest rates had been 1% higher/lower, with all other variables remain constant, profit for the year would have been Rs 4.252 million (2016: Rs 5.746 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

33 Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Executive Directors		Executives				Total	
					Key management personnel		Other executives			
	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000	2017 Rs '000	2016 Rs '000
Managerial remuneration	36,827	59,801	64,035	37,578	203,718	274,135	862,989	899,474	1,167,569	1,270,988
Corporate bonus	38,441	30,396	41,141	50,367	139,071	260,252	258,139	165,938	476,792	506,953
Leave fare assistance	1,254	1,966	2,870	2,914	9,452	5,013	3,041	519	16,617	10,412
Housing and utilities	7,686	19,302	9,972	9,312	71,821	74,797	353,018	357,587	442,497	460,998
Medical expenses	1,212	103	1,782	1,697	10,048	10,216	64,180	54,316	77,222	66,332
Post employment benefits	6,560	5,433	4,145	7,869	32,795	39,241	181,187	223,995	224,687	276,538
	91,980	117,001	123,945	109,737	466,905	663,654	1,722,554	1,701,829	2,405,384	2,592,221
Number of persons	1	1	2	2	25	31	532	640	560	674

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

33.2 The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to six (2016: six) non-executive directors of the Group amounted to Rs 6,643 thousand (2016: Rs 4,335 thousand).

34 Transactions with related parties

British American Tobacco (Investments) Limited (BAT-IL) holds 94.34% (2016: 94.34%) shares of the Company at the year end. Therefore, all the subsidiaries and associated undertakings of BAT-IL and the ultimate parent company British American Tobacco, p.l.c (BAT) are related parties of the Group. The related parties also include directors, major shareholders, key management personnel, employee funds and the entities over which the directors are able to exercise significant 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 35 to the financial statements. Transactions with employee funds and associated payable/receivable balances are provided in note 29 to the financial statements.

As MCB Bank Limited is an associated company under the repealed Companies Ordinance, 1984 due to common directorship, yet does not fall under the definition of related party as interpreted from IAS 24 "Related Party Disclosures". Accordingly, transactions and balances with MCB Bank Limited and its subsidiary company that includes transactions and balances relating to leasing, short term running finance and bank accounts have not been disclosed in the related party disclosure.

	2017 Rs '000	2016 Rs '000
Purchase of goods and services from:		
Holding company	739,713	662,216
Associated companies	1,718,660	1,452,875
Sale of goods and services to:		
Holding company	30,330	51,807
Associated companies	622,479	387,700
Dividend paid to:		
Holding company	5,078,922	7,739,310
Royalty charged by:		
Holding company	533,488	565,657
Expenses reimbursed to:		
Holding company	2,803	17,306
Associated companies	1,368	2,963
Expenses reimbursed by:		
Holding company	9,378	17,390
Associated companies	130,676	82,475
Payment under employee incentive schemes:		
Key management personnel	54,928	35,594
Other income:		
Associated company:		
Recharges written back	190,721	295,225

35 Cash generated from operations

	2017 Rs '000	2016 Rs '000
Profit before taxation	13,011,345	15,382,148
Adjustment for non-cash items:		
- Depreciation	1,112,342	1,087,234
- Loss on disposal of property, plant and equipment	25,872	9,164
- Finance cost	56,338	45,829
- Finance income	(234,124)	(428,143)
- (Reversal of) / provision for slow moving stores and spares	(35,578)	11,770
- (Reversal of) / provision for stock-in-trade	(7,912)	20,576
- Provision for staff retirement benefit plans	235,641	313,446
	1,152,579	1,059,876
Changes in working capital:		
- Stock-in-trade	(834,448)	368,431
- Stores and spares	11,893	93,570
- Trade debts	(797)	(933)
- Loans and advances	105,876	3,033
- Short term prepayments	(28,889)	(13,560)
- Other receivables	(43,577)	(41,047)
- Trade and other payables	2,549,472	(939,846)
- Other liabilities	1,053,210	11,151
	2,812,740	(519,201)
Changes in long term deposits and prepayments	1,252	(4,499)
	16,977,916	15,918,324

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

For the year ended December 31, 2017

36 Reconciliation of movement of liabilities to cash flows arising from financing activities

	Liabilities	Equity	Total
	Finance lease obligations Rs '000	Revenue reserves Rs '000	Rs '000
Balance at January 1, 2017	479,333	10,421,692	10,901,025
Changes from financing cash flows:			
Finance lease payments	(238,805)	–	(238,805)
Dividend paid	–	(5,179,246)	(5,179,246)
Total changes from financing cash flows	(238,805)	(5,179,246)	(5,418,051)
Other changes:			
New finance leases	184,767	–	184,767
Total liability-related other changes	184,767	–	184,767
Total equity-related other changes	–	9,113,814	9,113,814
Balance at December 31, 2017	425,295	14,356,260	14,781,555

37 Post balance sheet event

In respect of the year ended December 31, 2017 final dividend of Rs 20.00 (2016: Rs 11.00) per share amounting to a total dividend of Rs 5,109,876 thousand (2016: Rs 2,810,432 thousand) has been proposed at the Board of Directors meeting held on February 20, 2018. These consolidated financial statements do not reflect this proposed dividend.

38 General

38.1 Capacity and production

Against an estimated manufacturing capacity of 43,600 million cigarettes (2016: 50,700 million cigarettes) actual production was 35,307 million cigarettes (2016: 33,243 million cigarettes). Actual production has increased because of increase in market demand.

38.2 Number of employees

Total number of employees as at December 31, 2017 were 1,029 (2016: 1,205). Average number of employees during the year were 1,044 (2016 : 1,209)

38.3 Date of authorization for issue

These consolidated financial statements have been authorized for circulation to the shareholders by the Board of Directors of the Group on February 20, 2018.

Syed Javed Iqbal
Chief Executive Officer

Wael Sabra
Chief Financial Officer / Director

PATTERN OF **SHAREHOLDING**

As at December 31, 2017

No. of Shareholders		Categories			Total Shares
1,383	From	1	To	100	43,742
1,115	From	101	To	500	313,576
369	From	501	To	1,000	259,280
246	From	1,001	To	5,000	526,654
28	From	5,001	To	10,000	192,116
5	From	10,001	To	15,000	60,334
3	From	15,001	To	20,000	49,656
7	From	20,001	To	25,000	160,819
1	From	25,001	To	30,000	27,000
1	From	30,001	To	35,000	31,978
1	From	35,001	To	40,000	37,000
3	From	55,001	To	60,000	172,390
1	From	60,001	To	65,000	60,961
1	From	65,001	To	70,000	68,740
1	From	90,001	To	95,000	93,000
2	From	165,001	To	170,000	335,714
1	From	190,001	To	195,000	191,000
1	From	300,001	To	305,000	300,752
1	From	400,001	To	405,000	401,800
1	From	795,001	To	800,000	798,282
1	From	1,830,001	To	1,835,000	1,830,513
1	From	8,490,001	To	8,495,000	8,493,344
1	From	241,045,001	To	241,050,000	241,045,141
3,174					255,493,792

	No. of Shares
Associated Companies, Undertakings and Related Parties	241,843,423
NIT and ICP	515
Directors, CEO and their spouse and minor children	12,274
Executives	34
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, Modaraba and Mutual Funds	2,229,494
Individuals	2,490,797
Others	8,917,255
	255,493,792

Categories of Shareholders	Number	Shares Held	%
Directors, CEO and their spouse and minor children	9	12,274	0.0
Executives	3	34	0.0
Associated Companies, Undertakings and Related Parties	2	241,843,423	94.7
Investment Companies	1	515	0.0
Modarabas & Mutual Funds	3	1,833,353	0.7
Insurance Companies	3	392,859	0.2
Banks, Development and other Financial Institutions	9	3,282	0.0
Individuals	3,100	2,490,797	1.0
Others	44	8,917,255	3.5
Total	3,174	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	515
Directors, CEO and their spouse and minor children (name wise details)	
Mueen Afzal	2,124
Syed Javed Iqbal	2,500
Tajamal Shah	2,500
Wael Sabra	2,500
Hae In Kim	1,000
Michael Kost	1,000
Imran Maqbool	500
Ali Kuli Khan Khattak	100
Zafar Mehmood	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

5.9 چیئرمین اور CEO کے عہدے

اچھی گورننس اور شفافیت کو فروغ دینے کے لیے چیئرمین اور CEO کے عہدے الگ رکھے گئے ہیں۔ ان کی ذمہ داریاں علیحدہ متعین کی گئی ہیں اور دو الگ افراد ان عہدوں پر فائز کیے گئے ہیں۔

5.10 چیئرمین اور CEO کا مختصر کردار اور ذمہ داریاں

بورڈ نے چیئرمین اور CEO کا کردار اور ان کی ذمہ داریاں بہت صاف اور علیحدہ متعین کی ہیں۔

چیئرمین بورڈ کے رہنما اور میٹنگز میں بحث کا کردار ادا کرتے ہیں تاکہ ایک آزاد بحث کے بعد کم سے کم وقت میں جامع فیصلے کیے جاسکیں۔ چیئرمین بورڈ کی ذمہ داریاں نبھانے کے لیے ذمہ دار ہیں۔

CEO کمپنی کے سربراہ ہیں۔ تمام اداروں کے سربراہان ان کو جواب دہ ہیں۔ یہ کمپنی کے روزمرہ کاموں کی تکمیل کے لیے جواب دہ ہیں۔ یہ کمپنی کے سالانہ مقاصد کے حصول کے لیے رہنمائی مہیا کرتے ہیں۔ یہ کمپنی کی قلیل مدتی اور طویل مدتی حکمت عملی بناتے اور اس کو بروئے عمل پہنچانے کے لیے پوری ٹیم کی رہنمائی کرتے ہیں تاکہ حصہ داران کے لیے منافع کو زیادہ سے زیادہ بڑھایا جاسکے۔ یہ مینجمنٹ کی طرف سے بورڈ آف ڈائریکٹرز اور چیئرمین سے رابطہ رکھتے ہیں۔

5.11 بورڈ کی طرف سے CEO کی کارکردگی کا تعین

قانون کے مطابق بورڈ CEO کو تین سال کی مدت کے لیے مقرر کرتا ہے۔ اس کی کارکردگی کو کمپنی کے سالانہ پلان کے ساتھ جانچا جاتا ہے۔ اس کے علاوہ قانون کے مطابق ذمہ داریاں نبھانا بھی ضروری ہے۔ 2017 کے لیے CEO کی کارکردگی کا معیار یہ ہے کہ کمپنی نے اپنا سالانہ پلان حاصل کیا ہے اور تمام قانونی ذمہ داریاں پوری کی ہیں۔

5.12 انڈکشن کے وقت رسمی واقفیت

نئے بورڈ ممبرز کو تعیناتی کے وقت ایک انڈکشن پلان سے گزارا جاتا ہے جس میں ان کو کمپنی کا ویژن اور مشن، اس کا سٹرکچر، تجربہ کار افسران کے کردار اور ذمہ داریاں، اہم مقاصد اور کمپنی کی اہم پالیسیوں سے متعلق آگاہی دی جاتی ہے۔ تجربہ کار افسران ان ڈائریکٹرز کو اپنے اداروں کی کارکردگی سے متعلق تفصیلات بتاتے ہیں۔

5.13 ڈائریکٹرز کا ترقیاتی پروگرام

PTC نے قابل عمل ریگولیٹری فریم ورک کی تکمیل کی ہوئی ہے۔ 9 میں سے آدھے سے زیادہ ڈائریکٹرز نے ترقیاتی پروگرام پاس کیا ہوا ہے۔

5.14 پچھلی AGM پر مسائل

کمپنی کی سالانہ جنرل میٹنگ 20 اپریل 2017 کو ہوئی۔ حصہ داران نے کمپنی کی فنانشل سٹیٹمنٹس اور غیر قانونی تمباکو انڈسٹری کے اثرات کے حوالے سے کچھ عام سوالات کیے۔ اس کے علاوہ کوئی مسئلہ پیش نہیں کیا گیا۔

5.15 آڈیٹرز

31 دسمبر 2017 کو ختم ہونے والے سال کے لیے کمپنی کا آڈٹ مکمل کرلیا گیا ہے اور آڈیٹرز نے کمپنی کی فنانشل سٹیٹمنٹس، جامع فنانشل سٹیٹمنٹس اور ضابطہ برائے کارپوریٹ گورننس سے تعمیل کی سٹیٹمنٹ جاری کردی ہے۔ M/S KPMG TASEER HADI & CO سالانہ اجلاس عام کے بعد ریٹائر ہوجائے گی، تاہم کمپنی بطور PTC کے لیے بطور آڈیٹر خدمات جاری رکھنے پر آمادگی ظاہر کی ہے۔ KPMG نے ICAP سے تسلی بخش ریٹنگ حاصل ہونے اور ICAP کے قبول کردہ IFAC کے رہنما اصول برائے ضابطہ اخلاق سے تعمیل کی تصدیق بھی کی ہے۔ بورڈ آڈٹ کمیٹی کی سفارش پر 31 دسمبر 2018 کو ختم ہونے والے مالی سال کے لیے مذکورہ بالا کمپنی کی بطور آڈیٹرز تقرری کی تجویز دیتا ہے۔ تاہم اس کی حتمی منظوری 20 اپریل 2018 کو حصہ داران کے سالانہ اجلاس عام میں دی جائے گی۔

5.16 شیئر ہولڈنگ کا پیٹرن

31 دسمبر 2017 پر شیئر ہولڈنگ پیٹرن، ضابطہ برائے کارپوریٹ گورننس کی شرائط کے مطابق اس سالانہ رپورٹ میں علیحدہ سے دیا گیا ہے۔

5.17 ڈائریکٹرز اور ایگزیکٹوز کی حصص میں خرید و فروخت

کمپنی کے ڈائریکٹرز، چیف ایگزیکٹو آفیسر، چیف فنانشل آفیسر، کمپنی سیکرٹری، ان کی بیویاں اور بچوں نے مبینہ طور پر کمپنی کے حصص میں کوئی خرید و فروخت نہیں کی ہے۔

5.18 BCP کا جائزہ

PTC کاروباری تسلسل کو یقینی بنانے کے عمل کی اہمیت کا مکمل ادراک رکھتی ہے اور یہ چاہتی ہے کہ کاروبار مشکل حالات میں بھی ایسے ہی چلے جیسا کہ عام دنوں میں چلتا ہے۔ اس مقصد کی خاطر کمپنی نے عالمی معیار کے مطابق ایک مکمل لائحہ عمل ترتیب دیا ہے۔

اس سے یہ یقینی بنایا جاتا ہے کہ اگر کوئی واقع ہو تو اس سے نمٹنے کی پہلے سے تیاری کی ہو، اس کا سامنا کرنے کا طریقہ درج ہو، حالات پر قابو پانے کی کچھ سوجھ بوجھ ہو اور کم سے کم وقت میں کاروبار کو عام دنوں کی حالت پر لایا جاسکے۔

اس لائحہ عمل کو BAT گروپ میں بھی کافی پذیرائی ملی ہے۔ بورڈ آف ڈائریکٹرز اس لائحہ عمل کا ہر سال جائزہ لیتا ہے۔ اس پر عمل کرانے کی ذمہ داری MD کے سپرد ہے۔ سکیورٹی کے ادارے کے سربراہ اس پر عمل درآمد کرانے کے لیے پابند ہیں۔ تمام اداروں کے سربراہان اپنے ادارے سے منسلک والے خطرات کو جانتے اور ان پر قابو پانے کے لیے ذمہ دار ہیں۔

6 مستقبل قریب کا بیان

6.1 پچھلے سال کے مستقبل بیان کا جائزہ

پچھلے سال ہم نے یہ پہلے سے بھانپ لیا تھا کہ 2017 قانونی تمباکو انڈسٹری کے لیے انتہائی مشکل ثابت ہوگا اور فروخت کے حجم پر شدید دباؤ آئے گا۔ کمپنی کی 2017 کی کاروباری کارکردگی سے یہ بات ثابت ہوجاتی ہے کہ ہمارا تجزیہ درست تھا۔

6.2 مستقبل کا بیان

2018 ایک اور مشکل سال ہوگا۔ قانونی تمباکو انڈسٹری کے استحکام کے لیے سب سے بڑا خطرہ غیر قانونی تمباکو انڈسٹری ہے۔ اس سے حکومتی آمدنی میں کمی ہوتی ہے اور ملک کے قوانین کی کھلم کھلا خلاف ورزی ہے۔

کمپنی پرتوقع ہے کہ یہ سال حکومت پاکستان پر شدید دباؤ ہوگا۔ اس کی وجوہات میں کمزور کرنسی، بڑھتا ہوا تجارتی اور مالیاتی خسارہ اور بڑھتا ہوا قرضہ ہے۔ تاہم تمباکو انڈسٹری کے لیے اب یہ واضح ہے کہ حکومت نے غیر قانونی شعبے سے نمٹنے کا عہد کر لیا ہے تاکہ اپنی آمدنی کو مستحکم کیا جائے۔ کمپنی تمام اداروں پر زور دیتی ہے کہ اپنی نفاذ قانون کی سرگرمیوں کو اور تیز کریں تاکہ غیر قانونی شعبے کو ختم کیا جاسکے۔

PTC کا کاروبار اس کے لوگوں کے تجربے، عزم اور قیادت کے بل پر چلتا ہے۔ یہ لوگ صنعت کے بدلتے منظر نامے کے مطابق کمپنی کو ڈھالنے میں ماہر ہیں۔ ہمارا مستحکم برانڈ پورٹ فولیو، موثر مارکیٹنگ کاروائیاں اور آپریشنز میں کام کے طریقہ کار میں مسلسل بہتری ہمیں اس قابل بناتی ہے کہ ہم معاشرے کی طرف اپنی ذمہ داریاں نبھائیں، حصہ داران کو زیادہ سے زیادہ منافع دیں اور 70 سال سے مسلسل اپنی قیادت قائم رکھیں۔

a) کمپنی کی مینجمنٹ کی طرف سے تیار کردہ فنانشل سٹیٹمنٹس میں کمپنی کی موجودہ حالت، آپریشنز کے نتائج، کیش فلو اور ایکویٹی میں تبدیلی کا منصفانہ بیان کیا گیا ہے۔

b) کمپنی کی تمام بکس آف اکاؤنٹس تیار رکھی جاتی ہیں۔

c) فنانشل سٹیٹمنٹس کی تیاری میں باقاعدگی سے موزوں اکاؤنٹنگ پالیسیاں لاگو کی جاتی ہیں اور اکاؤنٹنگ تخمینے معقول اور دانشمندانہ فیصلوں پر مبنی ہوتے ہیں۔

d) فنانشل سٹیٹمنٹس کی تیاری میں پاکستان میں لاگو فنانشل رپورٹنگ کے بین الاقوامی معیارات پر عمل کیا جاتا ہے اور جہاں کہیں ان سے انحراف برتا جائے اسے ظاہر کیا جاتا ہے اور وضاحت دی جاتی ہے۔

e) انٹرنل کنٹرول کا سسٹم مضبوط ہے اور اسے موثر انداز میں لاگو کیا جاتا ہے۔

f) کمپنی کے کاروبار جاری رکھنے کی صلاحیت پر کوئی قابل ذکر شک و شبہ نہیں۔

g) لسٹنگ ریگولیشنز میں بیان کردہ کارپوریٹ گورننس کے بہترین معمولات سے دوری اختیار نہیں کی گئی۔

h) سال بھر میں لاگو ہونے والے تمام اہم سرکاری محصولات، کہ 31 دسمبر 2018 تک واجب الادا تھے، ادا کر دیے گئے ہیں۔

i) گزشتہ چھ برسوں کے آپریٹنگ اور فنانشل ڈیٹا کی اہم معلومات کا خلاصہ سالانہ رپورٹ میں علیحدہ سے دیا گیا ہے۔

j) آڈٹ شدہ اکاؤنٹس کی بنیاد پر 31 دسمبر 2018 کو ختم ہونے والے سال میں ملازمین کے لیے مختص ریٹائرمنٹ فنڈ میں سرمایہ کاری کی تفصیل ذیل میں دی گئی ہے۔

	روپے ملین میں
سٹاف پنشن فنڈ	4,751
ملازمین کا گریجویٹی فنڈ	1,416
مینجمنٹ کا پراویڈنٹ فنڈ	997
ملازمین کا پراویڈنٹ فنڈ	1,020
سٹاف کا متعین کردہ کنٹری بیوشن پنشن فنڈ	306

5.2 بورڈ کا مرکب

PTC بورڈ آف ڈائریکٹرز کے مرکب اور ڈائریکٹرز کی اہلیت سے متعلق ریگولیٹری فریم ورک کے ساتھ تعمیل کیے ہوئے ہیں۔ بورڈ 6 نان ایگزیکٹو ڈائریکٹرز (جن میں سے ایک آزاد ڈائریکٹر ہیں) اور 3 ایگزیکٹو ڈائریکٹرز پر مشتمل ہے۔

ڈائریکٹرز سے متعلق مکمل معلومات سالانہ رپورٹ میں علیحدہ سے دی گئی ہیں۔ اس میں ان کا نام، سٹیٹس (ایگزیکٹو/نان ایگزیکٹو/آزاد)، تجربہ اور دوسری کمپنیوں میں ان کی ڈائریکٹرشپ شامل ہے۔ سٹیٹس کی تفصیل کوڈ آف کارپوریٹ گورننس کی تعمیل سے متعلق بیان میں بھی دی گئی ہے۔

5.3 بورڈ میں تبدیلیاں:

20 اپریل 2016 کو الیکشن کے ذریعے بورڈ تشکیل دیا گیا تھا۔ 2017 میں بورڈ میں کوئی تبدیلی نہیں آئی۔

5.4 بورڈ کی میٹنگز

قابل عمل ریگولیٹری فریم ورک کے مطابق بورڈ کا سال میں کم از کم 4 مرتبہ ملنا ضروری ہے تاکہ شفافیت، احتساب اور کمپنی کی کارکردگی کی مانیٹرنگ کو ضروری بنایا جائے۔ ضرورت کے مطابق انتہائی اہم معاملات پر بات کرنے کے لیے خاص میٹنگ بھی بلائی جاتی ہے۔ 2017 میں 5 میٹنگز ہوئیں جن کے نوٹس ایجنڈا قانون کے مطابق میٹنگ سے پہلے بروقت بھجوا دیا گیا تھا۔ قانون کے مطابق تمام میٹنگز میں کم از کم کورم پورا تھا۔

کمپنی سیکرٹری، بورڈ کے سیکرٹری کے طور پر کام کرتے ہیں۔ بورڈ کی طرف سے میٹنگز کے دوران لیے گئے تمام فیصلے بہت شفاف انداز میں منٹس کے طور پر لکھے جاتے ہیں اور بورڈ کے تمام ممبران کو بھیج دیے جاتے ہیں۔ بالکل اگلی میٹنگ میں بورڈ پچھلی میٹنگ کے منٹس کی منظوری دیتا ہے۔

ڈائریکٹرز کا نام	حاضری
محسن افضل چیئرمین اور نان ایگزیکٹو ڈائریکٹر	5/5
سید جاوید اقبال مینجنگ ڈائریکٹر اور CEO	3/5
ہائے ان کم نان ایگزیکٹو ڈائریکٹر	3/5
وقار صابر فنانس اور آئی ٹی ڈائریکٹر	4/5
تمثیل شاہ لیگل اور ایکسٹرنل افیئرز ڈائریکٹر	4/5
لیفٹیننٹ جنرل (ریٹائرڈ) علی قلی خان خٹک نان ایگزیکٹو ڈائریکٹر	4/5
عمران مقبول نان ایگزیکٹو ڈائریکٹر	5/5
ظفر محمود آزاد ڈائریکٹر	5/5
مائیکل کوٹے نان ایگزیکٹو ڈائریکٹر	0/5

5.5 بورڈ میٹنگز جو پاکستان سے باہر کی گئیں۔

PTC نے 2017 میں اپنی ساری بورڈ میٹنگز پاکستان میں کی ہیں۔

5.6 بورڈ کمیٹیاں

بورڈ نے 4 کمیٹیاں تشکیل دی ہوئی ہیں جو بورڈ کو مختلف کاموں میں معاونت دیتی ہیں۔ ان کمیٹیوں کی تمام تفصیلات، جس میں کمیٹی ممبران اور ان کی حاضری شامل ہے، اس سالانہ رپورٹ میں علیحدہ سے دی گئی ہیں۔

5.7 ڈائریکٹرز کا معاوضہ

کوڈ آف کارپوریٹ گورننس کی مطابق ڈائریکٹرز کے معاوضہ کے تعین کے لیے ایک باقاعدہ نظام تشکیل دیا گیا ہے۔ یہ معاوضے قانون کے مطابق اور کمپنی کی اندرونی پالیسیوں کے مطابق تعین کیے جاتے ہیں تاکہ نان ایگزیکٹو ڈائریکٹرز کی آزادی متاثر نہ ہو۔

5.8 بورڈ کی کارکردگی کی تشخیص

کمپنی نے بورڈ کی کارکردگی جانچنے کے لیے ایک طریقہ کار ترتیب دیا ہے تاکہ یہ پتا لگایا جا سکے کہ کون سے کام اچھے چل رہے ہیں اور کہاں بہتری کی گنجائش ہے۔ پھر ایک لائحہ عمل بنا کر بحث کر کے اور مانیٹر کرتے ہدایات کا تعین کیا جاتا ہے۔

اس طریقہ کار کو ایک سوالنامے کی شکل دی گئی ہے جو کہ بورڈ ممبران کو بھیجا جاتا ہے جس پر وہ اپنی اور بورڈ کی کارکردگی کا تعین کرتے ہیں۔ شفافیت کو مد نظر رکھتے ہوئے یہ کام کمپنی سیکرٹری کے حوالے کیا گیا ہے۔ تمام بورڈ ممبران یہ سوالنامے کمپنی سیکرٹری کو واپس بھیجتے ہیں جو کہ ان کے جوابات کے مطابق ایک رپورٹ بناتا ہے۔ یہ رپورٹ اگلی میٹنگ میں بورڈ کے سامنے پیش کی جاتی ہے۔ اس پر بحث کی جاتی ہے، ممبران کے خدشات کو سنا جاتا ہے اور بورڈ کی کارکردگی بہتر بنانے کی کوشش کی جاتی ہے۔

70 YEARS OF LEADERSHIP
Pakistan Tobacco Company Limited

آمدنی پر لگنے والے ٹیکس میں پچھلے سال کے مقابلے میں کمی واقع ہوئی۔ اس کی وجہ یہ ہے کہ فروخت کے حجم میں کمی کی وجہ سے ٹیکس لگنے والی آمدنی میں کمی ہوئی۔

2.2 مالیاتی پوزیشن کا تجزیہ

کمپنی کی جائیداد اور اثاثے پچھلے سال کی طرح مستحکم رہے۔ اگرچہ نئے اثاثوں کی خریداری پر رقم خرچ کی گئی مگر پرانے مکمل استعمال شدہ اثاثوں کی فروخت اور فرسودگی کی لاگت (depreciation) کی وجہ سے کمی بھی آئی۔

سال کے اختتام پر کاروباری مال کی قدر پچھلے سال کے مقابلے میں زیادہ تھی جس کی وجہ تمباکو کی قیمت خرید میں سالانہ قانونی اضافہ ہے۔

دیگر قابل وصول واجبات میں کمی واقع ہوئی جس کی وجہ یہ ہے کہ دیگر گروپ کمپنیوں نے اپنے واجبات ادا کیے۔

نقد اور مساوات نقد میں قلیل مدتی سرمایہ کاری، نقد رقم اور بینک اکاؤنٹ میں رکھی رقم شامل ہوتے ہیں۔ سال کے اختتام پر ان میں پچھلے سال کے اختتامی بیلنس کے مقابلے میں اضافہ ہوا ہے۔ اس کی وجہ یہ ہے کہ سال کے دوسرے حصے میں وصولیات میں اضافے کی وجہ سے سرمایہ کاری کے لیے زیادہ رقم دستیاب تھی۔

قلیل مدتی قابل ادائیگی رقم میں اضافہ ہوا جس کی وجہ یہ ہے کہ سال کے دوسرے حصے میں اثاثوں کی خریداری پر زیادہ رقم خرچ کی گئی۔

حصص داران کے پیسے میں اضافہ واقع ہوا جس کی وجہ یہ ہے کہ کاروبار میں سرمایہ کاری کے لیے منافع کو منتقل کیا گیا۔

2.3 رقم کی دستیابی کا جائزہ:

خزانے کا محکمہ کمپنی (Treasury) کے لیے پیسوں کی دستیابی کا ذمہ دار ہے۔ اس محکمے کے لیے بہت واضح لائحہ عمل مرتب کیا گیا ہے جس میں اختیارات کی تفصیل بھی ہے اور سرمایہ کاری کے طریقے بتائے گئے ہیں۔ یہ لائحہ عمل اور طریقہ کار بورڈ آف ڈائریکٹرز سے منظور شدہ ہے۔ روزمرہ کے فیصلوں کے لیے فنانس ڈائریکٹر اور خزانے کی کمیٹی کو اختیارات دیے گئے ہیں۔

2.4 قومی خزانے میں شراکت

نجی شعبے میں PTC سب سے زیادہ ٹیکس دینے والا ادارہ ہے۔ سال 2017 کے دوسرے حصے میں کمپنی نے قومی خزانے میں 38 ارب روپے جمع کرائے جو کہ سال 2016 کے دوسرے حصے کے مقابلے میں 5 ارب روپے زیادہ ہے۔ مکمل سال 2017 کے لیے کمپنی نے ایکسائز ڈیوٹی، سیلز ٹیکس، انکم ٹیکس اور کسٹم ڈیوٹیز کی مد میں قومی خزانے میں 72 ارب روپے جمع کرائے۔

غیر ڈیوٹی شدہ سگریٹوں کی فروخت سے حکومت کی آمدنی اور قانونی ٹوبیکو انڈسٹری پر پڑنے والے منفی اثرات کے حوالے سے PTC مسلسل آواز اٹھا رہی ہے۔ تاہم ہمیں امید ہے کہ قانون نافذ کرنے والے اداروں کی کارروائیوں سے اور سال 2017 کے دوسرے حصے میں آنے والے کاروباری حالات سے حکومتی آمدنی میں استحکام آئے گا۔

2.5 منافع کی تقسیم کا جائزہ:

سال کے شروع میں کاروبار کے لیے مختص منافع 10.422 ارب روپے تھا۔ 2016 کے لیے حصص داران کو دیا جانے والا آخری منافع 2.810 ارب روپے تھا۔

2017 میں کمپنی نے 9.574 ارب روپے منافع کمایا اور حصص داران میں 10 روپے فی حصص کے حساب سے 2.555 ارب روپے تقسیم کیے۔ 31 دسمبر 2017 پر کاروبار کے لیے مختص منافع 14.357 ارب روپے تھا۔

2.6 حصص داران کے لیے منافع

بورڈ آف ڈائریکٹرز کی میٹنگ 20 فروری 2018 کو ہوئی۔ بورڈ انتہائی مسرت سے یہ بتانا چاہتا ہے کہ سال 2017 کے لیے حصص داران کے لیے 20 روپے فی حصص کے حساب سے منافع کی تقسیم تجویز کی گئی ہے (2018: 10 روپے فی حصص)۔ حصص داران کی منظوری کے بعد 2017 کے لیے کل منافع کی تقسیم 30 روپے فی حصص ہو گی۔ اس کی حتمی منظوری 20 اپریل 2018 کو ہونے والے اجلاس میں حصص داران دیں گے۔

2.7 جامع فنانشل سٹیٹمنٹس:

کمپنی اور اس کی ملکیتی ذیلی کمپنی فینکس پرائیویٹ لمیٹڈ (Phoenix Pvt. Ltd.) کی جامع فنانشل سٹیٹمنٹس اس رپورٹ کے ساتھ منسلک کی گئی ہیں۔ ذیلی ملکیتی کمپنی ابھی کوئی کاروبار نہیں کر رہی۔

3 آپریشنز کا تجزیہ:

PTC کے کاروبار میں تمباکو کو اگانے سے لے کر سگریٹ بنانے تک کے تمام مراحل شامل ہیں۔ دو فیکٹریاں ہیں اور بہت بڑا تمباکو کی فصل اور خرید کے انتظامات کا بہت بڑا ادارہ ہے۔ اس سال کمپنی پیداواری کارکردگی بڑھانے پر متوجہ رہی۔ لاگتوں کے موثر انتظام پر زور دیا گیا۔ کم لاگتوں کے ساتھ بہتری شیٹوں کے تعارف سے پیداواری کارکردگی مزید بہتر کی گئی۔

مینوفیکچرنگ کا ادارہ آپریشنز کے لیے اہم حیثیت رکھتا ہے۔ 100 فیصد اور وقت پر ڈیلیوری کے لیے یہ سب سے اہم ادارہ ہے۔ 2017 میں اس ادارے نے 75.8% کارکردگی حاصل کی ہے جو کہ تمام BAT گروپ کمپنیوں میں بہت زیادہ ہے۔

کمپنی کا مقصد ہے کہ جدید ترین تصورات کو متعارف کرائے اور پیداواری لحاظ سے بہترین پراسس استعمال میں لائے۔ PTC نے IWS کے ذریعے مینوفیکچرنگ میں مہارت و کمال حاصل کرنے کا سفر جاری رکھے ہوئے ہے۔

IWS کے EHS پروگرام کے تحت فیکٹریوں میں ماحول، صحت اور تحفظ کے بارے میں بہت زیادہ معلومات اور بنیادی ڈھانچے میں بہتری لائی گئی ہے۔ مزید براں مصارف کو مدنظر رکھ کر مصنوعات کا معیار قائم رکھنے کی بدولت صارفین کی شکایات میں قابل ذکر کمی آئی ہے۔ یہ ادارہ پورے BAT گروپ میں اپنے غیر معمولی نتائج کی بدولت PTC کی پہچان ہے۔

4 مارکیٹنگ کا جائزہ:

PTC نے بہترین برانڈز بنانے کی اپنی روایت کو قائم رکھا ہے۔

پریمیم سگمنٹ میں اپنے سب سے بڑے برانڈ جان پلیئر گولڈ لیف میں ہم نے کافی سرمایہ کاری کی ہے۔ اس سال ہم نے اس کا ایک خاص پیک مختصر مقدار میں متعارف کرایا جو صارفین نے بہت پسند کیا۔ VFM سگمنٹ میں کیپسٹن برانڈ نے پال مال نے اپنی پوزیشن مزید مستحکم کی اور ٹوبیکو انڈسٹری کا ایک بہت بڑا برانڈ ابھر کر سامنے آیا۔ اس نے بہت تیزی سے ترقی کی اور 2017 کے اختتام پر اپنی تاریخ کا سب سے زیادہ 28.1% مارکیٹ شیئر حاصل کیا۔ گولڈ فلیک نے بھی اپنی بہترین کارکردگی اور مضبوط نتائج کا ثبوت دیا۔ سال 2017 میں اس کا مارکیٹ شیئر بڑھ کر 9.7% ہو گیا۔

ٹریڈ مارکیٹنگ کی ٹیم نے 2017 میں غیر قانونی ٹوبیکو انڈسٹری کا ثابت قدمی سے مقابلہ کیا۔ ٹیم نے مارکیٹ میں انتہائی زوردار اور موثر حکمت عملی سے کام کیا۔ ٹیم نے بہترین بہت سے ریٹیل کام کیا، بروقت وسائل کا استعمال کیا اور بزنس پارٹنرز کے ساتھ بہترین شراکت داری سے کام کیا۔ اس کے علاوہ ڈیجیٹل ٹیکنالوجی کے استعمال میں سرمایہ کاری کی گئی۔ صارفین کی پسند اور پرچون فروخت کے اعداد و شمار اکٹھا کرنے کے لیے نئے کمپیوٹر پروگرام کو متعارف کرایا۔ ٹیم کے لیے ترقیاتی پروگرامات کا انعقاد بھی کیا گیا۔

5. کارپوریٹ گورننس

5.1 بہترین کارپوریٹ گورننس

ڈائریکٹرز مندرجہ ذیل حوالوں سے SECP کے ضابطہ برائے کارپوریٹ گورننس کے کارپوریٹ، مالیاتی رپورٹنگ فریم ورک سے مکمل تعمیل بتاتے ہیں۔

ڈائریکٹرز رپورٹ

ڈائریکٹرز کی جانب سے 31 دسمبر 2017 کو ختم ہونے والے سال کے لیے کمپنی کی سالانہ رپورٹ اور آڈٹ کردہ فنانشل سٹیٹمنٹس پیش خدمت ہے۔

1- کاروباری جائزہ

1.1- ملکی معاشیات

پیداواری شعبہ پاکستان کی معیشت کے لیے ریڑھ کی ہڈی کی حیثیت رکھتا ہے۔ یہ ملکی معیشت کا تیسرا بڑا شعبہ ہے جو کہ مجموعی ملکی پیداوار میں 11.9% حصہ ڈالتا ہے۔ یہ شعبہ ٹیکنالوجی کی منتقلی کے ذریعے ملک میں بہت بڑے پیمانے پر روزگار کے مواقع پیدا کرتا ہے۔ اس شعبے نے مجموعی طور پر مالی سال 2017 میں پچھلے سال کے مقابلے میں قابل ذکر ترقی حاصل کی ہے۔ پاکستان کا مالیاتی خسارہ سال 2017 کے لیے مجموعی ملکی پیداوار کا 5.8% رہا۔ پچھلے سال کی نسبت یہ اضافہ ترقیاتی اور سکیورٹی سے متعلق اخراجات میں اضافے اور ٹیکس آمدنی میں کمی کی وجہ سے دیکھنے میں آیا۔ مالی سال 2017-18 کے لیے پہلے پانچ ماہ میں مالیاتی خسارہ 826 ارب روپے تک پہنچ چکا ہے جو کہ مجموعی ملکی پیداوار کا 2.3% ہے۔ اگر یہی رجحان جاری رہا تو رواں مالی سال میں یہ خسارہ گزشتہ سال سے بھی بڑھ سکتا ہے۔

بینک دولت پاکستان نے مالی سال 2017 میں پالیسی کی شرح کو 5.75% پر قائم رکھا ہے۔ ملک میں مجموعی قرضہ 11.1% کی شرح سے بڑھا جو کہ سال 2016 میں 7.2% کی شرح سے بڑھا تھا۔ نجی شعبے کے تجزیے کے مطابق پیداواری شعبے کو دیا جانے والا قرضہ 13.6% کی شرح سے بڑھا جب کہ 2016 میں یہ اضافہ 12.1% تھا۔

افراط زر کی شرح سال 2017 میں مستحکم رہی۔ اس کی بڑی وجوہات میں تیل اور دیگر اشیائے ضرورت کی قیمتوں میں کمی، پاکستانی روپے کی ڈالر کے مقابلے میں مستحکم پوزیشن، اشیائے ضرورت کی آسانی سے فراہمی اور وفاقی و صوبائی حکومتوں کی طرف سے قیمتوں پر قابو ہے۔

1.2 تمباکو صنعت کا جائزہ

سال 2017 تمباکو صنعت کے لیے بہت مشکل سال تھا۔ پچھلے سال میں صارفین کی سستے غیر ڈیوٹی شدہ سگریٹ پر منتقلی کے اثرات نے رواں سال کے پہلے حصے کو شدت سے متاثر کیا۔

31 جنوری 2018 کو FBR کی طرف سے جاری کیے جانے والی خبر کے مطابق اور آزاد ریسرچ آڈٹ کے مطابق، سال 2016 کے اختتام پر غیر ڈیوٹی شدہ شعبے کا مارکیٹ حصہ 40% تک پہنچ چکا تھا۔ یہ شعبہ حکومت پاکستان کی تمباکو صنعت سے ٹیکس آمدنی میں بڑھوتری میں سب سے بڑی رکاوٹ ثابت ہو رہا تھا۔ اس خطرے کو قابو کرنے کے لیے سال 2017 کے شروع میں ہی FBR نے IREN کے نام سے قانون نافذ کرنے کا ایک علیحدہ محکمہ بنایا۔ اس نئے محکمے کی بھرپور کوششوں کے باوجود 30 جون 2017 کو غیر ڈیوٹی شدہ سگریٹ کے شعبے کا مارکیٹ کا حصہ 40.8% تک پہنچ گیا۔

ان تمام منفی عوامل کو سامنے رکھتے ہوئے مالی سال 2017-18 کے لیے وفاقی بجٹ میں حکومت پاکستان نے ٹیکس اور پالیسی اصلاحات متعارف کرائیں۔ ان اصلاحات کے نتیجے میں قانونی تمباکو انڈسٹری نے اپنی مصنوعات کی قیمتوں میں تبدیلی کی۔ اس حکمت عملی کی وجہ سے قانونی اور غیر قانونی سگریٹ کی قیمت میں فرق میں کمی واقع ہوئی۔

سال کے دوسرے حصے میں IREN نے نفاذ قانون کی سرگرمیوں کو ملک کے طول و عرض میں پھیلا دیا۔ FBR کی 31 جنوری 2018 کی خبر کے مطابق اس محکمے نے انتہائی کامیاب چھاپے مارے۔ تقریباً 1.63 ارب غیر ڈیوٹی شدہ سگریٹ اور بہت زیادہ مقدار میں خام مال قابو کیا گیا جس سے قومی خزانے کو تقریباً 2.7 ارب کا نقصان پہنچ رہا تھا۔

حکومت پاکستان کے ان تمام اقدامات کی بدولت تمباکو صنعت سے حاصل ہونے والی ٹیکس آمدنی میں بحالی آئی اور قانونی تمباکو صنعت کو نسبتاً استحکام ملا۔ غیر قانونی تمباکو شعبے کا مارکیٹ کا حصہ کم ہو کر 31 دسمبر 2017 کو 34.7% پر آ گیا۔ آخر کار سال 2017 کے دوسرے حصے میں سال 2016 کے دوسرے حصے کے مقابلے میں حکومت پاکستان کی تمباکو انڈسٹری سے ٹیکس آمدنی میں 5 ارب روپے کا اضافہ ریکارڈ کیا گیا۔

1.3 کمپنی کی کارکردگی

پوری قانونی تمباکو صنعت کی طرح، پاکستان ٹوبیکو کمپنی کے لیے بھی سال 2017 کا پہلا حصہ غیر قانونی شعبے کے باعث بری طرح متاثر رہا۔ اس کا اظہار کمپنی کے پہلے حصے کے کاروباری نتائج میں سال 2016 کے پہلے حصے کے مقابلے میں پوری طرح واضح ہے۔ البتہ سال کے دوسرے حصے میں کاروباری کارکردگی میں اچھی بحالی واقع ہوئی۔ کمپنی نے یہ بحالی اس حکمت عملی کی بنیاد پر حاصل کی کہ صارف کی قوت خرید کے مطابق قیمت کا تعین کیا جائے، مارکیٹ میں حصہ بڑھایا جائے اور کاروباری طریقہ کار کو آسان بنایا جائے۔

قانونی تمباکو انڈسٹری میں کمپنی نے اپنی تجارت کو 70.2% سے بڑھا کر 71.2% تک پہنچایا۔ اچھے کاروباری فیصلوں اور کمپنی کے لوگوں کی محنت سے اچھے نتائج حاصل کیے۔

اپنے لوگوں کے متعلق پاکستان ٹوبیکو کمپنی اپنی طویل مدتی حکمت عملی پر قائم و دائم ہے۔ اس حکمت عملی کے مطابق لوگوں کو بہتر کیرئیر کے مواقع فراہم کیے جاتے ہیں، انتہائی اچھا معاوضہ دیا جاتا ہے، عملی اور غیر عملی تربیت دی جاتی ہے۔ اس سب کے باعث کمپنی پاکستان کے سب سے باصلاحیت لوگ ملازمت پر رکھتی ہے اور ان کو لمبے عرصے کے لیے اپنے پاس رکھنے میں کامیاب ہے۔

2- مالیاتی جائزہ

سال 2017 کے اہم مالیاتی اشارے درج ذیل ہیں۔

	روپے ملین جنوری۔دسمبر 2017	روپے ملین جنوری۔دسمبر 2016
کل وصولیات (Gross Tumers)	112,523	129,278
خالص وصولیات (Net Tumeror)	44,318	44,867
پیداواری لاگت برائے فروخت (Cost of Sales)	23,075	22,093
مجموعی منافع (Gross Profit)	21,242	22,774
کاروباری منافع (Opening Profit)	12,834	15,000
قبل از ٹیکس منافع (Profit Before Tax)	13,011	15,382
بعد از ٹیکس منافع (Profit after Tax)	9,574	10,361
آمدنی فی حصص (روپے) (Eaming Per Share)	37.47	40.55

2.1 نفع اور نقصان کا تجزیہ:

خالص وصولیات میں پچھلے سال کے مقابلے میں کمی واقع ہوئی ہے جس کی بڑی وجہ غیر قانونی تمباکو انڈسٹری کے مارکیٹ حصے میں اضافہ ہے۔

پیداواری لاگت برائے فروخت پچھلے سال کے مقابلے میں مستحکم رہی ہے۔ افراط زر سے آنے والے اضافے کو فروخت کے حجم میں کمی نے متوازن کر دیا۔ یہ کمپنی کے اس مقصد کے عین مطابق ہے کہ پیداواری کارکردگی بڑھا کر لاگتوں کو موثر طور پر قابو رکھا جائے۔

فروخت اور تقسیم پر آنے والی لاگت بھی مستحکم رہی اگرچہ افراط زر اور ٹیکنالوجی پر سرمایہ کاری کی ضرورت کی وجہ سے دباؤ رہا۔ یہ سب اس وجہ سے ممکن ہوا کہ کمپنی نے لاگتوں کا بہت موثر انتظام کیا اور وسائل کو بڑی خوش اسلوبی سے استعمال کیا۔

دیگر کاروباری لاگتوں میں بھی کمی واقع ہوئی جس کی بڑی وجہ منافع پر متعین ہونے والے قانونی واجبات میں کمی ہے۔

خالص مالیاتی آمدنی میں پچھلے سال کے مقابلے میں کمی واقع ہوئی۔ اس کی وجہ یہ تھی کہ سال کے پہلے حصے میں وصولیات میں کمی آئی اور سرمایہ کاری کے لیے رقم دستیاب نہ تھی۔

5۔ انکم ٹیکس آرڈیننس، 2001 کی شق 150 کے تحت ڈیویڈنڈ سے انکم ٹیکس کی کٹوتی (لازمی)

i۔ فنانس ایکٹ 2016، 1 کو بتاریخ یکم جولائی 2017 کے مطابق انکم ٹیکس آرڈیننس کے تحت ڈیویڈنڈ پر انکم ٹیکس کی کٹوتی کی شرح میں اضافہ کیا گیا ہے:

1۔ انکم ٹیکس ریٹرن فائل کرنے والوں کے لیے ٹیکس کٹوتی کی شرح 15%

2۔ انکم ٹیکس ریٹرن فائل نہ کرنے والوں کے لیے ٹیکس کٹوتی کی شرح 20%

کیش ڈیویڈنڈ پر 20% کی بجائے 15% کی شرح سے انکم ٹیکس کی کٹوتی کے لیے ایسے شیئرز ہولڈرز جن کا نام ایف بی آر کی ویب سائٹ میں ایکٹیو ٹیکس پیئرز لسٹ (Active Tax-Payers List - ATL) میں شامل نہیں، چاہے وہ ٹیکس ریٹرن فائلر ہیں، ATL میں اپنے نام کی شمولیت یقینی بنائیں، بصورت دیگر ان کے ڈیویڈنڈ سے 15% کی بجائے 20% کی شرح سے انکم ٹیکس کی کٹوتی کی جائے گی۔

ii۔ ڈیویڈنڈ کی آمدن پر ودہولڈنگ ٹیکس سے اسی صورت مستثنیٰ ہوگی جب ٹیکس سے استثنیٰ کا سرٹیفکیٹ بک کی بندش کے پہلے دن تک FAMCO ایسوسی ایٹس (پرائیویٹ) لمیٹڈ کے دفتر جمع کرا دیا جائے۔

iii۔ مزید برآں، فیڈرل بورڈ آف ریونیو (FBR) کی طرف سے موصول ہونے والی وضاحت کے مطابق ودہولڈنگ ٹیکس کی شرح کا تعین پرنسپل شیئرز ہولڈر اور جوائنٹ ہولڈرز کی صورت میں شیئرز ہولڈرز کے حصے کے تناسب سے "فائلر/نان فائلر" کی بنیاد پر علیحدہ علیحدہ کیا جائے گا۔

ایسی صورت میں جوائنٹ شیئرز میں حصہ دار شیئرز ہولڈرز سے درخواست کی جاتی ہے کہ ہمارے شیئرز رجسٹرار کو پرنسپل شیئرز ہولڈرز اور جوائنٹ ہولڈر(ز) کے تناسب سے آگاہ کریں (اگر پہلے ہی آگاہ نہیں کیا گیا)۔ یہ معلومات مندرجہ ذیل ترتیب سے فراہم کی جائیں:

کمپنی کا نام	فولیو/سی ڈی سی اکاؤنٹ نمبر	کل شیئرز	پرنسپل شیئرز ہولڈر	نام اور CNIC	شیئرز کا تناسب (تعداد)

مذکورہ بالا معلومات ہمارے شیئرز رجسٹرار کے دفتر میں اس نوٹس کے بعد 10 دن کے اندر پہنچ جانی چاہئیں، بصورت دیگر یہ تصور کیا جائے گا کہ تمام شیئرز پرنسپل شیئرز ہولڈر اور جوائنٹ ہولڈر(ز) میں مساوی تقسیم کیے گئے ہیں۔

iv۔ CDC اکاؤنٹس کے حامل کارپوریٹ شیئرز ہولڈرز اپنے متعلقہ شریک کے ساتھ اپنا نیشنل ٹیکس نمبر (NTN) اپ ڈیٹ رکھیں، جبکہ کارپوریٹ فزیکل شیئرز ہولڈرز اپنے این ٹی این سرٹیفکیٹ کی نقل کمپنی یا FAMCO ایسوسی ایٹس (پرائیویٹ) لمیٹڈ کے دفتر میں جمع کروائیں۔ شیئرز ہولڈرز اپنا این ٹی این یا این ٹی این سرٹیفکیٹ، جو بھی لاگو ہے، بھیجتے ہوئے کمپنی کا نام اور اپنا فولیو نمبر درج کریں۔

6۔ زکوٰۃ کی کٹوتی

زکوٰۃ کی لازمی کٹوتی سے استثنیٰ کے لیے شیئرز ہولڈرز زکوٰۃ سے استثنیٰ کا فارم (Zakat Declaration Form "CZ-50") 50 روپے کے سٹیمپ پیپر پر نوٹری پبلک سے تصدیق کروا کر کمپنی کے شیئرز رجسٹرار کو جمع کرائیں۔

7۔ ای ووٹنگ

ممبر کمپنیز ایکٹ 2017 کی شق 143-145 اور کمپنیز ریگولیشن 2018 کی متعلقہ شقوں (پوسٹل بیلٹ) کے تحت ووٹنگ کا مطالبہ کرنے کا حق استعمال کر سکتے ہیں۔

8۔ ویڈیو لنک کی سہولت

کمپنیز ایکٹ 2017 کی شق 134(1)(b) اور SECP کے سرکلر 2014 نمبر 10 بتاریخ 21 مئی 2014 کے تحت اگر کمپنی کو سالانہ اجلاس عام سے کم از کم 10 دن قبل کسی جغرافیائی مقام پر موجود ایسے ممبران سے جو مجموعی طور پر 10% یا اس سے زائد شیئرز رکھتے ہوں، ویڈیو کانفرنس کے ذریعے اجلاس میں شریک ہونے کی درخواست موصول ہو تو کمپنی اس شہر میں ویڈیو کانفرنس کی سہولت کا بندوبست کرے گی، بشرطیکہ شہر میں یہ سہولت موجود ہو۔ اس سہولت سے فائدہ اٹھانے کے لیے مندرجہ ذیل معلومات شیئرز رجسٹرار کو فراہم کی جائیں:

"میں/ہم، بحیثیت ممبر پاکستان ٹوبیکو کمپنی لمیٹڈ، مالک ______ عام شیئرز، رجسٹرڈ فولیو نمبر ______ شہر (شہر کا نام) میں ویڈیو کانفرنس کی سہولت فراہم کیے جانے کا/کے خواہشمند ہوں/ہیں۔"

9۔ پتے میں تبدیلی

ممبرز سے درخواست کی جاتی ہے کہ اپنے پتے میں تبدیلی کی صورت میں فی الفور آگاہ کریں۔ فزیکل شیئرز رکھنے والے ممبران پتے میں تبدیلی کی اطلاع کمپنی کے شیئرز رجسٹرار کو دیں۔

CDC کے ساتھ الیکٹرانک فارم میں شیئرز رکھنے والے ممبرز سے گزارش ہے کہ وہ CDC یا اپنا اکاؤنٹ مرتب کرنے والے پتے میں تبدیلی کی اطلاع اکاؤنٹ چلانے والے (فرد یا ادارے) کو دیں۔

10۔ رابطے کی معلومات:

کمپنی دفتر کا پتہ: کمپنی سیکرٹری، پاکستان ٹوبیکو کمپنی لمیٹڈ، سرینا بزنس کمپلیکس، خیابان سہروردی، اسلام آباد
فون 051-2083200

شیئرز رجسٹرار: FAMCO ایسوسی ایٹس (پرائیویٹ) لمیٹڈ، 8۔ایف، متصل ہوٹل فاران، نرسری، بلاک 6، پی ای سی ایچ ایس، شاہراہ فیصل، کراچی۔ فون 021-34380101-5۔ ای میل ایڈریس info.shares@famco.com.pk

اطلاع برائے سالانہ اجلاس عام

یہ اطلاع دی جاتی ہے کہ پاکستان ٹوبیکو کمپنی لمیٹڈ ("کمپنی") کا اکہترواں (71واں) سالانہ اجلاس عام (اینول جنرل میٹنگ) بروز جمعہ 20 اپریل 2018 صبح 10:30 سرینا ہوٹل، خیابان سہروردی، اسلام آباد میں منعقد ہوگا۔ اجلاس کا ایجنڈا ذیل میں دیا جا رہا ہے:

معمول کے معاملات:

1۔ 31 دسمبر 2017 کو ختم ہونے والے سال کے آڈٹ کردہ اکاؤنٹس اور ان پر ڈائریکٹرز اور آڈیٹرز کی رپورٹ وصول کرنا، ان پر غور کرنا اور منظور کرنا

2۔ بورڈ کی طرف سے سال 2017 کے لیے حتمی طور پر تجویز کردہ ڈیویڈنڈ منظور کرنا

3۔ آڈیٹرز کی تقرری اور ان کے لیے معاوضے کا تعین

بحکم بورڈ

ایم اویس احمد

کمپنی سیکرٹری

اسلام آباد: 27 مارچ 2018

نوٹ:

1۔ شیئرز ٹرانسفر بکس کی بندش

کمپنی کی شیئرز ٹرانسفر بکس 14 اپریل 2018 سے 20 اپریل 2018 (بشمول دونوں دن) بند رہیں گی۔ کمپنی کے شیئرز رجسٹرار FAMCO ایسوسی ایٹس (پرائیویٹ) لمیٹڈ، 8۔ایف، متصل ہوٹل فاران، نرسری، بلاک 6، پی ای سی ایچ ایس، شاہراہ فیصل، کراچی میں 13 اپریل 2018 کو کاروباری یوم کے اختتام سے قبل موصول ہونے والے ٹرانسفرز بروقت قرار پائے ہوئے ووٹ دینے اور ڈیویڈنڈ موصول کرنے کے اہل ہوں گے۔

2۔ سالانہ اجلاس عام میں شرکت

کمپنی کا وہ ممبر جو کمپنی کے سالانہ اجلاس میں شرکت کرنے اور ووٹ دینے کا اہل ہو، اپنا نمائندہ مقرر کر سکتا ہے۔ اس نمائندے کو ممبر کی طرف سے اجلاس میں شرکت کرنے، متعلقہ بیان کرنے اور ووٹ دینے کا اختیار ہوگا۔ پراکسی فارم (نمائندہ مقرر کرنے کا فارم) اجلاس کے لیے مقررہ وقت (20 اپریل 2018 صبح 10:30 بجے) سے کم از کم 48 گھنٹے قبل کمپنی کے شیئرز رجسٹرار کے دفتر میں پہنچ جانا لازمی ہے۔ 48 گھنٹوں کی مہلت کے بعد موصول ہونے والے فارم مسترد کر دیئے جائیں گے۔

سنٹرل ڈیپازٹری کمپنی آف پاکستان میں شیئرز رکھنے والے ممبران کی اجلاس میں شرکت مندرجہ ذیل شرائط پر ہوگی۔

(اے) بذات خود:

i۔ انفرادی ممبر اپنے ہمراہ اجلاس کا شناختی نمبر اور اکاؤنٹ (ذیلی اکاؤنٹ نمبر) اور اس کے ساتھ اصل کمپیوٹرائزڈ قومی شناختی کارڈ (CNIC) یا پاسپورٹ ہمراہ لائیں

ii۔ کارپوریٹ ادارے کی صورت میں بورڈ آف ڈائریکٹرز کی قرارداد یا پاور آف اٹارنی، جس پر نامزد فرد کے دستخط موجود ہوں۔

(بی) نمائندے کی صورت میں:

i۔ انفرادی ممبر کی صورت میں نوٹ نمبر 2 کے مطابق پراکسی فارم جمع کرایا جائے۔

ii۔ پراکسی فارم پر دو گواہوں کے نام، پتے اور CNIC نمبر درج کرنا لازمی ہے۔

iii۔ پراکسی فارم کے ہمراہ اصل ممبر اور مقرر کردہ نمائندے کے CNIC یا پاسپورٹ کی تصدیق شدہ نقول فراہم کرنا لازمی ہے۔

iv۔ کارپوریٹ ادارہ ہونے کی صورت میں، بورڈ آف ڈائریکٹرز کی قرارداد یا پاور آف اٹارنی، جس پر ان کے دستخط بھی موجود ہوں، پراکسی فارم کے ہمراہ کمپنی کو فراہم کرنا لازمی ہے۔

v۔ اجلاس کے وقت مقرر کردہ نمائندہ اپنا اصل CNIC یا پاسپورٹ پیش کرے گا۔

3۔ CNIC / این ٹی این کی تفصیل جمع کرانا (لازمی)

قوانین و ضوابط کے مطابق CNIC نمبر / این ٹی این تفصیلات کمپنی کے پاس جمع کرانا لازمی ہے جنہیں فیڈرل بورڈ آف ریونیو (FBR) کی طرف سے جاری کردہ ایکٹو ٹیکس پیئرز لسٹ (ATL) کے مطابق ٹیکس حیثیت چیک کرنے کے لیے استعمال کیا جائے گا۔

پس، تمام ممبران، بشمول فزیکل شیئرز رکھنے والے جوائنٹ شیئر ہولڈرز سے درخواست ہے کہ کمپنی یا اس کے رجسٹرار کو اپنے قابل استعمال CNIC کی نقل جلد از جلد جمع کرائیں (اگر پہلے سے جمع نہیں کرائی گئی)۔ انفرادی ممبران کے علاوہ دیگر شیئر ہولڈرز کے ناموں کی جانچ پڑتال ان کے این ٹی این نمبروں کے ذریعے کی جائے گی۔ لہٰذا CDC اکاؤنٹ رکھنے والے کارپوریٹ شیئر ہولڈرز سے گزارش ہے کہ اپنا این ٹی این سرٹیفکیٹ اپنے متعلقہ شریک CDC کے پاس جلد از جلد جمع کرائیں تاکہ بکس کی بندش سے قبل ATL میں ان کے ناموں کی موجودگی کی جانچ پڑتال کی جا سکے۔ جبکہ فزیکل شیئرز رکھنے والے کارپوریٹ شیئر ہولڈرز اپنے این ٹی این سرٹیفکیٹ کی نقل کمپنی کو یا اس کے رجسٹرار کو بھیجیں۔ شیئر ہولڈرز اپنا CNIC یا این ٹی این سرٹیفکیٹ، جو بھی لاگو ہے، بھیجتے ہوئے اپنا فولیو نمبر ضرور درج کریں۔

قابل استعمال CNIC کی نقل موصول نہ ہونے کی صورت میں کمپنیز ایکٹ 2017 کی شق 243(3) کے تحت کمپنی ایسے شیئر ہولڈرز کا ڈیویڈنڈ روک سکتی ہے۔

4۔ ڈیویڈنڈ / الیکٹرانک کریڈٹ مینڈیٹ (لازمی)

کمپنیز ایکٹ 2017 کی شق 242 کے مطابق لسٹڈ کمپنی کے لیے لازمی ہے کہ وہ اپنے شیئر ہولڈرز کو ڈیویڈنڈ الیکٹرانک طریقے سے صرف اس بینک اکاؤنٹ کے ذریعے ادا کرے جو شیئر ہولڈر(ز) نے کمپنی کو فراہم کیا ہو ("بینک اکاؤنٹ")۔

پس، فزیکل شیئرز رکھنے والے شیئر ہولڈرز سے گزارش ہے کہ ہماری ویب سائٹ (www.ptc.com.pk) پر موجود "الیکٹرانک کریڈٹ مینڈیٹ فارم" پُر کر کے اپنے قابل استعمال CNIC یا مندرجہ ذیل معلومات کے ہمراہ کمپنی کے رجسٹرار ممبر FAMCO ایسوسی ایٹس (پرائیویٹ) لمیٹڈ، 8۔ایف، متصل ہوٹل فاران، نرسری، بلاک 6، پی ای سی ایچ ایس، شاہراہ فیصل، کراچی کو 13 اپریل 2018 تک مہیا کریں۔

فولیو نمبر ______________________________

شیئر ہولڈر کا نام ______________________________

بینک اکاؤنٹ کا ٹائٹل ______________________________

انٹرنیشنل بینک اکاؤنٹ (IBAN) (24 ہندسوں پر مشتمل) ______________________________

بینک کا نام ______________________________

بینک برانچ کا نام اور پتہ ______________________________

شیئر ہولڈر کا موبائل فون نمبر ______________________________

شیئر ہولڈر کا لینڈ لائن فون نمبر ______________________________

CNIC / این ٹی این نمبر، کارپوریٹ ادارہ ہونے کی صورت میں (نقل منسلک کریں) ______________________________

ممبر کے دستخط ______________________________

FORM OF **PROXY**

Pakistan Tobacco Company Limited

I/We ____

of ____

being a member of Pakistan Tobacco Company Limited, holder of ____________________________________

Ordinary Share(s) as per Register Folio No. ____________________ hereby appoint Mr./Ms. ____________________

Folio No. (if member) ____________________________ of ____

or failing him Mr./Ms____________________________ Folio No. (if member) ______________________________

as my/our proxy in my/our absence to attend and vote for me/us, and on my/our behalf at the 71st Annual General Meeting of the Company to be held on the 20th April, 2018 and at any and every adjournment thereof.

Signed under my/our hand this ________________________ day of ____________________, 2018.

Revenue Stamp
Rs 5/=

Signed ______________________________

Witnesses:

1. ______________________________

____

____

2. ______________________________

____

____

NOTE:

a. The signature should match with the specimen signature registered with the Company.

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

c. Proxy Forms properly completed should be deposited at the office of the Company's Share Registrar, FAMCO Associates (Pvt.) Ltd, 8-F, next to Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi, not later than 48 hours before the time for holding the Meeting or adjourned Meeting and in default the instrument of proxy shall not be treated as valid.

For Beneficial Owners as per CDC List

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

a. 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.

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

c. The proxy shall produce his/her original CNIC or Passport at the time of the Meeting.

d. 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.

PAKISTAN TOBACCO COMPANY

پراکسی فارم

میں/ہم........................ از ....رکن پاکستان ٹوبیکو کمپنی لمیٹڈ،

ملکیتی .... عام شیئر(ز)، رجسٹر فولیو نمبر .... ، محترم/محترمہ .... ،

فولیو نمبر (اگر رکن ہو) .... از .... یا بطور متبادل،

محترم/محترمہ .... ، فولیو نمبر (اگر رکن ہو) .... کو

اپنی غیر موجودگی میں20 اپریل2018، اور اس کی کمی بھی اور تمام تبدیل شدہ تاریخ کو ہونے والے کمپنی کے71ویں سالانہ اجلاسِ عام میں شرکت کرنے اور ووٹ دینے کے لیے اپنا نمائندہ مقرر کرتا/کرتی ہوں/کرتے ہیں۔

بتاریخ .... (دن/مہینہ)2018 کو میرے/ہمارے دستخطوں سے نافذ العمل ہے۔

دستخط ....

ٹکٹ

مبلغ5.00 روپے

گواہان:

1. ____________________ 2. ____________________

____________________ ____________________

____________________ ____________________

نوٹ:

a. دستخط کمپنی کے ریکارڈ میں موجود دستخط سے مشابہ ہونے چاہییں۔

b. پراکسی کے لیے کمپنی کا رکن ہونا ضروری نہیں۔

c. مکمل شدہ فارم کمپنی کے شیئر رجسٹرار FAMCO ایسوسی ایٹس پرائیویٹ لمیٹڈ،F-8، متصل ہوٹل فاران، نرسری، بلاک6، پی ای سی ایچ ایس، شاہراہِ فیصل، کراچی میں اجلاس کی مقررہ تاریخ یا التوا کی صورت میں تبدیل شدہ تاریخ سے کم از کم48 گھنٹے قبل جمع کرائے جائیں۔ ایسا نہ کرنے کی صورت میں پراکسی فارم قابلِ قبول نہیں ہوں گے۔

سی ڈی سی فہرست کے مطابق بینیفشل اونرز کے لیے

مذکورہ بالا شرائط کے ساتھ، ذیل میں دی گئی شرائط پر پورا اترنا بھی لازمی ہے:

a. بینیفشل اونر اور پراکسی کے کمپیوٹرائزڈ قومی شناختی کارڈ یا پاسپورٹ کی تصدیق شدہ نقول اجلاس سے کم از کم 48 گھنٹے قبل کمپنی کے شیئر رجسٹرار کے پاس جمع کرانا لازمی ہے۔

b. پراکسی فارم پر دو گواہان کے نام، پتے اور کمپیوٹرائزڈ شناختی کارڈ نمبر درج کریں۔

c. پراکسی کو اجلاس کے موقع پر اپنا اصل کمپیوٹرائزڈ قومی شناختی کارڈ یا پاسپورٹ دکھانا ہو گا۔

d. کاروباری ادارہ ہونے کی صورت میں بورڈ آف ڈائریکٹرز کی طرف سے جاری کردہ دستخط شدہ پاور آف اٹارنی پراکسی فارم کے ہمراہ کمپنی کے شیئر رجسٹرار کو جمع کرانا لازمی ہے۔

GLOSSARY AND **DEFINITION**

Acid Test Ratio:

The ratio of liquid assets to current liabilities.

AGM:

Annual General Meeting - A mandatory, public yearly gathering of a publicly traded company's executives, directors and interested shareholders.

Amortisation:

To charge a regular portion of an expenditure over a fixed period of time.

AmSSA:

Americas & Sub-Saharan Africa

APME:

Pacific & Middle East

APL:

Approved product List

ATL:

Active Tax-payers List

BAT:

British American Tobacco

BAU:

Business as Usual

BCM:

Business Continuity Management

CnC:

Conditioning and classifying

CNIC:

Computerized National Identity Card

CPM:

Cigarettes per Minute

CSR:

Corporate Social Responsibility

Current Ratio:

The current ratio indicates a company's ability to meet short-term debt obligations.

Debt-to-Equity Ratio:

The ratio found by dividing total debt by the equity (all assets minus debts) held in stock (This is a measure of financial risk).

Dividend Payout Ratio:

The ratio found by dividing the annual dividends per share by the annual earnings per share.

EBITDA:

Earnings before Interest, Taxes, Depreciation and Amortization.

EH&S:

Environment, Health & Safety

ENA:

Europe & North Africa

ERP:

Enterprise Resource Planning

FBR:

Federal Board of Revenue

Fiscal Deficit:

Fiscal deficit occurs when a government's total expenditure exceeds the revenue that it generates, excluding money from borrowings.

GC:

General Control

Gearing Ratio:

Compares some form of owner's equity (or capital) to borrow funds.

GENA:

Global Enterprise Network Architecture

GLT:

Green Leaf Threshing

HR & RC:

Human Resource and Remuneration Committee.

IASB:

International Accounting Standards Board.

IFRIC:

International Financial Reporting Issues Committee.

IFRS:

International Financial Reporting Standard.

IREN:

Inland Revenue Enforcement Network

ISO:

International organization for standardization

ITC:

Imperial Tobacco Company Limited

IWS:

Integrated Work System

KPK:

Khyber Pakhtunkhwa

KIBOR:

Karachi Inter Bank Offer Rate.

MDUs:

Mobile Doctor Units

MoU:

Memorandum of Understanding

MRP:

Material Requirement Planning

Net Working Capital:

Current assets minus current liabilities.

NFEH:

National Forum for Environment and Health

NGPs:

Next Generation Products

NHA:

National Highways Authority

NRSP:

National Rural Support Program

NTN:

National Tax Number

OEE:

Optimum Equipment Efficiency

OEE:

Overall equipment effectiveness

Operating Cycle:

The average time between purchasing or acquiring inventory and receiving cash proceeds from its sale.

Earnings Per Share: Earnings found by dividing the net income of the Company by the number of shares of common outstanding stock.

Price-Earnings Ratio (P/E):

The ratio found by dividing market price per share by earnings per share (This ratio indicates what investors think of the firm's earnings' growth and risk prospects).

PTC:

Pakistan Tobacco Company

RAI:

Reynolds American Inc.

Return on Equity (ROE):

The value found by dividing the Company's net income by its net assets (ROE measures the amount a company earns on investments).

RMC:

Risk Management Committee

R&RS:

Spare Inventory and Durations System

R&RS:

Repair and Renewals

RTM:

Route to Market

SoBC:

Standards of Business Conduct

Spread:

Rate charged by the bank over KIBOR.

SRTP:

Social Responsibility in Tobacco Production

STP:

Sustainable Tobacco Program

TaO:

Target Operating Model and OneSAP

TM&D:

Trade Marketing & Distribution

TOM:

Target Operating Model

TSS:

Technical Security Standards

VBPs:

Valued Business Partners.

VC:

Video Conferencing

VFM:

Value for Money

VRB:

Voucher Record Book

THE ANNUAL REPORT
2017 TEAM

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