PHILIP MORRIS (PAKISTAN) LIMITED

PHILIP MORRIS INTERNATIONAL

2012 Annual Report

PHILIP MORRIS (PAKISTAN) LIMITED

Annual Report December 31, 2012

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Corporate Information

BOARD OF DIRECTORS

ARPAD KONYE (Chairman & Chief Executive)
NICOLAS FLOROS
ANDREAS FRANZ KURALI
JOSEPH ZIOMEK
CHARLES BENDOTTI
MUJTABA HUSSAIN
ASMER NAIM

COMPANY SECRETARY

MUJTABA HUSSAIN

AUDIT COMMITTEE

ANDREAS FRANZ KURALI (Chairman)
CHARLES BENDOTTI
MUJTABA HUSSAIN
ASMER NAIM

HUMAN RESOURCE AND REMUNERATION COMMITTEE

CHARLES BENDOTTI (Chairman)
ARPAD KONYE
ANDREAS FRANZ KURALI
LUBOV GOUSKOVA - Secretary

AUDITORS

A.F. FERGUSON & CO.
Chartered Accountants

Website : www.philipmorrispakistan.com.pk
Email : pmpk.info@pmi.com

BANKERS

UNITED BANK LIMITED
BARCLAYS BANK PLC, PAKISTAN
STANDARD CHARTERED BANK PAKISTAN LIMITED
MCB BANK LIMITED
HABIB BANK LIMITED
CITIBANK N.A.
DEUTSCHE BANK A.G.
NATIONAL BANK OF PAKISTAN

REGISTERED OFFICE

19TH FLOOR, THE HARBOUR FRONT, DOLMEN CITY
HC-3, BLOCK-4, CLIFTON, KARACHI-75600

FACTORIES

1. PLOT NO 20, SECTOR NO. 17
   KORANGI INDUSTRIAL AREA, KARACHI
   (Closed)

2. PLOT NO. 14-17, EXPORT
   PROCESSING ZONE, KARACHI.

3. E/15, S.I.T.E., KOTRI
   DISTT. DADU (SINDH)

4. QUADIRABAD
   DISTT. SAHIWAL

5. VILLAGE: MANDRA
   TEH : GUJJAR KHAN
   DISTT. RAWALPINDI

6. ISMAILA
   DISTT. SWABI

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 44th Annual General Meeting of **PHILIP MORRIS (PAKISTAN) LIMITED** will be held on Monday, April 15, 2013 at 11.00 a.m., at Avari Renaissance Towers Hotel, Fatima Jinnah Road, Karachi to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited financial statements for the year ended December 31, 2012 together with the Directors' and Auditor's Reports thereon.

2. To appoint auditor and fix their remuneration.

The retiring auditor M/s A. F. Ferguson & Co. Chartered Accountants has given their consent to act as auditor of the company for the year ending December 31, 2013.

By Order of the Board

MUJTABA HUSSAIN
Director & Company Secretary

Karachi: March 20, 2013

NOTES:

1. The share transfer books of the Company will remain closed from April 8, 2013 to April 15, 2013 (both days inclusive). Transfers received in order at the Office of the Company's share Registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.1-A, 1st Floor, Wallace Road, Off I.I. Chundrigar Road, Karachi up to April 5, 2013 will be considered in time to be eligible to attend the meeting.

2. A member who has deposited his/her shares into central Depository Company of Pakistan Limited, must bring his/her 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.

3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her. In case of corporate entity, the Board of Directors' Resolution/ Power of Attorney with specimen signatures shall be submitted with the proxy form to the Company.

4. Forms of proxy to be valid must be received at the Share Registrar's office not later than 48 hours before the time of the meeting.

5. Members are requested to notify the Share Registrar of the Company promptly of any change in their addresses.

6. Members who have not yet submitted photocopy of their Computerized National Identity Cards and information relating to Dividend Mandate to the Company's Registrar are requested to send the same at the earliest.

7. A form of proxy is enclosed herewith.

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No 35 of listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

Category	Names
Independent Directors	None
Executive Directors	Arpad Konye Joseph Ziomek Asmer Naim Mujtaba Hussain
Non-Executive Directors	Andreas Franz Kurali Nicolas Floros Charles Bendotti

The provisions of clause i (b) of the CCG in relation to independent director shall be applicable at the time of next election of directors in September, 2014.

2. The directors have confirmed that none of them is serving as a director on more than ten listed companies, including this company, which shall be restricted upto seven listed companies pursuant to next elections in September, 2014.

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

4. Four casual vacancies occurring on the board during the year were filled up by the directors within 90 days.

5. The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

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

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

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

9. During the year, the directors remained compliant with the provision with regard to their training program and one of the directors has also received 'Certificate of Director Education' issued by the Pakistan Institute of Corporate Governance.

Statement of Compliance with the Code of Corporate Governance

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 four members, of whom two are non-executive directors and the chairman of the committee is a non-executive director. The provisions of clause xxiv of the CCG in relation to independent director shall be applicable at the time of next election of directors in September, 2014.

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, of whom two are non-executive directors and the chairman of the committee is a non-executive director.

18. The board has set up an effective internal audit function and personnel involved 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 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 exchanges.

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

23. We confirm that all other material principles enshrined in the CCG have been complied with.

ARPAD KONYE
Chairman & Chief Executive

Karachi: March 12, 2013

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2012 prepared by the Board of Directors of Philip Morris (Pakistan) Limited (the company) to comply with the Listing Regulation No. 35 of Karachi and Lahore Stock Exchanges where the company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all the risks and controls or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

Further, Sub-Regulation (x) of Listing Regulation 35 of Karachi and Lahore Stock Exchanges requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of the related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2012.

A.F. FERGUSON & CO.
CHARTERED ACCOUNTANTS

KARACHI: March 20, 2013

FOR THE YEAR ENDED DECEMBER 31, 2012

On behalf of the Board of Directors of Philip Morris (Pakistan) Limited, (the "Company") I am pleased to present the Directors' Report along with the Audited Financial Statements of the Company for the year ended December 31, 2012.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2012 in comparison with the previous year is as follows:

	Year ended December 31, 2012 (Rs million)	%	Year ended December 31, 2011 (Rs million)	%
Gross Turnover	**35,553**	**100.00**	31,927	100.00
Gross Profit	**3,808**	**10.71**	2,698	8.45
Operating Loss	**(172)**	**(0.48)**	(92)	(0.29)
Loss before tax	**(635)**	**(1.79)**	(531)	(1.66)
Loss after tax	**(583)**	**(1.64)**	(455)	(1.43)

In 2012, the gross turnover increased by 11.4% while gross profit increased by 41.1%. This year-on-year increase is primarily attributable to higher sales of 262 million cigarettes and increased margin resulting from price increases in June 2012. The non-tax paid tobacco industry continues to adversely impact the Company's profitability resulting in a net loss for the period. Non-tax paid tobacco brands are increasingly damaging the Company, and the legitimate industry as a whole, as excise tax-driven price increases provide non-tax paid products with an increasingly unfair competitive advantage.

The Company's loss per share was Rs. 9.46 in 2012 as compared to a loss per share of Rs 7.39 in 2011.

OPERATIONAL CAPACITY

The Company continued to actively invest in its operational capabilities and, as such, increased its investment in property, plant and equipment to Rs. 1,896 million in 2012, an increase of 147% versus 2011. These investments are primarily made under the umbrella of a comprehensive project of modernizing manufacturing facilities and equipments, safeguarding assets through warehousing upgrades and achieving overall improvements in productivity and product quality. The investments are planned to continue over the next 2 years. These investment and expansion plans show the Company's belief in prospects for future growth once the prevalence of non-tax paid products is addressed by the relevant authorities.

DIVIDEND

In view of the company's operating loss for the year and investment plans, the directors have recommended no dividend /payout for the year 2012.

APPROPRIATION OF PROFIT

The (Loss) / profit for the year, along with distributable profit at year end, have been appropriated as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
	(Rs '000)	
Operating Loss	**(172,296)**	(91,979)
Loss after tax	**(582,755)**	(454,806)
Accumulated (Loss) / profit brought forward	**(451,863)**	2,943
Loss available for appropriation	**(1,034,618)**	(451,863)
Appropriations:		
Proposed cash dividend	**Nil**	Nil
Transfer to general reserve	**Nil**	Nil
Un-appropriated Loss carried forward	**(1,034,618)**	(451,863)
Basic Loss Per Share (Rs)	**(9.46)**	(7.39)

MATERIAL CHANGES AND COMMITMENTS

During the period between the end of the financial year 2012 and the date of this report, no changes and commitments which materially affect the financial position of the Company have occurred.

CONTRIBUTION TO THE NATIONAL EXCHEQUER

The Company continues to contribute substantially to the annual government's revenues. In 2012, the Company contributed Rs 23.3 billion to the national Exchequer in the form of Federal Excise Duties, Custom Duties, Sales Tax and Income Tax, which represents a 12% increase compared to 2011. The government revenues are negatively affected by the strength and growth of the non-tax paid market. We actively support all efforts by the government to enforce regulation to stop illicit trade, thereby establishing a level playing field for the overall tobacco industry and benefitting the National Exchequer.

CORPORATE SOCIAL RESPONSIBILITY

In developing countries there is a greater need than ever for organizations, employees, communities and public officials to work together to address social issues as effectively and efficiently as possible, especially when community needs are acute.

The Company values the importance of working together with its employees and with all other stakeholders in this area. Due to such collaboration, the Company reached significant milestones in 2012, including:

- installation of 75 hand-pumps benefiting more than 6,400 community members;
- reforestation by the distribution of more than 1,000,000 saplings;
- rehabilitation of 16 schools that resulted in increasing school enrollment by 15%;
- benefiting more than 59,000 farmer community members through a mobile health unit project;
- reaching out to domestic violence burn victims by funding reconstructive surgery to 29 individuals; and
- benefiting more than 600 individuals via sanitation and hygiene projects.

The Company will continue with its focused and sustainable charitable programs to benefit local communities and increase employees' engagement in its various initiatives in the coming years.

CODE OF CORPORATE GOVERNANCE

The Company's Directors are committed to adhere to the highest standards of corporate governance. As such, in 2012, the Company continued to take steps to comply with the requirements of the Code of Corporate Governance as required by the Securities & Exchange Commission of Pakistan (SECP).

As required under the above Code of Corporate Governance, the Directors are pleased to report that:

- The financial statements prepared by the management of the Company represent fairly its state of affairs, the results of its operations, cash flows and changes in its equity;

- Proper books of accounts of the Company have been maintained;

- Appropriate accounting policies have been applied consistently in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment;

- Approved accounting standards, as applicable in Pakistan, have been followed in preparation of all financial statements;

- The Company's system of internal controls is sound in design and has been effectively implemented and is continuously reviewed;

- There are no significant doubts upon the Company's ability to continue as a going concern;

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

- A summary of the key financial highlights for the year and of the assets and liabilities of the Company as of December 31, 2012 and for the last six financial periods are set out on page number 53 and

- Information about taxes and levies is given in the corresponding notes in the financial statements.

STATEMENT OF INTERNAL CONTROLS

Management of the Company is responsible for establishing and maintaining a system of adequate internal controls and procedures. Management's statement of internal controls forms part of this Annual Report.

INVESTMENTS IN RETIREMENT FUNDS

The value of investments made by the employees' retirement funds operated by the Company as per their audited financial statements is as follows:

	Rs million	
Provident Fund	858	(Financial statements audited as of December 31, 2011)
Gratuity Fund	388	(Financial statements audited as of December 31, 2011)

HOLDING COMPANY

Philip Morris Investments B.V. (Formerly Park 1989 B.V.) is the holding company of the Company and is incorporated in Holland.

BOARD OF DIRECTORS MEETINGS

During 2012, the Board of Directors held meetings prior to the publication of each quarterly financial results. The attendance of Directors in those meetings is documented and provided here under:

Name of Directors	No. of meetings attended
Mr. Arpad Konye	4
Mr. Paul Norman Janelle	1
Mr. Nicolas Floros	2
Mr. Andreas Franz Kurali	1
Mr. Joseph Ziomek	2
Ms. Eunice Hamilton	1
Mr. Charles Bendotti	-
Mr. David Charles Abbott	2
Mr. Asmer Naim	1
Mr. Mujtaba Hussain	4

Leaves of absence were granted to the Directors who could not attend the Board meetings.

CHANGES IN BOARD OF DIRECTORS

During the year under review, four Directors M/s. Muhammad Farooq Shakoor, Paul Norman Janelle, David Charles Abbott and Ms. Eunice Hamilton resigned from the Board of Directors and M/s. Mujtaba Hussain (effective February 1, 2012), Andreas Franz Kurali (effective August 1, 2012) Joseph Ziomek (effective August 27, 2012), and Charles Bendotti (effective November 1, 2012) were appointed as successors respectively.

BOARD AUDIT COMMITTEE

The Audit Committee performs according to the terms of reference determined by the Board of Directors of the Company and which conforms to the requirements of the Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan.

The Audit Committee is comprised of four members, of which two are non-executive Directors. A total of five meetings were held during the year.

CHANGES IN AUDIT COMMITTEE COMPOSITION

During the year under review, three members M/s. Muhammad Farooq Shakoor, Paul Norman Janelle and Ms. Eunice Hamilton resigned from the Audit Committee and M/s. Mujtaba Hussain (effective February 1, 2012), Andreas Franz Kurali (effective August 1, 2012) and Charles Bendotti (effective November 1, 2012) were appointed as successors respectively.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

After the promulgation of revised Code of Corporate Governance the Human Resource and Remuneration Committee was formed and three members were elected including the Chairman of the Committee, of which two are non-executive Directors. After formation of the Committee, Ms. Eunice Hamilton, Chairman of the Committee resigned and her successor was appointed, effective November 1, 2012. At present following members are acting as member of the Committee.

1. Charles Bendotti - Chairman
2. Andreas Franz Kurali - Member
3. Arpad Konye - Member
4. Ms. Lubov Gouskova - Secretary

During 2012, one meeting has been held by the Committee.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2012 is included further in this Annual Report as per the requirements of the Code of Corporate Governance.

AUDITORS

The current external auditors, A. F. Ferguson & Co., Chartered Accountants will retire at the conclusion of the ensuing Annual General Meeting and, being eligible offer themselves for re-appointment as external auditors for the year ending December 31, 2013. Members are requested to appoint them as auditors and validate their remuneration.

ACCOUNTING POLICIES

The Company has adopted or applied new accounting standards, amendments to approved standards and new interpretations during 2012. Details of those are provided in the Notes to the Financial Statements section 2.2.1.

COMPANY'S FOCUS

The Company is a fully integrated affiliate of Philip Morris International Inc. and as such benefits from global resources and expertise to help further improve its effectiveness and long term sustainability and profitability.

The Company's Directors and management continue to be focused on delivering such long term shareholder value through improvements in all aspects of the Company's operations. This includes, and is not limited to, innovative product offering, enhanced product quality, improved manufacturing practices and facilities, development of human resources and continued emphasis on effectively managing the cost base.

NON-TAX PAID PRODUCTS

The Company is increasingly negatively affected by the prevalence of non-tax paid tobacco products in Pakistan. The detrimental implications of a growing non-tax paid market extend not only to the Company but to the legitimate industry as a whole and materially reduce government's revenues. The Company supports the government's efforts to enforce regulation in this area and thereby secure a necessary level playing field for the overall tobacco industry as well as benefit the national exchequer.

ACKNOWLEDGEMENTS

The Directors wish to take this opportunity to thank all the Company's employees for their efforts, dedication, commitment and support in 2012.

The Board of Directors would also like to extend its appreciation to all its business partners such as distributors, suppliers, shareholders and other institutions for their trust in the management of the Company.

On behalf of the Board of Directors

ARPAD KONYE
Chairman and Chief Executive

Karachi: March 12, 2013

Auditors' Report to the Members

We have audited the annexed balance sheet of Philip Morris (Pakistan) Limited as at December 31, 2012 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion-

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2012 and of the loss, its changes in equity and cash flows for the year then ended; and

(d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

AFFerguson&Co-

A.F. FERGUSON & CO.
Chartered Accountants
Audit Engagement Partner : Tahir Sharif

Karachi: March 20, 2013

Balance Sheet as at December 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
FIXED ASSETS			
Property, plant and equipment	3	**5,352,956**	3,941,452
Intangible	4	**33,146**	1,750
		5,386,102	3,943,202
Investment in a subsidiary company	5	**1**	1
Long term loans	6	**-**	17
Long term deposits and prepayments	7	**41,347**	57,354
Deferred taxation	8	**6,887**	-
		5,434,337	4,000,574
CURRENT ASSETS			
Stores and spares - net	9	**523,667**	361,615
Stock in trade - net	10	**6,841,159**	6,776,689
Trade debts - net	11	**195,376**	210,781
Loans and advances	12	**75,970**	70,280
Prepayments		**172,205**	148,218
Other receivables	13	**54,356**	116,109
Income tax - net		**441,844**	533,810
Cash and bank balances	14	**17,373**	28,088
		8,321,950	8,245,590
		13,756,287	12,246,164
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital	15	**1,000,000**	1,000,000
Issued, subscribed and paid-up capital	15	**615,803**	615,803
Reserves		**6,371,900**	6,399,238
Unappropriated loss		**(1,034,618)**	(451,863)
		5,953,085	6,563,178
NON CURRENT LIABILITIES			
Deferred taxation	8	**-**	221,000
CURRENT LIABILITIES			
Short term borrowings	18	**4,923,921**	2,810,170
Trade and other payables	19	**2,090,449**	1,117,395
Accrued mark-up on short term borrowings		**70,231**	82,586
Sales tax and excise duty payable		**718,601**	1,451,835
		7,803,202	5,461,986
		13,756,287	12,246,164
CONTINGENCIES AND COMMITMENTS	20		

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

Karachi: March 12, 2013

ARPAD KONYE
Chairman & Chief Executive

JOSEPH ZIOMEK
Director

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
Gross turnover		**35,552,536**	31,926,667
Less: Sales tax		**5,036,626**	4,568,921
Excise duty		**16,964,741**	15,140,587
Turnover - net of sales tax and excise duty		**13,551,169**	12,217,159
Cost of sales	21	**9,743,218**	9,519,185
Gross profit		**3,807,951**	2,697,974
Distribution and marketing expenses	22	**2,808,927**	1,877,952
Administrative expenses	23	**1,171,320**	912,001
		3,980,247	2,789,953
Operating loss		**(172,296)**	(91,979)
Other expenses	24	**164,945**	152,247
		(337,241)	(244,226)
Other income	25	**32,334**	22,167
		(304,907)	(222,059)
Finance cost	26	**329,843**	308,690
Loss before taxation		**(634,750)**	(530,749)
Taxation	27	**(51,995)**	(75,943)
Loss after taxation		**(582,755)**	(454,806)
		Rupees	
Loss per share - basic	28	**(9.46)**	(7.39)

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

Karachi: March 12, 2013

ARPAD KONYE
Chairman & Chief Executive

JOSEPH ZIOMEK
Director

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2012

	Issued, subscribed and paid-up capital	General reserve	Reserve for share based payments	Sub Total	Unappropriated profit/ (loss)	Total
	(Rupees in thousand)					
Balance as at January 1, 2011	615,803	5,927,000	45,124	5,972,124	576,894	7,164,821
Transactions with owners						
Share-based payment						
- expense	-	-	22,994	22,994	-	22,994
- recharge by the ultimate parent (notes 2.19 and 17)	-	-	(15,880)	(15,880)	-	(15,880)
Final dividend for the year ended December 31, 2010 @ Rs 2.50	-	-	-	-	(153,951)	(153,951)
	-	-	7,114	7,114	(153,951)	(146,837)
Total comprehensive income						
Transfer to general reserve for the year ended December 31, 2010	-	420,000	-	420,000	(420,000)	-
Loss after taxation for the year ended December 31, 2011	-	-	-	-	(454,806)	(454,806)
	-	420,000	-	420,000	(874,806)	(454,806)
Balance as at December 31, 2011	615,803	6,347,000	52,238	6,399,238	(451,863)	6,563,178
Transactions with owners						
Share-based payment						
- expense	-	-	32,224	32,224	-	32,224
- recharge by the ultimate parent (notes 2.19 and 17)	-	-	(59,562)	(59,562)	-	(59,562)
	-	-	(27,338)	(27,338)	-	(27,338)
Total comprehensive income						
Loss after taxation for the year ended December 31, 2012	-	-	-	-	(582,755)	(582,755)
	-	-	-	-	(582,755)	(582,755)
Balance as at December 31, 2012	615,803	6,347,000	24,900	6,371,900	(1,034,618)	5,953,085

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

Karachi: March 12, 2013

ARPAD KONYE
Chairman & Chief Executive

JOSEPH ZIOMEK
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	32	**189,172**	1,144,797
Finance cost paid		**(327,945)**	(278,078)
Income taxes paid		**(83,926)**	(309,903)
Long term loans		**17**	404
Long term deposits and prepayments		**16,007**	(5,676)
Net cash (outflow) / inflow from operating activities		**(206,675)**	551,544
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		**(1,895,620)**	(769,071)
Acquistion of intangible		**(33,447)**	(1,800)
Proceeds from disposal of items of property, plant and equipment		**38,778**	40,302
Income received from short term deposits		**2,778**	7,597
Net cash used in investing activities		**(1,887,511)**	(722,972)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**(280)**	(153,986)
Net cash used in financing activities		**(280)**	(153,986)
Net decrease in cash and cash equivalents during the year		**(2,094,466)**	(325,414)
Cash and cash equivalents at the beginning of the year		**(2,782,082)**	(2,456,668)
Unrealised exchange loss on loans from an associated undertaking		**(30,000)**	-
Cash and cash equivalents at the end of the year	33	**(4,906,548)**	(2,782,082)

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

Karachi: March 12, 2013

ARPAD KONYE
Chairman & Chief Executive

JOSEPH ZIOMEK
Director

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2012

1. THE COMPANY AND ITS OPERATIONS

1.1 The Company was incorporated in Pakistan on February 10, 1969 as a public limited company under the Companies Act, 1913 (now Companies Ordinance, 1984) and its shares are quoted on the Karachi and Lahore stock exchanges. The principal activity of the Company is the manufacturing and sale of cigarettes and tobacco. Its registered office is situated at 19th Floor, The Harbour Front, Dolmen City, HC - 3, Block 4, Clifton, Karachi, Pakistan.

1.2 The Company is a subsidiary of Philip Morris International Inc., (the ultimate parent) through Philip Morris Investments B.V. and Philip Morris Brands Sarl.

1.3 The consolidated financial statements of the group comprising the Company and its subsidiary, LaksonPremier Tobacco Company (Private) Limited, have not been prepared in view of exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/02-2162 dated January 22, 2013 from the requirement of Section 237 of the Companies Ordinance, 1984 (the Ordinance). The exemption is, however, subject to the condition that any material and relevant details of the aforesaid subsidiary shall be prominently disclosed by the Company.

In accordance with the requirements of the said exemption, financial highlights of the subsidiary company are stated in note 5.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

These financial statements have been prepared under the historical cost convention unless otherwise specifically stated.

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and 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 Ordinance and the requirements of and directives issued under that Ordinance. However, the requirements of and the directives issued under that Ordinance have been followed where those requirements are not consistent with the requirements of the IFRSs, as notified under the Ordinance.

2.2 Initial application of standards, amendments to approved accounting standards and new interpretations.

2.2.1 Standards, amendments to approved accounting standards and new interpretations effective during the year ended December 31, 2012:

There were certain amendments to the approved accounting standards that were applicable during the year ended December 31, 2012 but were considered not to be relevant or do not have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements.

2.2.2 Standards, amendments to published approved accounting standards and interpretations that are effective for the periods beginning after January 1, 2012:

International Accounting Standard (IAS) 19 'Employee benefits' was amended in June 2011 and the revised standard is effective for the Company's annual period beginning on January 1, 2013. The impact on the Company will be as follows: to recognise all actuarial gains and losses in 'other comprehensive income' as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

There are certain new standards, amendments to the approved accounting standards and a new interpretation that are mandatory for accounting periods beginning after January 1, 2012 but are considered not to be relevant or do not have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements.

2.3 Critical accounting judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Company's accounting policies, the management has made the following estimates and judgments which are significant to these financial statements:

Property, plant and equipment

Estimates with respect to residual values and useful lives are based on the recommendation of technical teams of the Company. During the year, the Company has revised its estimate of the useful lives of certain items of property, plant and equipment. The impact of this change in estimate is disclosed in note 2.4.1. Further, the Company reviews the external and internal indicators for possible impairment of assets on an annual basis.

Stock in trade

Assumptions and estimates used in writing down items of stock in trade to their net realisable value (note 10). Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less estimated costs of completion and the estimated costs necessary to be incurred for its sale.

Income taxes

In making the estimates for income taxes payable by the Company, the management considers current income tax law and the decisions of appellate authorities on certain cases issued in the past. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such final outcome is determined.

Deferred taxes

Assumptions and estimates used in the recognition of deferred taxation (note 8).

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 16.1 for valuation of present value of defined benefit obligations and fair value of plan assets.

Equity settled share-based payment plans

Estimates with respect to the number of employees who are expected to receive the ultimate parent's shares upon satisfaction of the vesting conditions.

Provisions

Provisions are based on management's best estimate. Any change in the estimates in future years might affect the carrying amounts of the provisions with a corresponding affect on the profit and loss account of the Company.

Notes to and Forming Part of the Financial Statements (continued)

2.4 Property, plant and equipment and intangible

2.4.1 Operating property, plant and equipment

These are stated at cost less accumulated depreciation and impairment losses, if any, except for freehold land which is stated at historical cost.

Assets having cost exceeding the minimum threshold as determined by the management are capitalised. All other assets are charged to income in the year when acquired.

Depreciation is charged to income applying the straight-line method so as to write off the historical cost of the assets over their estimated useful lives at the rates stated in note 3.1 below. Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month the asset is no longer in use. Assets' residual values and useful lives are annually reviewed, and adjusted, if material.

The carrying values of property, plant and equipment are reviewed at each reporting date for indications that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset or cash generating unit is written down to its recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less cost to sell and value in use.

Residual values are determined by the management as the amount it expects it would receive currently for an item of property, plant and equipment if it was already of the age and in the condition expected at the end of its useful life based on the prevailing market prices of similar assets already at the end of their useful lives.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalised when it is probable that future economic benefits will flow to the Company.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account.

Useful lives are determined by the management based on the expected usage of assets, physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of the assets and other similar factors.

Effective January 1, 2012, the Company has made the following revisions to the useful lives of items of property, plant and equipment:

Category	**Useful lives effective**	
	upto December 31, 2011	**from January 1, 2012**
Buildings	10 to 25 years	40 years
Plant and machinery	10 to 15 years	5 to 15 years
Power and other installations	10 years	15 years
Computer equipment	5 years	3 years

The change in useful lives has been applied prospectively in accordance with the requirements of IAS 8 'Accounting policies, change in accounting estimates and errors'. If the aforementioned revisions were not made, the loss before taxation for the current year would have been higher by Rs 121.659 million, while the aggregate depreciation expense in relation to such items of property, plant and equipment in the future years would have been lower by the same amount.

2.4.2 Capital work-in-progress

All expenditures connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

2.4.3 Intangible

Intangible assets are recognised when it is probable that the expected future economic benefits will flow to the Company and the cost of the asset can be measured reliably. Cost of the intangible asset (i.e. computer software) includes purchase cost and directly attributable expenses incidental to bring the asset for its intended use.

Costs associated with maintaining computer software are recognised as an expense as and when incurred.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged over the estimated useful life of the asset on a systematic basis applying the straight line method at the rates of 20% to 33.33%.

Useful lives of intangible are reviewed at each balance sheet date and adjusted if the impact on amortisation is significant.

The carrying amount of the intangible is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount. Reversal of impairment losses are also recognised in the profit and loss account, however, it is restricted to the original cost of the asset.

2.5 Investments

2.5.1 Investment in a subsidiary company

Investment in a subsidiary company is recognised when the Company has established control over the investee company. Investment in subsidiary company is stated at cost less impairment, if any.

2.5.2 Other investments

The Company classifies its financial instruments in the following categories:

(a) Investments 'at fair value through profit or loss':

- Financial instruments 'held-for-trading'

  These include financial instruments (including derivative financial instruments) acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit making exists.

- Financial instruments designated 'at fair value through profit or loss upon initial recognition'.

  These include investments that are designated as investments at fair value through profit or loss upon initial recognition.

(b) Held to maturity

These are securities acquired by the Company with the intention and ability to hold them up to maturity.

(c) Loans and receivables originated by the enterprise

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Company as at fair value through profit or loss or available for sale.

(d) Available for sale

These financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at 'fair value through profit or loss' are expensed immediately.

Subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the profit and loss for the year. Changes in the fair value of instruments classified as 'available for sale' are recognised in 'other comprehensive income' until derecognised or impaired, when the accumulated fair value adjustments recognised in unrealised surplus on revaluation of investments are included in the profit / loss for the year.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective yield method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

The Company follows trade date accounting for purchase and sale of investments.

2.6 Stores and spares

These are valued at lower of moving average cost and net realisable value, except for items in transit which are stated at invoice values plus other charges incurred thereon. Provision is made for slow moving items where necessary to bring them down to approximate net realisable value and is recognised in the profit and loss account.

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

2.7 Stock in trade

These are stated at the lower of cost and net realisable value.

Cost of raw material includes procurement expenses except raw materials in bonded warehouse and in transit which are stated at invoice values plus other charges incurred thereon.

Cost of redried tobacco includes procurement expenses and overheads incurred on redrying of tobacco leaf.

Cost in relation to finished goods and work-in-process includes proportionate production overheads.

2.8 Trade debts and other receivables

Trade debts and other receivables are recognised and carried at original invoice amount less an estimated allowance made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

2.9 Trade and other payables

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

2.10 Provisions

Provisions are recognised when the Company has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.11 Contingent assets

Contingent assets are disclosed when there is 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 realisation become virtually certain.

2.12 Contingent liabilities

Contingent liability is disclosed when:

- there is a possible obligation 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; or
- there is present 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 the obligation cannot be measured with sufficient reliability.

2.13 Taxation

2.13.1 Current

Provision for current taxation is the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

Notes to and Forming Part of the Financial Statements (continued)

2.13.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is utilised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and bank balances, cheques in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, running finance under mark-up arrangements and short term loans which form an integral part of the Company's cash management.

2.15 Borrowing costs

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of that asset. All other borrowing costs are charged to income.

2.16 Revenue recognition

- Sales are recognised either upon shipment or delivery of goods when title and risk of loss pass on to the customer.

- Income on investments and return on deposits are accounted for on an accrual basis.

2.17 Staff retirement benefits

The Company operates:

a) an approved contributory provident fund for all permanent employees for which contributions are charged to income for the year; and

b) an approved funded gratuity scheme covering all permanent employees. Contribution is made to this scheme on the basis of actuarial recommendations. The actuarial valuation is carried out using the Project Unit Credit Method.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes. Actuarial gains and losses are recognised as income or expense in the same accounting period.

2.18 Compensated absences

The Company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels.

2.19 Equity-settled share-based payment plans

The Company recognises as expense the services acquired over the vesting period and the corresponding increase in equity (contribution from the ultimate parent) on fair value of the ultimate parent's shares at the grant date under 'Time-vested Share Plan'. Under the plan the ultimate parent (i.e. Philip Morris International Inc.) grants rights of its shares to certain employees / executives of the Company that vest over a period of three years from the grant date. In the event the Company is recharged by the ultimate parent the equity is reduced to the extent of such recharge.

2.20 Foreign currency transactions

Foreign currency transactions are translated into Pakistan Rupees (i.e. the functional currency) using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

2.21 Financial assets and liabilities

Financial assets and liabilities carried on the balance sheet include receivables, cash and bank balances and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Other financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and it intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

2.22 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the Company's financial statements in the period in which these are approved.

2.23 Segment reporting

The Company operates predominantly in Pakistan and in one main industry-cigarette manufacture. The activities comprise the manufacture, distribution and sale of cigrattes and other tobacco products.

	Note	2012	2011
		(Rupees in thousand)	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	**3,208,561**	2,907,963
Capital work-in-progress	3.2	**2,144,395**	1,033,489
		5,352,956	3,941,452

Notes to and Forming Part of the Financial Statements (continued)

3.1 Operating property, plant and equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on lease hold land	Leasehold improve-ments	Plant and machinery	Furniture and fixtures	Office equipment	Vehicles	Power and other installations	Computer equipment	Total
	(Rs. in thousand)											
At December 31, 2010												
Cost	108,450	2,441	609,991	60,190	107,762	4,450,447	120,365	56,890	684,576	450,990	245,316	6,897,418
Accumulated depreciation	-	(493)	(352,364)	(19,582)	(53,365)	(2,226,017)	(70,667)	(42,594)	(276,113)	(199,065)	(171,144)	(3,411,404)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,126)	(498)	(51,700)
Net book value	108,450	1,948	257,627	40,608	54,397	2,184,516	49,236	13,596	408,463	241,799	73,674	3,434,314
Year ended December 31, 2011												
Additions	-	-	12,063	-	-	38,115	8,946	1,486	49,874	24,026	14,437	148,947
Transfers												
Cost	-	-	-	-	-	(432)	-	432	-	-	-	-
Accumulated depreciation	-	-	-	-	-	60	-	(60)	-	-	-	-
	-	-	-	-	-	(372)	-	372	-	-	-	-
Disposals												
Cost	-	-	-	-	-	(26,235)	(69)	(916)	(32,909)	(1,408)	(92)	(61,629)
Accumulated depreciation	-	-	-	-	-	12,447	69	538	22,735	572	92	36,453
	-	-	-	-	-	(13,788)	-	(378)	(10,174)	(836)	-	(25,176)
Write-offs												
Cost	-	-	-	-	(6,221)	(306,933)	(6,232)	(1,240)	(432)	(3,743)	(4,794)	(329,595)
Accumulated depreciation	-	-	-	-	4,361	195,934	4,947	1,213	432	2,058	4,734	213,679
	-	-	-	-	(1,860)	(110,999)	(1,285)	(27)	-	(1,685)	(60)	(115,916)
Depreciation charge - note 3.1.1	-	(90)	(18,542)	(4,976)	(24,974)	(299,963)	(22,824)	(5,390)	(92,166)	(30,858)	(34,423)	(534,206)
Net book value as at December 31, 2011	108,450	1,858	251,148	35,632	27,563	1,797,509	34,073	9,659	355,997	232,446	53,628	2,907,963
Year ended December 31, 2012												
Additions	-	-	13,938	-	142,385	209,275	42,352	2,784	305,484	44,653	23,843	784,714
Transfers												
Cost	-	-	(950)	-	-	-	18,439	-	-	1,652	(19,141)	-
Accumulated depreciation	-	-	111	-	-	-	(14,629)	-	-	(384)	14,902	-
	-	-	(839)	-	-	-	3,810	-	-	1,268	(4,239)	-
Disposals												
Cost	-	-	-	-	-	-	(123)	(136)	(38,649)	-	(79)	(38,987)
Accumulated depreciation	-	-	-	-	-	-	123	136	23,745	-	79	24,083
	-	-	-	-	-	-	-	-	(14,904)	-	-	(14,904)
Write-offs												
Cost	-	-	-	-	(81,629)	(111,502)	(9,936)	(939)	(3,922)	(741)	(38,439)	(247,108)
Accumulated depreciation	-	-	-	-	68,949	77,521	9,175	939	2,885	740	37,961	198,170
	-	-	-	-	(12,680)	(33,981)	(761)	-	(1,037)	(1)	(478)	(48,938)
Depreciation charge - note 3.1.1	-	(90)	(9,025)	(1,504)	(20,960)	(197,343)	(16,887)	(7,240)	(110,428)	(23,462)	(33,335)	(420,274)
Net book value as at December 31, 2012	108,450	1,768	255,222	34,128	136,308	1,775,460	62,587	5,203	535,112	254,904	39,419	3,208,561
At December 31, 2011												
Cost	108,450	2,441	622,054	60,190	101,541	4,154,962	123,010	56,652	701,109	469,865	254,867	6,655,141
Accumulated depreciation	-	(583)	(370,906)	(24,558)	(73,978)	(2,317,539)	(88,475)	(46,293)	(345,112)	(227,293)	(200,741)	(3,695,478)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,126)	(498)	(51,700)
Net book value	108,450	1,858	251,148	35,632	27,563	1,797,509	34,073	9,659	355,997	232,446	53,628	2,907,963
At December 31, 2012												
Cost	108,450	2,441	635,042	60,190	162,297	4,252,735	173,742	58,361	964,022	515,429	221,051	7,153,760
Accumulated depreciation	-	(673)	(379,820)	(26,062)	(25,989)	(2,437,361)	(110,693)	(52,458)	(428,910)	(250,399)	(181,134)	(3,893,499)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,126)	(498)	(51,700)
Net book value	108,450	1,768	255,222	34,128	136,308	1,775,460	62,587	5,203	535,112	254,904	39,419	3,208,561
Depreciation rate	-	4%	2.50%	2.50%	20%	6.67% to 20%	20%	20%	20%	6.67%	33.33%	

3.1.1 The depreciation charge for the year has been allocated as follows:

	Note	2012	2011
		(Rupees in thousand)	
Purchases, redrying and related expenses	21.1	**37,122**	54,156
Manufacturing expenses	21.2	**222,860**	323,136
Distribution and marketing expenses	22	**77,519**	63,606
Administrative expenses	23	**82,773**	93,308
		420,274	534,206

3.1.2 Operating property, plant and equipment include assets having cost of Rs 1,181 million (2011: Rs 1,283 million) which were fully depreciated as at the year end.

3.1.3 Details of items of property, plant and equipment disposed off during the year and having net book value of more than Rs 50,000 either individually or in aggregate are given in note 36.

	Note	2012	2011
		(Rupees in thousand)	
3.2 Capital work-in-progress			
Civil works		**245,738**	105,383
Plant and machinery	3.2.1	**1,590,679**	635,141
Power and other installations		**96,695**	138,500
Furniture and fittings		**55,681**	45,956
Computer equipment pending installation		**17,509**	34,362
Advance to suppliers and contractors		**138,093**	74,147
		2,144,395	1,033,489

3.2.1 This includes plant and machinery in transit aggregating Rs 166.220 million (2011: Rs 234.531 million).

4. INTANGIBLE

	Note	2012	2011
		Computer software (Rupees in thousand)	
At January 1			
Cost		**189,409**	187,609
Accumulated amortisation		**187,659**	187,609
Net book value		**1,750**	-
Year ended December 31			
Additions		**33,447**	1,800
Write offs			
Cost		**(187,609)**	-
Accumulated amortisation		**187,609**	-
		-	-
Amortisation for the year	4.1	**2,051**	50
Net book value as at December 31		**33,146**	1,750
At December 31			
Cost		**35,247**	189,409
Accumulated amortisation		**2,101**	187,659
Net book value		**33,146**	1,750

4.1 Amortisation for the year relates to administrative expenses (note 23).

4.2 Intangible include assets having cost of Rs nil (2011: Rs 187.609 million) which were fully amortised as at year end.

5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in LaksonPremier Tobacco Company (Private) Limited. Out of such 103 shares, three shares are in the name of the nominees. During the six months period ended December 31, 2012, the subsidiary company has incurred loss after taxation amounting to Rs nil resulting in an accumulated loss of Rs 1,030 as at that date. The net assets of the subsidiary company as at December 31, 2012 amounted to Rs nil, in accordance with the reviewed condensed interim financial statements for the six months period then ended.

6. LONG TERM LOANS

	Note	2012	2011
		(Rupees in thousand)	
Considered good			
Loans to employees	6.1	**51**	284
Less: Current portion shown under current assets	12	**(51)**	(267)
		-	17

6.1 These represent mark-up free loans given to employees for purchase of vehicles in accordance with the Company policy and are secured by pledge of original registration documents of the vehicles and demand promissory notes. These loans are recoverable in equal monthly installments over a period of five years. The difference between the carrying amount and the related amortised cost is not considered material in the overall context of these financial statements, therefore, is not recognised.

7. LONG TERM DEPOSITS AND PREPAYMENTS

	2012	2011
	(Rupees in thousand)	
Deposits	**36,967**	54,556
Prepayments	**4,380**	2,798
	41,347	57,354

8. DEFERRED TAXATION

	2012	2011
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	**(426,320)**	(400,040)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	**1,150**	878
Amortisation of intangible	**119**	4,282
Unutilised tax loss and credit	**278,983**	59,598
Minimum tax	**152,006**	112,313
Provision for spares	**-**	488
Provision for obsolete stocks	**-**	532
Provision for doubtful debts	**949**	949
Deferred tax asset / (liability)	**6,887**	(221,000)

	Note	2012	2011
		(Rupees in thousand)	
9. STORES AND SPARES - net			
Stores	9.1	**9,332**	10,119
Spares	9.1	**518,061**	352,924
		527,393	363,043
Less: Provision for slow moving spares		**(3,726)**	(1,428)
		523,667	361,615

9.1 During the year, the Company has written off stores and spares aggregating Rs 13.270 million (2011: Rs 49.655 million).

	Note	2012	2011
		(Rupees in thousand)	
10. STOCK IN TRADE - net			
Raw and packing materials	10.1 & 10.2	**6,526,894**	6,500,703
Work-in-process		**34,388**	13,748
Finished goods	10.1 to 10.3	**279,877**	263,798
		6,841,159	6,778,249
Less: Provision for obsolete stocks - packing material		**-**	(1,560)
		6,841,159	6,776,689

10.1 These include raw and packing material in transit aggregating Rs 13.764 million (2011: Rs 77.354 million) and finished goods in transit aggregating Rs 14.409 million (2011: nil).

10.2 During the year, the Company has written off inventory aggregating Rs 52.961 million (2011: Rs 7.022 million).

10.3 Finished goods include items costing Rs 43.077 million (2011:Rs 23.339 million) which are stated at their net realisable value aggregating Rs 19.538 million (2011: Rs 13.033 million). The amount charged to the profit and loss account in respect of stocks written down to their net realisable values is Rs 23.539 million (2011: Rs 10.306 million).

	Note	2012	2011
		(Rupees in thousand)	
11. TRADE DEBTS - net			
Considered good-unsecured	11.1	**195,376**	210,781
Considered doubtful		**2,780**	2,780
		198,156	213,561
Less: Provision for doubtful debt	11.2	**(2,780)**	(2,780)
		195,376	210,781

		Note	2012	2011
			(Rupees in thousand)	
11.1	The amount includes outstanding balance from the following group undertakings:			
	Philip Morris (Malaysia) SND. BHD.		**1,620**	14
	PMFTC Inc. (Philippines)		**47,589**	171,063
	Philip Morris Asia Limited. Hong Kong		-	1,976
	Philip Morris Philippines Manufacturing Inc.		-	2,908
	Philip Morris Limited (Australia)		-	29,624
	PT Hanjaya Mandala Sampoerna TBK		**5,183**	3,570
			54,392	209,155
11.2	Provision for doubtful debts			
	Balance at beginning of the year		**(2,780)**	-
	Provision for the year	24	-	(2,780)
	Balance at end of the year		**(2,780)**	(2,780)

12. LOANS AND ADVANCES

	Note	2012	2011
Considered good			
Secured			
Current portion of long term loans to employees	6	**51**	267
Unsecured			
Advances to:			
- Employees	12.1 & 12.2	**23,610**	9,585
- Suppliers and contractors		**52,309**	60,428
		75,919	70,013
		75,970	70,280

12.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 7.349 million (2011: Rs 4.247 million).

12.2 Advances to employees are given to meet business expenses and are settled as and when the expenses are incurred.

13. OTHER RECEIVABLES

	Note	2012	2011
		(Rupees in thousand)	
Receivable from associated undertakings	13.1	**25,576**	114,589
Others	13.2	**28,780**	1,520
		54,356	116,109

Notes to and Forming Part of the Financial Statements (continued)

13.1 This amount represents outstanding balances from the following associated undertakings:

	2012	2011
	(Rupees in thousand)	
Philip Morris Services S.A.	**18**	106,452
Philip Morris Management Services (Middle East) L.L.C.	**1,586**	7,449
Philip Morris Products S.A.	**2,683**	-
Philip Morris Services India S.A.	**1,195**	-
Philip Morris Asia Limited Hong Kong	**5,004**	-
Philip Morris (Malaysia) SND. BHD.	**14**	-
Philip Morris Philippines Manufacturing Inc.	**9,876**	-
PT Hanjaya Mandala Sampoerna TBK	**5,200**	688
	25,576	114,589

13.2 This includes derivative financial instruments aggregating Rs 5.682 million on forward foreign exchange contract and foreign exchange currency swap as at December 31, 2012, the notional principal amounts of which as at December 31, 2012 were Rs 972.50 million (2011: Nil) and Rs 972.50 million (2011: Nil) respectively.

	Note	2012	2011
		(Rupees in thousand)	
14. CASH AND BANK BALANCES			
With banks			
● in saving accounts	14.1	**100**	27
● in current accounts			
- Foreign currency		**665**	254
- Local currency		**15,784**	23,827
		16,449	24,081
		16,549	24,108
Cash in hand		**824**	3,980
		17,373	28,088

14.1 These carry mark-up rates ranging from 5% to 10.35% (2011: 5% to 10.33%) per annum.

15. SHARE CAPITAL

15.1 Authorised capital

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
100,000,000	100,000,000	Ordinary shares of Rs 10 each	**1,000,000**	1,000,000

15.2 Issued, subscribed and paid-up capital

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
5,541,429	5,541,429	Ordinary shares of Rs 10 each fully paid in cash	**55,414**	55,414
47,722,912	47,722,912	Ordinary shares of Rs 10 each issued as fully paid bonus shares	**477,229**	477,229
8,316,000	8,316,000	Ordinary shares of Rs 10 each issued for consideration other than cash	**83,160**	83,160
61,580,341	61,580,341		**615,803**	615,803

15.3 As at December 31, 2012, the number of ordinary shares of Rs 10 each held by Philip Morris Investments B.V. and Philip Morris Brands Sarl subsidiaries of Philip Morris International Inc., were 47,819,356 and 12,316,061 respectively (2011: 47,819,356 and 12,316,061 respectively).

16. STAFF RETIREMENT BENEFITS

16.1 Defined benefit plan

As stated in note 2.17, the Company operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at December 31, 2012.

The fair value of the scheme's assets and the present value of obligation under the scheme at the balance sheet date in accordance with the latest actuarial report are as follows:

	2012	2011
	(Rupees in thousand)	
Present value of defined benefit obligation	**434,847**	383,002
Fair value of plan assets	**(434,847)**	(383,002)
Liability recognised in the balance sheet	**-**	-
Amounts charged to profit and loss account:		
Current service cost	**41,092**	30,723
Interest cost	**56,301**	51,217
Expected return on plan assets	**(57,450)**	(55,270)
Actuarial loss recognised	**12,708**	18,940
	52,651	45,610

Notes to and Forming Part of the Financial Statements (continued)

	Note	2012	2011
		(Rupees in thousand)	
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	21.1	**6,213**	6,212
Manufacturing expenses	21.2	**15,138**	13,246
Distribution and marketing expenses	22	**19,716**	14,662
Administrative expenses	23	**11,584**	11,490
		52,651	45,610
Movement in the liability recognised in the balance sheet:			
Balance as at the beginning of the year		-	-
Net charge for the year		**52,651**	45,610
Contribution to the fund		**(52,651)**	(45,610)
Balance as at the end of the year		-	-
Movement in the present value of defined benefit obligation:			
Opening balance		**383,002**	368,466
Current service cost		**41,092**	30,723
Interest cost		**56,301**	51,217
Benefits paid		**(61,862)**	(55,940)
Actuarial loss / (gain)		**16,314**	(11,464)
Closing balance		**434,847**	383,002
Movement in the fair value of plan assets:			
Opening balance		**383,002**	368,466
Expected return		**57,450**	55,270
Contributions		**52,651**	45,610
Benefits paid		**(61,862)**	(55,940)
Actuarial gain / (loss)		**3,606**	(30,404)
Closing balance		**434,847**	383,002

	2012	2011
Principal actuarial assumptions used are as follows:		
Expected rate of increase in salary level	**11.60%**	14.00%
Valuation discount rate	**12.30%**	14.70%
Rate of return on plan assets	**15.00%**	15.00%

Comparisons for five years	2012	2011	2010	2009	2008
	(Rupees in thousand)				
Present value of defined benefit obligation	**434,847**	383,002	368,466	334,769	248,888
Fair value of plan assets	**(434,847)**	(383,002)	(368,466)	(334,769)	(248,888)
Surplus / (deficit)	**-**	-	-	-	-
Experience adjustment on plan liabilities	**(16,314)**	11,464	23,873	(47,235)	(12,766)
Experience adjustment on plan assets	**3,606**	(30,404)	(31,378)	36,522	(31,556)

Notes to and Forming Part of the Financial Statements (continued)

	2012	2011
	(Rupees in thousand)	
Major categories / composition of plan assets are as follows:		
Debt instruments	**10,155**	9,187
Equity	**68,841**	45,354
Balances with banks	**355,851**	328,461
	434,847	383,002

The expected return on plan assets was 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.

Actual gain on plan assets during the year ended December 31, 2012 was Rs 61.056 million (2011: Rs 24.866 million).

Expected contribution to defined benefit plan for the year ending December 31, 2013 is Rs 41.132 million (2012: Rs 39.943 million).

	Note	2012	2011
		(Rupees in thousand)	
16.2 Defined contribution plan			
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	21.1	**8,318**	5,578
Manufacturing expenses	21.2	**15,138**	11,430
Distribution and marketing expenses	22	**28,309**	22,484
Administrative expenses	23	**12,925**	12,766
		64,690	52,258

17. SHARE-BASED PAYMENT PLAN

Details of share-based payments under 'Time-vested Share Plan' (note 2.19) in relation to the Company are as follows:

Grant dates	February 20, 2008, February 4, 2009, February 11, 2010, February 11, 2011 & February 11, 2012
Share price at grant date (February 20, 2008)	Rs 3,187 / share (US $ 50.58 / share)
Share price at grant date (February 4, 2009)	Rs 2,988 / share (US $ 36.78 / share)
Share price at grant date (February 11, 2010)	Rs 4,041 / share (US $ 47.49 / share)
Share price at grant date (February 11, 2011)	Rs 5,128 / share (US $ 59.62 / share)
Share price at grant date (February 11, 2012)	Rs 7,418 / share (US $ 80.06 / share)
Number of shares outstanding at the end of the year	13,639

A reconciliation of movement in the number of shares can be summarised as follows:

	Note	2012	2011
		(No. of shares)	
Outstanding as at the beginning of the year		**17,659**	15,583
Granted during the year		**4,990**	5,860
Vested / exercised during the year	17.2	**(8,620)**	(3,084)
Forfeited during the year		**(390)**	(700)
Outstanding as at the end of the year		**13,639**	17,659

17.1 The charge for the year has been allocated as follows:

	Note	2012	2011
Purchase, redrying and related expenses	21.1	**2,568**	1,289
Manufacturing expenses	21.2	**720**	368
Distribution and marketing expenses	22	**10,135**	5,074
Administrative expenses	23	**18,801**	16,263
		32,224	22,994

17.2 During the year ended December 31, 2012, options granted on February 4, 2009 were fully vested alongwith certain shares which were early vested in accordance with the terms of plan. An aggregate amount of Rs 59.562 million (US $ 645,913) was recharged by the ultimate parent, which was payable as at the year end.

18. SHORT TERM BORROWINGS

	Note	2012	2011
		(Rupees in thousand)	
Secured			
Running finance under mark-up arrangements	18.1	**1,728,921**	1,010,170
Short term loans	18.1	**1,250,000**	1,800,000
		2,978,921	2,810,170
Unsecured			
Loans from an associated undertaking	18.2	**1,945,000**	-
		4,923,921	2,810,170

18.1 The Company has arranged for running finance and other short term loan facilities to the extent of Rs 6,000 million (2011: Rs 6,000 million) from commercial banks. These facilities are available for various periods expiring between April 30, 2013 to November 30, 2013 (2011: April 30, 2012 to July 23, 2013). The facilities are secured by way of hypothecation of stock in trade and other moveable assets of the Company and are carrying mark-up rates ranging from 8.44% to 12.72% (2011: 12.23% to 14.66%) per annum.

The facilities for opening of letters of credit included in the aforementioned facilities of Rs 6,000 million as at December 31, 2012 aggregated Rs 1,300 million of which the amount remaining unutilised was Rs 458.348 million.

18.2 The Company has obtained two short term loans from its group undertaking, Philip Morris Finance S.A., amounting US $ 10 million each. The repayment dates of these loans were January 18, 2013 and February 2, 2013 respectively. Both the loans carry mark-up rates of LIBOR plus 1%. Subsequently, the aforementioned loans have been rolled forward upto March 20, 2013 and April 18, 2013 respectively.

Notes to and Forming Part of the Financial Statements (continued)

	Note	2012	2011
		(Rupees in thousand)	
19. TRADE AND OTHER PAYABLES			
Creditors	19.1	**886,027**	352,063
Bills payable		**517,137**	395,567
Royalty payable to a related party	19.1	**54,786**	25,917
Accrued expenses		**536,309**	215,263
Tobacco development cess	19.2	**32,815**	36,511
Contractors' retention money		**9,252**	11,873
Advance from customers		**16,765**	12,830
Workers' welfare fund		**-**	14,728
Unpaid and unclaimed dividends		**28,251**	28,531
Others	19.3 &19.4	**9,107**	24,112
		2,090,449	1,117,395

19.1 The amount due to group undertakings included in creditors and royalty payable aggregated Rs 449.49 million (2011: Rs 152.140 million).

19.2 The movement of tobacco development cess is as follows:

	2012	2011	2010
		(Rupees in thousand)	
Balance as at the beginning of the year	**36,511**	43,392	33,329
Provision for the year	**65,004**	77,844	78,728
	101,515	121,236	112,057
Less: Payments made during the year	**(68,700)**	(84,725)	(68,665)
Balance at the end of the year	**32,815**	36,511	43,392

With effect from July 1, 1999, Tobacco Development Cess had been levied on the purchases of tobacco leaf. The Company has filed a constitutional petition in the Honorable Supreme Court of Pakistan against the levy which is currently pending for adjudication. Meanwhile, the Company is paying the said levy under protest. Pending outcome of the matter, the Company has made the above provision in its books of account.

19.3 For better presentation, an accrual relating to stamp duty amounting to Rs 19 million which was included in 'tobacco development cess' as at December 31, 2011 has now been reclassified and included in 'others'. As this reclassification is not considered material in the overall context of these financial statements and also due to the fact that it relates to sub-accounts appearing in the same balance sheet line item, therefore, the Company has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. January 1, 2011).

19.4 During the year, penalties on account of late payment of stamp duty aggregating Rs 0.53 million have been imposed on the Company.

20. CONTINGENCIES AND COMMITMENTS

20.1 Guarantees

Indemnities given to a bank for guarantees issued by it in the normal course of business aggregated Rs 38.193 million (2011: Rs 19.332 million).

20.2 Commitments

	2012	2011
	(Rupees in thousand)	
Capital expenditure contracted for but not incurred	**1,207,414**	1,282,254
Letters of credit	**324,515**	-

Operating lease commitments

The Company leases various offices and warehouses under non-cancellable operating lease arrangements. The lease terms are between 1 to 5 years, and majority of these lease agreements are renewable at the end of the lease period.

	2012	2011
	(Rupees in thousand)	
Not later than 1 year	**141,526**	71,221
Later than 1 year and not later than 5 years	**376,561**	33,094
	518,087	104,315

20.3 Contingent liabilities

20.3.1 The Additional Collector of Customs, Sales Tax and Central Excise (Adjudication), Rawalpindi has issued two show cause notices to the Company dated October 5, 2002 and March 1, 2003 on account of short payment of Central Excise Duty and Sales Tax aggregating to Rs 7.466 million and Rs 4.021 million respectively. The Company has not agreed to the claims made in the aforementioned show cause notices. However, subsequently Order-in-Original No. 08/2003, dated March 28, 2003 and Order-in-Original No. 22/2003, dated June 14, 2003 respectively were issued, whereby the charges levelled in the aforementioned showcause notices were confirmed and demands were raised against the Company alongwith additional duty under Central Excise Act, 1944 and additional tax under Sales Tax Act, 1990, which are to be determined by the competent authority. Further, a penalty at the rate of 3% of the short payment of Sales Tax has also been imposed under the Sales Tax Act, 1990. The Company had filed appeals before the Federal Excise & Taxation Appellate Tribunal, Islamabad; which were rejected by it in its order dated July 14, 2007. The Company proceeded to file Tax References bearing Nos. 95/2008 and 96/2008 before Lahore High Court, Rawalpindi Bench. The references are pending adjudication, however, the management is confident that the references will be decided in the Company's favour and accordingly no provision has been made in these financial statements.

20.3.2 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 57.244 million (2011: Rs 59.498 million) in respect of goods imported for re-export. In the event the goods are not re-exported within the stipulated time period, cheques issued as a security shall be encashable.

20.3.3 During the year ended December 31, 2011 certain show cause notices were served on the Company by the tax authorities which interalia stated that during the period October 2008 to March 2011 it (the Company) had imported various consignments of 'Marlboro' and certain taxes and duties, i.e. Federal Excise Duty (FED), sales tax and withholding income tax paid on these imports were not based on their imported value, resultantly, there is a short fall in payments of FED, sales tax and withholding income tax which approximates Rs 400 million. However, the management of the Company is of the view that in accordance with the applicable legal framework the aforementioned taxes and duties should be based on the retail price of 'Marlboro' printed on its packet. Accordingly, on February 28, 2012 the Company filed a writ petition in the High Court of Sindh requesting it to declare the aforementioned notices of no legal effect and that the FED is payable on the retail price printed on packets of imported cigarettes and the retail price so printed is conclusive for the purpose of determining the liability for FED and obtained an injunction restraining tax authorities from taking any coercive action against the Company till August 28, 2012.

During the year ended December 31, 2012, three orders issued by customs have been received by the Company against which appeals have been filed with the concerned authorities which are pending ajudication. The Company filed a fresh petition in the High Court of Sindh on July 12, 2012 and obtained a stay order till January 11, 2013 to (i) suspend the operation of the customs orders; and (ii) restrain the tax authorities from demanding, Federal Excise Duty or other taxes calculated on a basis other than the retail price which the Company prints on its cigarette packs imported into Pakistan. Subsequent to the year end, the Company obtained extension of the injunction till March 19, 2013. The Court also directed that the earlier petition be heard together with the fresh petition. The Company will continue to exhaust its recourse under the administrative appeal process while also challenging the matter substantively in court. The management is confident that the petitions will be decided in favour of the Company and accordingly no provision has been made in these financial statements.

20.3.4 While reviewing the income tax return of the Company for the tax year 2009 (accounting year ended December 31, 2008) the Deputy Commissioner Inland Revenue ('the assessing officer') has under section 122(1) of the Income Tax Ordinance, 2001 (the Tax Ordinance) served the Company with an order dated May 30, 2012 amending its assessment for that tax year and has disallowed certain deductions aggregating Rs 212.123 million, the tax impact of which is Rs 74.243 million. The Company has filed an appeal before the Commissioner Inland Revenue – Appeals III against the aforementioned matters which is pending adjudication. The management is of the view the aforementioned disallowed deductions include items having an aggregate amount of Rs 37.913 million which represent apparent errors and has filed a rectification application under section 221 of the Tax Ordinance on September 5, 2012 to Deputy Commissioner Inland Revenue. Further, in respect of the remaining disallowed deductions the management is confident that the ultimate decision of the appeal shall be in its favour, therefore, a provision has not been recognised against the total aforementioned disallowed deductions in these financial statements.

21. COST OF SALES

	Note	2012	2011
		(Rupees in thousand)	
Raw material consumed			
Opening stock		**6,500,703**	7,274,668
Purchases, redrying and related expenses	21.1	**7,942,867**	6,957,549
		14,443,570	14,232,217
Closing stock	10	**(6,526,894)**	(6,500,703)
		7,916,676	7,731,514
Government levies		**95,685**	68,081
Manufacturing expenses	21.2	**1,569,256**	1,348,159
		9,581,617	9,147,754
Work in process			
Opening stock		**13,748**	12,618
Closing stock	10	**(34,388)**	(13,748)
Sale of waste		**(47,090)**	(62,009)
		(81,478)	(75,757)
		(67,730)	(63,139)
		9,513,887	9,084,615
Cost of goods manufactured			
Finished goods			
Opening stock		**263,798**	419,410
Finished goods purchased		**245,410**	278,958
Closing stock	10	**(279,877)**	(263,798)
		229,331	434,570
		9,743,218	9,519,185

	Note	2012	2011
		(Rupees in thousand)	
21.1 Purchases, redrying and related expenses			
Raw and packing material		**7,139,831**	6,183,983
Salaries, wages and other benefits	16 & 17.1	**293,946**	236,015
Stores and spares consumed		**55,815**	40,216
Fuel and power		**148,726**	158,706
Rent, rates and taxes		**48,517**	50,777
Freight and stacking		**91,116**	88,679
Postage, telephone and stationery		**7,537**	7,346
Depreciation	3.1.1	**37,122**	54,156
Repair and maintenance		**9,070**	5,365
Travelling and vehicle expenses		**44,668**	35,977
Professional charges		**177**	1,806
Fumigation and pesticide expenses		**9,327**	33,666
Security charges		**50,912**	44,789
Other expenses		**6,103**	16,068
		803,036	773,566
		7,942,867	6,957,549

21.2 Manufacturing expenses

	Note	2012	2011
Salaries, wages and other benefits	16 & 17.1	**551,092**	523,180
Stores and spares consumed		**302,594**	152,359
Fuel and power		**247,905**	172,611
Rent, rates and taxes		**9,025**	8,766
Cartage		**84,206**	83,285
Postage, telephone and stationery		**8,899**	2,299
Depreciation	3.1.1	**222,860**	323,136
Travelling and vehicle expenses		**82,805**	58,786
Security charges		**23,448**	18,148
Other expenses		**36,422**	5,589
		1,569,256	1,348,159

For better presentation, certain expenses relating to 'salaries, wages and other benefits' and 'travelling and vehicle expenses' which were previously included in 'administrative expenses' (note 23) have now been reclassified to 'manufacturing expenses'. Accordingly, corresponding figures amounting to Rs 70.340 million and Rs 23.102 million respectively have now been included in 'manufacturing expenses'.

	Note	2012	2011
		(Rupees in thousand)	
22. DISTRIBUTION AND MARKETING EXPENSES			
Salaries, allowances and other benefits	16 & 17.1	**795,826**	599,253
Selling expenses		**1,551,849**	890,303
Freight expense		**116,414**	135,291
Rent, rates and taxes		**32,695**	29,707
Postage, telephone and stationery		**23,062**	16,094
Depreciation	3.1.1	**77,519**	63,606
Travelling and vehicle expenses		**131,891**	80,834
Royalty		**28,869**	24,375
Repair and maintenance		**6,893**	3,980
Security charges		**15,721**	12,183
Other expenses		**28,188**	22,326
		2,808,927	1,877,952

Notes to and Forming Part of the Financial Statements (continued)

For better presentation and in accordance with the applicable financial reporting framework, the sales allowances which appeared under 'distribution and marketing expenses' have been reclassified and netted off against revenue. Accordingly, the corresponding figures amounting to Rs 369.823 million have now been reclassified and netted off against revenue.

	Note	2012	2011
		(Rupees in thousand)	
23. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	16 & 17.1	**466,487**	379,714
Rent, rates and taxes		**108,650**	93,897
Postage, telephone and stationery		**26,415**	17,214
Travelling and vehicle expenses		**103,555**	75,135
Repairs and maintenance		**60,031**	34,612
Legal and professional charges		**39,081**	62,663
Utilities		**22,719**	23,541
Fee and subscription		**133,619**	6,775
Insurance		**49,345**	49,428
Auditors' remuneration	23.1	**6,147**	7,401
Depreciation	3.1.1	**82,773**	93,308
Donation	23.2	**2,945**	-
Amortisation	4.1	**2,051**	50
Security charges		**56,440**	52,876
Other expenses		**11,062**	15,387
		1,171,320	912,001

For better presentation, expenses relating to 'insurance' have been reclassified from 'purchases, redrying and related expenses' (note 21.1), 'manufacturing expenses' (note 21.2) and 'distribution and marketing expenses' (note 22) to 'administrative expenses'. Accordingly, the corresponding amounts of Rs 11.764 million, Rs 23.320 million and Rs 6.747 million respectively have now been reclassified and included in 'administrative expenses'.

	Note	2012	2011
		(Rupees in thousand)	
23.1 Auditors' remuneration			
Audit fee		**1,750**	1,500
Review of half yearly financial statements		**550**	450
Taxation and other services		**3,690**	4,886
Out of pocket expenses		**157**	565
		6,147	7,401

23.2 No director or his spouse has interest in the donees.

	Note	2012	2011
24. OTHER EXPENSES			
Exchange loss - net	24.1	**83,740**	2,415
Workers' welfare fund - prior period		**1,195**	(4,172)
Property, plant and equipment written off	3.1	**48,938**	115,916
Provision for doubtful debt	11.2	**-**	2,780
Miscellaneous expenses	24.2	**31,072**	35,308
		164,945	152,247

24.1 This includes unrealised exchange loss amounting to Rs 30 million and Rs 41.066 million arising on 'loans from an associated undertaking' and 'trade and other payables' respectively.

24.2 During the year, a penalty on account of short payment of custom duty amounting to Rs 1.178 million has been imposed on the Company.

24.3 For better presentation, 'exchange loss - net' which was previously included in 'miscellaneous expenses' has been shown separately. Accordingly, the corresponding figure amounting to Rs 2.415 million have now been shown separately.

	Note	2012	2011
		(Rupees in thousand)	
25. OTHER INCOME			
Income from financial assets:			
• Profit on short term deposits		**2,778**	7,041
• Others		**5,682**	-
		8,460	7,041
Income from assets other than financial assets:			
• Profit on disposal of items of property, plant and equipment		**23,874**	15,126
		32,334	22,167
26. FINANCE COST			
Mark-up on short term borrowings	26.1	**315,590**	299,100
Bank commission and other charges		**14,253**	9,590
		329,843	308,690

26.1 The mark-up on short term borrowings includes mark-up aggregating Rs 4.639 million on the loan from group undertaking.

	2012	2011
	(Rupees in thousand)	
27. TAXATION		
Current - for the year	**84,313**	162,000
- for prior years	**91,579**	13,057
	175,892	175,057
Deferred	**(227,887)**	(251,000)
	(51,995)	(75,943)
27.1 Relationship between tax expense and accounting loss		
Accounting loss before tax	**(634,750)**	(530,749)
Effective tax rate	**34.125%**	34.125%
Tax on accounting loss	**(216,608)**	(181,118)
Tax effect of:		
• expenses that are not allowed in determining taxable income	**5,009**	1,662
• income assessed under Final Tax Regime	**69,255**	95,115
• tax credit for investments u/s 65B of the Income Tax Ordinance, 2001	**-**	(6,363)
• others	**(1,230)**	1,704
	(143,574)	(89,000)
Adjustments in respect of current tax of prior periods	**91,579**	13,057
Tax expense for the year	**(51,995)**	(75,943)

Notes to and Forming Part of the Financial Statements (continued)

	Note	2012	2011
		(Rupees in thousand)	
28. LOSS PER SHARE - BASIC			
Loss for the year after taxation		**(582,755)**	(454,806)
		(No. of shares)	
Number of ordinary shares	15.2	**61,580,341**	61,580,341
		(Rupees)	
Loss per share		**(9.46)**	(7.39)

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2012 and 2011.

29. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year is as follows:

	Chief Executive		Directors		Executives		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	-------Rupees in thousand -------		-------Rupees in thousand -------		-------Rupees in thousand -------		-------Rupees in thousand -------	
Remuneration	**40,114**	30,000	**56,819**	44,639	**321,967**	217,002	**418,900**	291,641
House rent	-	-	**4,991**	4,697	**144,885**	97,680	**149,876**	102,377
Bonus	-	-	**7,990**	5,041	**89,824**	51,074	**97,814**	56,115
Retirement benefits	-	-	**3,277**	1,620	**56,760**	31,256	**60,037**	32,876
Utilities	-	-	**1,109**	1,044	**32,197**	21,706	**33,306**	22,750
Others	**23**	90	**2,263**	2,648	**63,874**	55,808	**66,160**	58,546
	40,137	30,090	**76,449**	59,689	**709,507**	474,526	**826,093**	564,305
Number of persons	**1**	1	**5**	3	**332**	218	**338**	222

In addition, the chief executive, directors and certain executives are provided with free use of Company maintained cars and accommodation facilities.

No remuneration was charged in respect of non-executive directors of the Company.

Further, the benefits available to certain directors and executives recognised by the Company in the expenses during the year on account of share-based payment plan aggregate Rs 32.224 million (2011: Rs 22.994 million).

Certain executives are on secondment from the group undertaking and no remuneration is charged to the Company in respect of those executives.

The Company considers its chief executive and directors as members of key management personnel.

30. RELATED PARTIES DISCLOSURES

Related parties comprise of Philip Morris Investments B.V. and Philip Morris Brands Sarl, related group undertakings, subsidiary company LaksonPremier Tobacco Company (Private) Limited, staff retirement funds and key management personnel. Transactions with related parties, other than remuneration and benefits to key management personnel under the terms of their employment as disclosed in note 29, are as follows:

	Nature of tansactions	2012	2011
		(Rupees in thousand)	
Associated undertakings	Sale of goods	**768,181**	1,174,932
	Services rendered	**2,683**	7,449
	Purchase of goods	**257,857**	336,760
	Services procured	**180,473**	18,181
	Loans received	**1,915,000**	-
	Mark-up on loan	**4,369**	-
	Royalty charges	**28,869**	24,375
Staff retirement plans	Contribution to gratuity fund	**52,651**	45,610
	Contribution to provident fund	**64,690**	52,258

The Company enters into transactions with related parties on the basis of mutually agreed terms.

The related party status of outstanding balances as at December 31, 2012 is included in notes 5, 11.1, 13.1, 16.1, 18.2 and 19.1.

31. CAPACITY AND PRODUCTION

Against an installed manufacturing capacity of 51,969 million (2011: 50,112 million) cigarettes, actual production was 23,207 million (2011: 22,440 million) cigarettes. Actual production was sufficient to meet the demand.

32. CASH GENERATED FROM OPERATIONS

	Note	2012	2011
		(Rupees in thousand)	
Loss before taxation		**(634,750)**	(530,749)
Adjustments for:			
Depreciation		**420,274**	534,206
Property, plant and equipment written off		**48,938**	115,916
Amortisation		**2,051**	50
Provision for slow moving spares		**2,298**	1,428
Stores and spares written off		**13,270**	49,655
(Reversal) / provision for obsolete stocks - packing material		**(1,560)**	1,560
Stock in trade - written off		**52,961**	7,022
- written down to net realisable value		**23,539**	10,306
Provision for doubtful debts		**-**	2,780
Expenses arising from equity-settled share-based payment plan		**32,224**	22,994
Unrealised exchange loss		**71,066**	-
Profit on short term deposits		**(2,778)**	(7,041)
Profit on disposal of items of property, plant and equipment		**(23,874)**	(15,126)
Finance cost		**315,590**	299,100
Working capital changes	32.1	**(130,077)**	652,696
		189,172	1,144,797

		Note	2012	2011
			(Rupees in thousand)	
32.1	**Working capital changes**			
	(Increase) / decrease in current assets			
	Stores and spares		**(177,620)**	(52,776)
	Stock in trade		**(139,410)**	911,119
	Trade debts		**15,405**	(49,321)
	Loans and advances		**(5,690)**	(59,875)
	Prepayments		**(23,987)**	13,361
	Other receivables		**61,753**	(26,091)
			(269,549)	736,417
	(Decrease) / increase in current liabilities			
	Trade and other payables		**872,706**	(85,684)
	Sales tax and excise duty payable		**(733,234)**	1,963
			(130,077)	652,696

33. CASH AND CASH EQUIVALENTS

	Note	2012	2011
Cash and bank balances	14	**17,373**	28,088
Short term borrowings	18	**(4,923,921)**	(2,810,170)
		(4,906,548)	(2,782,082)

34. FINANCIAL RISK MANAGEMENT

34.1 The Company's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but not limited to, market risk, credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risks measured and managed by the Company are explained below:

(i) Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market prices of instruments due to change in credit rating of the issuer or the instrument, changes in market sentiments, speculative activities, supply and demand of instruments and liquidity in the market. The Company manages the market risk by monitoring exposure on financial instruments and by following internal risk management policies.

Market risk comprise of three types of risks: interest rate risk, currency risk and other price risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market interest rates.

Notes to and Forming Part of the Financial Statements (continued)

- Fair value risk - Presently, fair value risk to the Company arises from 'balances with banks' which are based on fixed interest rates. As at December 31, 2012, the impact of increase / decrease in fixed interest rates by 50 basis points will not have a material impact on the loss after taxation of the Company.

- Future cash flow risk - Presently, future cash flow risk to the Company arises from 'short term borrowings' which are based on floating interest rates (i.e. KIBOR and LIBOR based). As at December 31, 2012, had there been increase / decrease of 50 basis points in KIBOR or LIBOR, with all other variables held constant, loss after taxation for the year then ended would have been lower / higher by Rs 16.003 million (2011: Rs 9.256 million) mainly as a result of finance cost.

(b) Currency risk

Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The Company primarily has foreign currency exposures in US Dollars, Euro and UK Pound in the form of trade and other payables (note 19), trade debts (note 11), other receivables (note 13), bank balances (note 14) and loans from associated undertaking (note 18) in respect of import of packing materials, stores and spares and plant and machinery and export sales.

As at December 31, 2012, had the Company's functional currency weakened / strengthened by 5% against US Dollar, Euro and UK Pound, with all other variables held constant, loss after taxation for the year then ended would have been higher / lower by Rs 87.865 million (2011: Rs 7.279 million) mainly as a result of foreign exchange losses / gains.

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have financial instruments dependent on market prices.

(ii) Credit risk and its concentration

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. The Company enters into financial contracts in accordance with the internal risk management policies which include incurring of sales on an advance payment basis and holding of balances with reputable banks of the country. Out of the total financial assets as set out in note 34.3, those that are subject to credit risk aggregates Rs 303.399 million (2011: Rs 405.838 million). The analysis below summarises the credit quality of the Company's financial assets as at December 31, 2012:

- Long term deposits are held with parties which have long association with the Company and have a good credit history.

- Credit limits are assigned to the Company's customer's on a case to case basis and such limits are regularly monitored, accordingly, the credit risk is minimal.

- Amounts aggregating Rs 79.968 million (2011: Rs 323.744 million) is receivable from group companies whereby credit exposure and the corresponding risk associated with recoverability is considered minimal.

- The banks with which balances are held carry atleast credit rating of 'A-1+' which represents highest capacity for timely payment.

Concentration of credit risk exists when changes in economic and industry factors similarly affect the group of counter parties whose aggregated credit exposure is significant in relation to the Company's total credit exposure. The Company's financial assets are broadly diversified and transactions are entered into with diverse credit worthy parties thereby mitigating any significant concentration risk. Therefore, the Company believes that it is not exposed to major concentration of credit risk.

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The Company's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its financial liabilities when due. Accordingly, the Company maintains sufficient cash and also makes availability of funding through credit facilities.

The analysis below summarises the Company's financial liabilities (based on contractual undiscounted cash flows) into relevant maturity group on the remaining period as at the balance sheet date:

	2012	**2011**
	(Maturity within one year)	
	(Rupees in thousand)	
Short term borrowings	**4,931,039**	2,810,170
Trade and other payables	**2,040,869**	1,053,326
Accrued mark-up on short term borrowings	**70,231**	82,586
	7,042,139	3,946,082

34.2 Fair values of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying value and the fair value estimates.

As at December 31, 2012, the carrying values of all financial assets and liabilities approximate to their fair values due to the fact that most of the financial assets and liabilities are of short term nature.

Notes to and Forming Part of the Financial Statements (continued)

	2012	2011
	(Rupees in thousand)	
34.3 Financial instruments by category		
FINANCIAL ASSETS		
Loans and receivables at amortised cost		
Loans	**51**	284
Long term deposits	**36,967**	54,556
Trade debts	**195,376**	210,781
Other receivables	**54,356**	116,109
Cash and bank balances	**17,373**	28,088
	304,123	409,818
FINANCIAL LIABILITIES		
Loans and receivables at amortised cost		
Short term borrowings	**4,923,921**	2,810,170
Trade and other payables	**2,040,869**	1,053,326
Accrued mark-up on short term borrowings	**70,231**	82,586
	7,035,021	3,946,082

35. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowing (including 'current and non-current borrowings' as shown in the balance sheet) less cash and bank balances. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

During 2012, the Company's strategy, which was unchanged from 2011, was to maintain gearing ratio at a minimum level. The gearing ratios as at December 31, 2012 and 2011 were 45% and 30% respectively. The increase in the gearing ratio is primarily due to the Company's cash requirements to invest in capital expenditure.

36. DETAILS OF PROPERTY, PLANT AND EQUIPMENT DISPOSED OFF

The following operating property, plant and equipment having net book value of more than Rs 50,000, either individually or in aggregate, were disposed off during the year:

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Vehicles	1,389	(506)	883	1,389	Insurance Claim	Century Insurance
	560	(255)	305	504	- do -	- do -
	367	(294)	73	260	- do -	- do -
	367	(294)	73	320	- do -	- do -
	1,389	(426)	963	849	Company Policy	Muhammad Asif
	888	(385)	503	498	- do -	Najiyeh Akber
	1,309	(1,047)	262	458	- do -	Fazle Malik
	879	(703)	176	308	- do -	Muhammad Javed
	6,391	(1,952)	4,439	2,237	- do -	Farooq Shakoor
	755	(209)	546	576	- do -	Kamran Shahzad
	969	(775)	194	317	- do -	Nadeem Pasha
	360	(288)	72	118	- do -	Farhad Siddiqui
	879	(703)	176	288	- do -	Salman Hafeez
	744	(348)	396	260	- do -	Aamir Malik Khan
	590	(472)	118	207	- do -	Sabila Jaffery
	464	(371)	93	118	- do -	Shaukat Rehman
	775	(620)	155	254	- do -	Zahid Husain
	794	(635)	159	260	- do -	Saifulla Khan
	755	(282)	473	491	- do -	Khurram Qamar
	755	(282)	473	491	- do -	Sibtain Husain
	806	(193)	613	648	- do -	Sabeen Kazi
	805	(192)	613	644	- do -	Asif Marwat
	367	(294)	73	349	Tender	Rizwan Ahmed
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	1,499	(1,199)	300	1,427	- do -	- do -
	320	(256)	64	305	- do -	- do -
Balance c/f	28,846	(15,921)	12,925	17,066		

Notes to and Forming Part of the Financial Statements

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b/f	28,846	(15,921)	12,925	17,066		
Vehicles	678	(542)	136	645	Tender	Rizwan Ahmed
	678	(542)	136	645	- do -	- do -
	678	(542)	136	645	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	1,038	(830)	208	989	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	367	(294)	73	349	- do -	- do -
	38,157	(23,375)	14,782	25,923		

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 12, 2013 by the Board of Directors of the Company.

38. GENERAL

Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

Karachi: March 12, 2013

ARPAD KONYE
Chairman & Chief Executive

JOSEPH ZIOMEK
Director

Pattern of Holding of the Shares Held by The Shareholders

AS AT DECEMBER 31, 2012

INCORPORATION NUMBER -0002832

NUMBER OF SHAREHOLDERS	SHARE HOLDING		TOTAL SHARES HELD
	From	To	
956	1	100	22,884
434	101	500	114,183
160	501	1,000	113,142
244	1,001	5,000	495,005
39	5,001	10,000	276,758
8	10,001	15,000	95,470
1	15,001	20,000	16,387
1	20,001	25,000	21,206
1	25,001	30,000	28,915
2	35,001	40,000	76,600
1	40,001	45,000	44,526
1	45,001	50,000	46,255
1	90,001	95,000	93,600
2	12,315,001	12,320,000	24,632,116
1	35,500,001	35,505,000	35,503,294
1,852		TOTAL	**61,580,341**

CATEGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer, and their spouses and minor children	7	0.00
Associated Companies, Undertakings and related parties	60,135,410	97.65
Banks, Development Financial Institutions, Non Banking Finance Companies	13,471	0.02
Insurance Companies	21,206	0.03
Mutual Funds	3,703	0.01
Shareholders holding 5% and above	60,135,410	97.65
General Public		
Local	1,079,353	1.76
Others		
(a) Joint Stock Companies	122,284	0.20
(b) Government Organization	57,872	0.09
(c) Charitable Institutions	2,648	0.00
(d) Investment Companies	144,387	0.24

Note: Some of the shareholders are reflected in more than one category.

ARPAD KONYE
Chairman & Chief Executive

DETAILS OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF THE CODE OF CORPORATE GOVERNANCE

CATEGORIES OF SHAREHOLDERS	NO. OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
PHILIP MORRIS INVESTMENTS B.V.	47,819,356
PHILIP MORRIS BRANDS SARL	12,316,061
	60,135,417
MUTUAL FUNDS	
CDC-TRUSTEE AKD CAPITAL INDEX TRAKER FUND	3,703
DIRECTORS AND THEIR SPOUSE(S) AND MINOR CHILDREN	
MR. ARPAD KONYE	1
MR. ANDREAS FRANZ KURALI	1
MR. CHARLES HERVE BENDOTTI	1
MR. JOSEPH ZIOMEK	1
MR. NICOLAS FLOROS	1
MR. ASMER NAIM	1
MR. MUJTABA HUSSAIN	1
	7
BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON-BANKING FINANCE COMPANIES, INSURANCE COMPANIES, TAKAFUL, MODARABAS AND PENSION FUNDS	
HABIB BANK LIMITED	132
MCB BANK LIMITED	3,228
IDBP (ICP UNIT)	11
PAKISTAN REINSURANCE COMPANY LIMITED	21,206
SONERI BANK LIMITED	1,100
SUMMIT BANK LIMITED	9,000
	34,677
SHAREHOLDERS HOLDING 5% OR MORE VOTING RIGHTS IN THE LISTED COMPANY	
PHILIP MORRIS INVESTMENTS B.V.	47,819,356
PHILIP MORRIS BRANDS SARL	12,316,061
	60,135,417

Directors' Attendence

During the year 2012, four meetings of Board of Directors, five meetings of Audit Committee and one meeting of Human Resource and Remuneration Committee were held. Attendance of Chief Executive, Directors and Chief Financial Officer are given hereunder:

Name of Directors	Board of Directors Meetings	Audit Committee Meetings	Human Resource and Remuneration Committee Meeting
Mr. Arpad Konye	4	-	1
Mr. Andreas Franz Kurali	1	2	1
Mr. Joseph Ziomek	2	3	-
Mr. Nicolas Floros	2	-	-
Mr. Paul Norman Janelle	1	2	-
Ms. Eunice Hamilton	1	-	1
Mr. Charles Bendotti	-	-	-
Mr. David Abbott	2	2	-
Mr. Asmer Naim	1	1	-
Mr. Mujtaba Hussain*	4	5	-

* During the year, Mr. Mujtaba Hussain has attended and completed the 'Corporate Governance Leader Skills (CGLS) - Director Education Program' conducted by the Pakistan Institute of Corporate Governance. In this respect, the said director has also been awarded the 'Certificate of Director Education'.

Financial Highlights for Last Six Years

	Year ended December 31					
	2012	2011	2010	2009	2008	2007 (Six months period ended)
	(Rupees in thousand)					
Share Capital	**615,803**	615,803	615,803	615,803	615,803	615,803
Reserves & Surplus	**5,337,282**	5,947,375	6,549,018	6,204,126	5,378,158	4,899,018
Share Holders' Equity	**5,953,085**	6,563,178	7,164,821	6,819,929	5,993,961	5,514,821
Liabilities against assets subject to finance lease	-	-	-	-	-	-
Deferred Liabilities	-	221,000	472,000	391,000	392,904	312,000
TOTAL CAPITAL EMPLOYED	**5,953,085**	6,784,178	7,636,821	7,210,929	6,386,865	5,826,821
Fixed assets - NET	**5,386,102**	3,943,202	3,847,679	3,845,739	3,322,278	2,804,956
Long term investment	**1**	1	1	1	1	1
Long term loans deposits & prepayments	**41,347**	57,371	52,099	43,456	39,315	27,386
Deferred tax Assets	**6,887**	-	-	-	-	-
Working capital	**518,748**	2,783,604	3,737,042	3,321,733	3,025,271	2,994,478
TOTAL ASSETS	**5,953,085**	6,784,178	7,636,821	7,210,929	6,386,865	5,826,821
Turnover	**35,552,536**	31,926,667	33,910,750	30,475,781	24,937,931	10,271,943
(Loss) / Profit before tax	**(634,750)**	(530,749)	876,679	1,500,133	1,745,319	672,441
(Loss) / Profit after tax & adjustment	**(582,755)**	(454,806)	572,562	958,384	1,105,400	471,261
Dividend declared (Cash)	-	-	153,951	246,321	554,223	230,926
Bonus shares	-	-	-	-	-	-
	(Rupees)					
Break-up value of shares (inclusive of Fixed Assets Revaluation)	**96.67**	106.58	116.35	110.75	97.34	89.55
Break-up value of shares (excluding Fixed Assets Revaluation)	**96.67**	106.58	116.35	110.75	97.34	89.55
Dividend (Rupees Per Share)	-	-	2.50	4.00	9.00	3.75
Bonus shares	-	-	-	-	-	-
Net Earnings per Share	**(9.46)**	(7.39)	9.30	15.56	17.95	7.65

Auditors' Report to the Members on Review of Condensed Interim Financial Information

INTRODUCTION:

We have reviewed the accompanying condensed interim balance sheet of **LAKSONPREMIER TOBACCO COMPANY (PVT) LIMITED (the Company)** as at December 31, 2012 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

SCOPE OF REVIEW:

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2012 is not presented, in all material respects, in accordance with approved Accounting Standards as applicable in Pakistan for interim financial reporting.

EMPHASIS OF MATTER PARAGRAPH:

We draw your attention to the fact that the Company is not in operations for past many years and being a significantly owned subsidiary company of Philip Morris (Pakistan) Limited has been kept alive to meet future requirements as asserted in note 1 of the annexed condensed interim financial information. We however have not been provided with any information regarding future requirements of the Company.

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS
Engagement Partner M. Hanif Razzak

Karachi : March 12, 2013

Condensed Interim Balance Sheet as at December 31, 2012 (Un-audited)

	December 31, 2012 Rupees	June 30, 2012 Rupees
ASSETS:	**-**	-
EQUITY & LIABILITIES:		
SHARE CAPITAL:		
Authorized Capital:		
1,000,000 Ordinary Shares of Rs. 10 each	**10,000,000**	10,000,000
Issued, Subscribed & Paid-up Capital:		
103 Ordinary Shares of Rs.10 each fully-paid	**1,030**	1,030
Accumulated loss	**(1,030)**	(1,030)
	-	-

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

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

Condensed Interim Profit & Loss Account (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2012

	December 31, 2012 Rupees	December 31, 2011 Rupees
Income:	–	–
Expenditure:	–	–
Income/Loss for the year	–	–

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

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

Condensed Interim Cash Flow Statement (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2012

	December 31, 2012 Rupees	December 31, 2011 Rupees
Cash Flow from Operating Activities	–	–
Cash Flow from Investing Activities	–	–
Cash Flow from Financing Activities	–	–
Net Increase/ (Decrease) in Cash and Bank Balance	–	–
Cash and Bank Balances at the beginning of the year	–	–
Cash and Bank Balances at the end of the year	–	–

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

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

Condensed Interim Statement of Changes in Equity (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2012

	Issued Subscribed & Paid-up Capital	General Reserve	Accumulated Profit/(Loss)	Total
	(Rupees)			
Balance as at July 01, 2011	1,030	–	(1,030)	–
Profit / (Loss) for the year	–	–	–	–
Balance as at June 30, 2012	1,030	–	(1,030)	–
Profit / (Loss) for the year	–	–	–	–
Balance as at December 31, 2012	**1,030**	–	**(1,030)**	–

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

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

Notes to the Condensed Interim Financial Statements (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2012

1. **STATUS AND NATURE OF BUSINESS:**
The Company was incorporated as a Private Limited Company and registered under the Companies Ordinance, 1984. Its shares are fully owned by Philip Morris (Pakistan) Limited. The Philip Morris (Pakistan) Limited has sufficient facilities to meet the tobacco production requirements, so LaksonPremier Tobacco Company (Pvt) Limited is not in operation. The Company has been kept alive for meeting the future requirements and accordingly no going concern issue has arisen.

2. These condensed Interim Financial Statements are un-audited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984. These Financial Statements have been prepared in accordance with approved International Accounting Standards, as applicable in Pakistan.

3. The accounting policies adopted for preparation of these financial statements are the same as those applied in preparation of the annual financial statements for the year ended June 30, 2012.

	December 31, 2012 Rupees	December 31, 2011 Rupees
4. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS/RELATED PARTY:		
Expenses borne by Holding Company:		
Filing fees for Annual Returns to SECP		
Form 29 Form A with Registrar of Joint Stock Companies	**4,500**	7,000
Auditors Remuneration	**68,000**	68,000

5. **DATE OF AUTHORIZATION FOR ISSUE:**
These financial statement were authorized for issue on March 12, 2013 by the Board of Directors of the Company.

6. **COMMENTS:**
The Company had applied to the Regional Tax Officer enforcement division II, Karachi, to change the financial year end from June 30 to December 31. The application is currently under review, therefore the financial year remains the same as June 30.

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

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PHILIP MORRIS (PAKISTAN) LIMITED

Form of Proxy

I/We ____

of ____

a member of **PHILIP MORRIS (PAKISTAN) LIMITED**

hereby appoint ____

of ____

or failing him ____

of ____

who is/are also member/s of Philip Morris (Pakistan) Limited to act as my/our proxy and to vote for me/us and on my/our behalf at the Annual General Meeting of the shareholders of the Company to be held on April 15, 2013 and at any adjournment thereof.

Signed this ____________ day of ____________ 2013.

Folio No.	CDC Participant ID No.	CDC Account/ Sub Account No.	No. of shares held

Signature over Revenue Stamp

Witness 1

Signature ____________________

Name ____________________

CNIC No. ____________________

Address ____________________

____

Witness 2

Signature ____________________

Name ____________________

CNIC No. ____________________

Address ____________________

____

Notes :
1. The proxy must be a member of the Company.
2. The signature must tally with the specimen signature/s registered with the Company.
3. If a proxy is granted by a member who has deposited his/her shares in Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and CDC account/sub-account number alongwith attested photocopies of Computerized National Identity Card or the Passport of the beneficial owner. Representatives of corporate members should bring the usual documents required for such purpose.
4. The instrument of Proxy properly completed should be deposited at the Share Registrar's Office of the Company not less than 48 hours before the time of the meeting.

Philip Morris (Pakistan) Limited
19th Floor, The Harbour Front, Dolmen City
HC-3, Block-4, Clifton Karachi-75600