PHILIP MORRIS (PAKISTAN) LIMITED

2013 Annual Report

PHILIP MORRIS (PAKISTAN) LIMITED

Annual Report December 31, 2013

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Corporate Information

BOARD OF DIRECTORS

ARPAD KONYE (Chairman & Chief Executive)
(until January 31, 2014)
ALEJANDRO PASCHALIDES (Chairman & Chief Executive)
(with effect from February 1, 2014)
NICOLAS FLOROS
ANDREAS FRANZ KURALI
JOSEPH ZIOMEK
CHARLES BENDOTTI
MUJTABA HUSSAIN
ASMER NAIM

COMPANY SECRETARY

MUJTABA HUSSAIN

AUDIT COMMITTEE

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

HUMAN RESOURCE & REMUNERATION COMMITTEE

CHARLES BENDOTTI (Chairman)
ARPAD KONYE
(until January 31, 2014)
ALEJANDRO PASCHALIDES
(with effect from February 1, 2014)
ANDREAS FRANZ KURALI
DION LESWARA (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
FAYSAL BANK LIMITED

REGISTERED OFFICE

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

FACTORIES

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

2. E/15, S.I.T.E., KOTRI
   DISTRICT: DADU (SINDH)

3. QUADIRABAD
   DISTRICT: SAHIWAL

4. VILLAGE: MANDRA
   TEHSIL: GUJJAR KHAN
   DISTRICT: RAWALPINDI

5. ISMAILA
   DISTRICT: SWABI

NOTICE IS HEREBY GIVEN that the 45th Annual General Meeting of **PHILIP MORRIS (PAKISTAN) LIMITED** will be held on Wednesday, April 23, 2014 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, 2013 together with the Directors' and Auditor's Report 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, 2014.

By Order of the Board

MUJTABA HUSSAIN
Director & Company Secretary

Karachi: March 25, 2014

NOTES:

1. The share transfer books of the Company will remain closed from April 15, 2014 to April 23, 2014 (both days inclusive). Transfers received in order at the Office of the Company's share Registrar, THK Associates (Pvt.) Ltd., 2nd Floor, State Life Building - 3, Dr. Ziauddin Ahmed Road, Karachi up to April 14, 2014 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. Member 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 (CNIC) 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 (up to January 31, 2014) Alejandro Paschalides (w.e.f. February 01, 2014) 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 ten 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. There were no casual vacancies occurring on the board during the year.

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. The Chairman Audit Committee was, however, unable to attend the preceding Annual General Meeting of the Company.

Statement of Compliance with the Code of Corporate Governance

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.

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. On March 12, 2014 an executive member of the Audit Committee was appointed as the chairman of the Audit Committee. 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, including the chairman of the committee.

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.

ALEJANDRO PASCHALIDES
Chairman and Chief Executive

Karachi: March 13, 2014

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Philip Morris (Pakistan) Limited (the Company) for the year ended December 31, 2013 to comply with the requirements of Listing Regulation No. 35 of Karachi and Lahore Stock Exchanges where the Company is listed.

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

As 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 of Director's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended December 31, 2013.

Further, we would like to highlight an instance of non-compliance with the requirement of the Code as reflected in the Statement (point reference 8) that the Chairman Audit Committee was unable to attend the preceding Annual General Meeting.

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

Karachi: March 19, 2014

FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2013 in comparison with the previous year is as follows:

	Year ended December 31, 2013		**Year ended December 31, 2012 (Restated)**	
	Rs million	**%**	**Rs million**	**%**
Gross Turnover	**35,985**	**100.00**	35,553	100.00
Gross Profit	**3,668**	**10.19**	3,813	10.72
Operating Loss	**(530)**	**(1.47)**	(160)	(0.45)
Loss before tax	**(709)**	**(1.97)**	(622)	(1.75)
Loss after tax	**(441)**	**(1.23)**	(574)	(1.61)

In 2013, the gross turnover increased by 1.22% while gross profit decreased by 3.80%. 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. 7.17 in 2013 as compared to a loss per share of Rs. 9.33 in 2012.

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. 2,088 million in 2013, an increase of 10% versus 2012. These investments are primarily made under the umbrella of a comprehensive project of modernizing manufacturing facilities and equipment, safeguarding assets through warehousing upgrades and achieving overall improvements in productivity and product quality. The investments are planned to continue over the next year. These investments 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 2013.

APPROPRIATION OF PROFIT

The loss for the year, has been appropriated as follows:

	Year ended December 31, 2013	Year ended December 31, 2012 (Restated)
	Rs '000	
Operating Loss	**(529,500)**	(159,588)
Loss after tax	**(441,458)**	(574,384)
Accumulated (Loss) / profit brought forward	**(929,407)**	(355,023)
Loss available for appropriation	**(1,370,865)**	(929,407)
Appropriations:		
Proposed cash dividend	**Nil**	Nil
Transfer to general reserve	**Nil**	Nil
Un-appropriated Loss carried forward	**(1,370,865)**	(929,407)
Basic Loss Per Share (Rs)	**(7.17)**	(9.33)

MATERIAL CHANGES AND COMMITMENTS

During the period between the end of the financial year 2013 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 2013, the Company contributed Rs 23.8 billion to the national Exchequer in the form of Federal Excise Duties, Custom Duties, Sales Tax and Income Tax, which represents a 2% increase compared to 2012. 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 2013, including:

- Installation of 309 hand pumps benefitting more than 21,000 community members
- Rehabilitation of 10 new schools, up gradation of 16 existing schools, increasing school enrollment by 15%; Agriculture Labor Practices Program (ALP) - Summer School Program 2013, the program has been piloted this year, as a component of the ALP program to curb child labor in the tobacco growing districts.
- Benefitting more than 55,000 farmer community members through a mobile health unit project
- Reaching out to domestic violence burn victims by funding reconstructive surgery of 30 individuals
- Benefiting more than 10,000 individuals via sanitation and hygiene projects
- Installation of 72 solar geysers benefiting more than 10,000 community members

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 2013, 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 except as disclosed in note 3 to the enclosed financial statements. 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, 2013 and for the last six financial periods are set out in page 15 ; 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	896	(Financial statements audited as of December 31, 2012)
Gratuity Fund	437	(Financial statements audited as of December 31, 2012)

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 2013, 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	2
Mr. Nicolas Floros	1
Mr. Andreas Franz Kurali	2
Mr. Joseph Ziomek	4
Mr. Charles Bendotti	1
Mr. Asmer Naim	4
Mr. Mujtaba Hussain	4

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

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 four meetings were held during the year. The attendance of Directors in those meetings is documented and provided here under:

Name of Directors	No. of meetings attended
Mr. Andreas Franz Kurali	2
Mr. Joseph Ziomek	4
Mr. Charles Bendotti	-
Mr. Asmer Naim	4
Mr. Mujtaba Hussain	4

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

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. One meeting was held during the year.

During the year, Ms. Lubov Gouskova, Secretary of the Committee resigned and her successor, Mr. Dion Leswara was appointed, effective September 1, 2013.

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. Dion Leswara - Secretary

During 2013, one meeting has been held by the Committee. The attendance of Directors in this meeting is documented and provided here under:

Name of Directors	No. of meetings attended
Mr. Arpad Konye	1
Mr. Andreas Franz Kurali	1
Mr. Charles Bendotti	-

Leaves of absence were granted to the Directors who could not attend the Human Resource and Remuneration Committee meetings.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2013 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, 2014. 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 2013. Details of those are provided in the Notes to the Financial Statements section 3.

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 for the 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 2013.

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

ALEJANDRO PASCHALIDES
Chairman and Chief Executive

Karachi: March 13, 2014

Pattern of Holding of Shares

AS AT DECEMBER 31, 2013
INCORPORATION NUMBER - 0002832

NUMBER OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD
	From	To	
924	1	100	21,790
383	101	500	99,960
145	501	1,000	101,939
217	1,001	5,000	441,864
31	5,001	10,000	221,988
5	10,001	15,000	59,488
2	15,001	20,000	33,350
1	20,001	25,000	21,206
1	25,001	30,000	28,915
1	40,001	45,000	44,476
1	45,001	50,000	46,255
1	320,001	325,000	323,700
2	12,315,001	12,320,000	24,632,116
1	35,500,001	35,505,000	35,503,294
1,715		TOTAL	61,580,341

CATEGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer, and their spouse and minor children.	7	0.00
Associated Companies, undertakings and related parties.	60,135,410	97.65
Banks, Development Financial Institutions, Non-Banking Financial Institutions.	12,360	0.02
Insurance Companies	21,206	0.03
Share holders holding 5% and above	60,135,410	97.65
General Public :		
Local	966,755	1.57
Others	444,603	0.72

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

Karachi: March 13, 2014

ALEJANDRO PASCHALIDES
Chairman and 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.	47,819,350
PHILIP MORRIS BRANDS SARL	12,316,060
	60,135,410
DIRECTORS AND THEIR SPOUSE(S) AND MINOR CHILDREN	
MR. ANDREAS FRANZ KURALI	1
MR. ARPAD KONYE	1
MR. CHARLES BENDOTTI	1
MR. JOSEPH ZIOMEK	1
MR. NICOLAS FLOROS	1
MR. MUJTABA HUSSAIN	1
MR. ASMER NAIM	1
	7
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, TAKAFUL, MODARABAS AND PENSION FUNDS	
HABIB BANK LIMITED	132
MCB BANK LIMITED	3,228
SUMMIT BANK LIMITED	9,000
PAKISTAN REINSURANCE COMPANY LIMITED	21,206
	33,566
SHAREHOLDERS HOLDING 5% OR MORE VOTING RIGHTS IN THE LISTED COMPANY	
PHILIP MORRIS INVESTMENTS B.V.	47,819,350
PHILIP MORRIS BRANDS SARL	12,316,060
	60,135,410

Financial Highlights for Last Six Years

	Year ended December 31					
	2013	2012 (Restated)	2011 (Restated)	2010 (Restated)	2009 (Restated)	2008 (Restated)
	(Rupees in thousand)					
Share Capital	615,803	615,803	615,803	615,803	615,803	615,803
Reserves & Surplus	4,877,776	5,337,282	5,947,375	6,549,018	6,204,126	5,378,158
Share Holders' Equity	**5,493,579**	**5,953,085**	**6,563,178**	**7,164,821**	**6,819,929**	**5,993,961**
Deferred liabilities	-	-	221,000	472,000	391,000	392,904
TOTAL CAPITAL EMPLOYED	**5,493,579**	**5,953,085**	**6,784,178**	**7,636,821**	**7,210,929**	**6,386,865**
Fixed assets - Net	6,902,926	5,389,680	3,945,989	3,847,679	3,845,739	3,322,278
Long-term investment	1	1	1	1	1	1
Long-term loans, deposits & prepayments	41,101	41,347	57,371	52,099	43,456	39,315
Deferred tax assets	379,978	6,887	-	-	-	-
Working capital	(1,830,427)	515,170	2,780,817	3,737,042	3,321,733	3,025,271
TOTAL ASSETS	**5,493,579**	**5,953,085**	**6,784,178**	**7,636,821**	**7,210,929**	**6,386,865**
Turnover	35,984,891	35,552,536	31,926,667	33,910,750	30,475,781	24,937,931
(Loss) / Profit before tax	(708,860)	(622,042)	(518,272)	881,623	1,507,190	1,774,516
(Loss) / Profit after tax & adjustment	(441,458)	(574,384)	(442,329)	577,506	965,441	1,134,597
Dividends declared (Cash)	-	-	-	153,951	246,321	554,223
	(Rupees)					
Break-up value of shares	89.21	96.67	106.58	116.35	110.75	97.34
Dividend Per Share	-	-	-	2.50	4.00	9.00
Net (Loss) / Earning per Share	(7.17)	(9.33)	(7.18)	9.38	15.68	18.42

Auditors' Report to the Members

We have audited the annexed balance sheet of Philip Morris (Pakistan) Limited as at December 31, 2013 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 except for the changes as stated in note 3 with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of 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, 2013 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).

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

Karachi: March 19, 2014

Balance Sheet as at December 31, 2013

	Note	December 31, 2013	December 31, 2012	January 1, 2012
			(Rupees in thousand)	
			(Restated)	(Restated)
ASSETS				
NON CURRENT ASSETS				
FIXED ASSETS				
Property, plant and equipment	4	**6,876,731**	5,356,534	3,944,239
Intangibles	5	**26,195**	33,146	1,750
		6,902,926	5,389,680	3,945,989
Investment in a subsidiary company	6	**1**	1	1
Long term loans	7	**-**	-	17
Long term deposits and prepayments	8	**41,101**	41,347	57,354
Deferred taxation	9	**379,978**	6,887	-
		7,324,006	5,437,915	4,003,361
CURRENT ASSETS				
Stores and spares - net	10	**588,330**	520,089	358,828
Stock in trade - net	11	**7,431,233**	6,841,159	6,776,689
Trade debts - net	12	**996**	195,376	210,781
Loans and advances	13	**69,434**	75,970	70,280
Prepayments		**256,141**	172,205	148,218
Other receivables	14	**215,022**	54,356	116,109
Income tax - net		**670,942**	441,844	533,810
Cash and bank balances	15	**12,753**	17,373	28,088
		9,244,851	8,318,372	8,242,803
TOTAL ASSETS		**16,568,857**	13,756,287	12,246,164
EQUITY AND LIABILITIES				
SHARE CAPITAL AND RESERVES				
Authorised capital	16	**1,000,000**	1,000,000	1,000,000
Issued, subscribed and paid-up capital	16	**615,803**	615,803	615,803
Reserves		**6,248,641**	6,266,689	6,302,398
Unappropriated loss		**(1,370,865)**	(929,407)	(355,023)
TOTAL EQUITY		**5,493,579**	5,953,085	6,563,178
NON CURRENT LIABILITIES				
Deferred taxation	9	**-**	-	221,000
CURRENT LIABILITIES				
Short term borrowings	19	**8,776,634**	4,923,921	2,810,170
Trade and other payables	20	**2,027,811**	2,090,449	1,117,395
Accrued mark-up on short term borrowings		**78,072**	70,231	82,586
Sales tax and excise duty payable		**192,761**	718,601	1,451,835
		11,075,278	7,803,202	5,461,986
TOTAL LIABILITIES		**11,075,278**	7,803,202	5,682,986
TOTAL EQUITY AND LIABILITIES		**16,568,857**	13,756,287	12,246,164
CONTINGENCIES AND COMMITMENTS	21			

The annexed notes from 1 to 41 form an integral part of these financial statements.

Karachi: March 13, 2014

ALEJANDRO PASCHALIDES
Chairman and Chief Executive

JOSEPH ZIOMEK
Director

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	2013	2012
		(Rupees in thousand)	
			(Restated)
Gross turnover		**35,984,891**	35,552,536
Less: Sales tax		**5,182,547**	5,036,626
Excise duty		**17,073,917**	16,964,741
Turnover - net of sales tax and excise duty		**13,728,427**	13,551,169
Cost of sales	22	**10,060,128**	9,738,064
Gross profit		**3,668,299**	3,813,105
Distribution and marketing expenses	23	**3,035,215**	2,804,168
Administrative expenses	24	**1,162,584**	1,168,525
		4,197,799	3,972,693
Operating loss		**(529,500)**	(159,588)
Other expenses	25	**46,990**	164,945
		(576,490)	(324,533)
Other income	26	**395,055**	32,334
		(181,435)	(292,199)
Finance cost	27	**527,425**	329,843
Loss before taxation		**(708,860)**	(622,042)
Taxation	28	**(267,402)**	(47,658)
Loss after taxation		**(441,458)**	(574,384)
Other comprehensive loss for the year - net of tax			
Item that will not be reclassified to profit or loss			
Remeasurement relating to staff retirement gratuity		**9,065**	12,708
Impact of deferred tax		**(2,687)**	(4,337)
Total items that will not be reclassified to profit and loss		**6,378**	8,371
Total comprehensive loss for the year		**(447,836)**	(582,755)
		Rupees	
			(Restated)
Loss per share - basic	29	**(7.17)**	(9.33)

The annexed notes from 1 to 41 form an integral part of these financial statements.

Karachi: March 13, 2014

ALEJANDRO PASCHALIDES
Chairman and Chief Executive

JOSEPH ZIOMEK
Director

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2013

	Issued, subscribed and paid-up capital	General reserve	Reserve for share based payments	Re-measurement of staff retirement gratuity plan	Subtotal Reserves	Unappropriated (Loss)	Total
	------------------------- (Rupees in thousand) -------------------------						
Balance as at January 1, 2012							
- as previously reported	615,803	6,347,000	52,238	-	6,399,238	(451,863)	6,563,178
Effect of retrospective application of change in an accounting policy - in note 3	-	-	-	(96,840)	(96,840)	96,840	-
Balance as at January 1, 2012 - restated	615,803	6,347,000	52,238	(96,840)	6,302,398	(355,023)	6,563,178
Transactions with owners							
Share-based payment							
- expense	-	-	32,224	-	32,224	-	32,224
- recharge (notes 2.4.17 and 18)	-	-	(59,562)	-	(59,562)	-	(59,562)
	-	-	(27,338)	-	(27,338)	-	(27,338)
Total comprehensive loss							
Loss after taxation for the year ended December 31, 2012	-	-	-	-	-	(574,384)	(574,384)
Other comprehensive loss for the year	-	-	-	(8,371)	(8,371)	-	(8,371)
	-	-	-	(8,371)	(8,371)	(574,384)	(582,755)
Balance as at December 31, 2012 - restated	615,803	6,347,000	24,900	(105,211)	6,266,689	(929,407)	5,953,085
Transactions with owners							
Share-based payment							
- expense	-	-	26,136	-	26,136	-	26,136
- recharge (notes 2.4.17 and 18)	-	-	(37,806)	-	(37,806)	-	(37,806)
	-	-	(11,670)	-	(11,670)	-	(11,670)
Total comprehensive loss							
Loss after taxation for the year ended December 31, 2013	-	-	-	-	-	(441,458)	(441,458)
Other comprehensive loss for the year	-	-	-	(6,378)	(6,378)	-	(6,378)
	-	-	-	(6,378)	(6,378)	(441,458)	(447,836)
Balance as at December 31, 2013	615,803	6,347,000	13,230	(111,589)	6,248,641	(1,370,865)	5,493,579

The annexed notes from 1 to 41 form an integral part of these financial statements.

Karachi: March 13, 2014

ALEJANDRO PASCHALIDES
Chairman and Chief Executive

JOSEPH ZIOMEK
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	2013	2012
		(Rupees in thousand)	(Restated)
CASH FLOW FROM OPERATING ACTIVITIES			
Cash (utilised in) / generated from operations	33	**(1,282,533)**	242,614
Staff retirement gratuity paid		**(60,564)**	(52,651)
Finance cost paid		**(498,053)**	(327,945)
Income taxes paid		**(332,100)**	(83,926)
Long term loans		**-**	17
Long term deposits and prepayments		**246**	16,007
Net cash used in operating activities		**(2,173,004)**	(205,884)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		**(2,088,323)**	(1,896,411)
Acquisition of intangible		**(833)**	(33,447)
Proceeds from disposal of items of property, plant and equipment		**346,887**	38,778
Income received from short term deposits		**940**	2,778
Net cash used in investing activities		**(1,741,329)**	(1,888,302)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**-**	(280)
Proceeds of loans from associated undertaking		**17,469,950**	1,915,000
Repayment of loans from associated undertaking		**(13,538,950)**	-
Net cash provided by financing activities		**3,931,000**	1,914,720
Net increase / (decrease) in cash and cash equivalents during the year		**16,667**	(179,466)
Cash and cash equivalents at the beginning of the year		**(2,961,548)**	(2,782,082)
Cash and cash equivalents at the end of the year	34	**(2,944,881)**	(2,961,548)

The annexed notes from 1 to 41 form an integral part of these financial statements.

Karachi: March 13, 2014

ALEJANDRO PASCHALIDES
Chairman and Chief Executive

JOSEPH ZIOMEK
Director

1. THE COMPANY AND ITS OPERATIONS

1.1 Philip Morris (Pakistan) Limited (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., (the parent company) 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/233/619/02-1247 dated December 2, 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 are stated in note 6.

2. SIGNIFICANT ACCOUNTING INFORMATION AND POLICIES

2.1 Basis of preparation and statement of compliance

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

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

2.2 Initial application of new 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, 2013:

There were certain new / revised standards, amendments to the approved accounting standards and new interpretation issued by the International Financial Reporting Interpretations Committee (IFRIC) which became effective during the year ended December 31, 2013 but are considered not to be relevant or have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements except for the following:

(i) International accounting standards (IAS) 19, (revised) 'Employee Benefits'.

(ii) Amendment to IAS 1 'Presentation of financial statements' regarding disclosure requirements for comparative information.

(iii) Amendment to IAS 1 'Presentation of financial statements' regarding presentation in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

The impacts and effects of the adoption of the aforementioned revised standard and amendments are stated in note 3 below.

2.2.2 New standards, amendments to published approved accounting standards and interpretations that are effective for the periods beginning after January 1, 2013:

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, 2013 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. 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 11). 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 9).

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 17.1 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.

2.4 Summary of significant accounting policies

2.4.1 Property, plant and equipment and intangible

(i) 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 4.1) 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.

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.

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.

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.

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.

(ii) 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.

(iii) Major spare parts and stand-by equipments

Effective January 1, 2013 major spare parts and stand by equipment qualifying as property, plant and equipment and having cost exceeding the minimum threshold as determined by management are classified as property, plant and equipment. Transfers are made to relevant categories of operating property, plant and equipment when the same are consumed. Previously, such major spare parts and stand-by equipment were classified as 'Stores and Spares' under current assets and were charged to profit and loss account upon consumption. The effect of change in accounting policy is stated in note 3 below.

2.4.2 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.

2.4.3 Investments

(i) 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.

(ii) 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.

2.4.4 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.

2.4.5 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.

2.4.6 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.

2.4.7 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.

2.4.8 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.

2.4.9 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.

2.4.10 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.

2.4.11 Taxation

(i) 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, and tax paid on final tax basis or minimum tax on turnover, whichever is higher. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from the assessments made / finalised during the year.

(ii) 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.

2.4.12 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.

2.4.13 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.

2.4.14 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.

Gross sales are disclosed net off sales allowances.

2.4.15 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.

Effective from January 1, 2013 all actuarial gains and losses are recognised in 'other comprehensive income' as they occur. Previously, actuarial gains / losses were recognised in profit and loss account as they were incurred. The effect of change in this accounting policy is stated in note 3 below.

2.4.16 Compensated absences

The Company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels. As the component of liability involved is not material, the Company does not carry out actuarial valuation for the said liability.

2.4.17 Equity-settled share-based payment plans

The Company recognises as expense the services acquired over the vesting period and the corresponding increase in equity (as contribution from the ultimate parent) at 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.

2.4.18 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 of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

2.4.19 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.

2.4.20 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.

2.4.21 Segment reporting

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

3. CHANGES IN ACCOUNTING POLICIES

3.1 Amendment to IAS 1 'Presentation of Financial statements' regarding 'other comprehensive income'

The primary change resulting from this amendment is that the Company has grouped items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). Had there been no change in the aforementioned accounting, there would not have been any classification of the item appearing in the 'other comprehensive income'.

3.2 Adoption of amendments in IAS 19, (Revised) 'Employee Benefits'

IAS 19 (Revised) 'Employee benefits' amends the accounting for the Company's defined benefit plan. The revised standard has been applied retrospectively in accordance with the transition provisions of the standard. The impact of the adoption of IAS 19 (revised) has been in the following areas:

- The standard requires all actuarial gains and losses to be recognised immediately in 'other comprehensive income' and shall not be amortised to the profit and loss account.

- The standard requires past service cost to be recognised immediately in profit or loss. This change had no impact on the financial statements as there was no past service cost in the current or past years.

- The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. There is no change to determining the discount rate; this continues to reflect the yield on high-quality corporate bonds. The effect of this change in accounting policy is not material in the overall context of these financial statements and these financial statements have not been restated on this account.

- There is a new term 'remeasurement'. This is made up of actuarial gains and losses arising on defined benefit obligation and plan assets.

	Balance previously reported	**Effect of change in accounting policy (Rupees in thousand)**	**Restated amount**
As at January 1, 2012			
Balance Sheet			
Reserves - Unappropriated loss	(451,863)	96,840	(355,023)
Reserves - Remeasurement relating to staff retirement gratuity	-	(96,840)	(96,840)
As at December 31, 2012			
Balance Sheet			
Reserves - Unappropriated loss	(1,034,618)	105,211	(929,407)
Reserves - Remeasurement relating to staff retirement gratuity	-	(105,211)	(105,211)
For the year ended December 31, 2012			
Profit and loss account			
Cost of sales	9,743,218	(5,154)	9,738,064
Distribution and marketing expenses	2,808,927	(4,759)	2,804,168
Administrative expenses	1,171,320	(2,795)	1,168,525
Taxation - Deferred	(227,887)	4,337	(223,550)
Loss after taxation	582,755	(8,371)	574,384
Loss per share - in rupees	(9.46)	0.13	(9.33)
For the year ended December 31, 2012			
Other comprehensive loss			
Remeasurement relating to staff retirement gratuity - net of tax	-	8,371	8,371

3.3 "Amendment to IAS 1 'Presentation of financial statements regarding disclosure requirements for comparative information:"

The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet as required by IAS 8 “Accounting policies, changes in accounting estimates and errors’, the balance sheet should be as at the beginning of the preceding period i.e. the opening position. No notes are required to support this balance sheet.

3.4 During the year the Securities and Exchange Commission of Pakistan through SRO 183 (I)/2013 dated March 8, 2013 has made certain amendments in the Fourth Schedule to the Ordinance which classifies major spare parts and stand-by equipment qualifying as property, plant and equipment as such the effect of change in the requirement is considered to be a change in accounting policy and has been applied retrospectively. The effect of such change has been demonstrated below:

		2012	2011
Reclassified from	**Reclassified to**	**(Rupees in thousand)**	
Stores and spares	Property, plant and equipment - major capital spares and stand-by equipment	3,578	2,787

The effect of this change on expense pertaining to consumption and depreciation is not considered to be material in the overall context of these financial statements, therefore has not been adjusted.

	Note	2013	2012
4. PROPERTY, PLANT AND EQUIPMENT		**(Rupees in thousand)**	**(Restated)**
Operating property, plant and equipment	4.1	**4,286,803**	3,208,561
Capital work-in-progress	4.2	**2,583,090**	2,144,395
Major capital spares and stand-by equipment		**6,838**	3,578
		6,876,731	5,356,534

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

4.1 Operating property, plant and equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Vehicles	Power and other installations	Computer equipment	Total
	(Rupees in thousand)											
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
Year ended December31, 2012												
Transfers from CWIP see note 4.2.1	-	-	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 4.1.1	-	(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
Year ended December 31, 2013												
Transfers from CWIP see note 4.2.1	-	-	67,586	-	24,949	854,536	63,296	6,647	522,104	50,478	56,772	1,646,368
Transfers												
Cost	-	-	3,179	-	-	-	-	-	-	(3,179)	-	-
Accumulated depreciation	-	-	(616)	-	-	-	-	-	-	616	-	-
	-	-	2,563	-	-	-	-	-	-	(2,563)	-	-
Disposals												
Cost	(2,909)	-	(64,878)	-	-	(143,977)	(1,274)	-	(122,206)	(9,347)	-	(344,591)
Accumulated depreciation	-	-	57,334	-	-	141,930	1,274	-	89,570	9,347	-	299,455
	(2,909)	-	(7,544)	-	-	(2,047)	-	-	(32,636)	-	-	(45,136)
Write-offs												
Cost	-	-	-	-	-	-	(12,057)	(14,553)	(55)	-	(29,967)	(56,632)
Accumulated depreciation	-	-	-	-	-	-	12,057	14,552	55	-	29,930	56,594
	-	-	-	-	-	-	-	(1)	-	-	(37)	(38)
Depreciation charge - note 4.1.1	-	(90)	(10,819)	(1,505)	(34,954)	(252,321)	(21,649)	(4,985)	(152,535)	(21,432)	(22,662)	(522,952)
Net book value as at December 31, 2013	105,541	1,678	307,008	32,623	126,303	2,375,628	104,234	6,864	872,045	281,387	73,492	4,286,803
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
At December 31, 2013												
Cost	105,541	2,441	640,929	60,190	187,246	4,963,294	223,707	50,455	1,363,865	553,381	247,856	8,398,905
Accumulated depreciation	-	(763)	(333,921)	(27,567)	(60,943)	(2,547,752)	(119,011)	(42,891)	(491,820)	(261,868)	(173,866)	(4,060,402)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,126)	(498)	(51,700)
Net book value	105,541	1,678	307,008	32,623	126,303	2,375,628	104,234	6,864	872,045	281,387	73,492	4,286,803
Depreciation rate	-	4%	2.50%	2.50%	20%	6.67% to 20%	20%	20%	20%	6.67%	33.33%	

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

	Note	2013	2012
		(Rupees in thousand)	
Purchases, redrying and related expenses	22.1	**41,083**	37,122
Manufacturing expenses	22.2	**283,508**	222,860
Distribution and marketing expenses	23	**100,457**	77,519
Administrative expenses	24	**97,904**	82,773
		522,952	420,274

4.1.2 Operating property, plant and equipment include assets having cost of Rs 1,176 million (2012: Rs 1,181 million) which were fully depreciated as at the year end.

4.1.3 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 37.

4.2 Capital work-in-progress	Note	2013	2012
		(Rupees in thousand)	
Civil works		**530,288**	245,738
Plant and machinery	4.2.2	**1,262,194**	1,590,679
Power and other installations		**501,741**	96,695
Furniture and fittings		**46,150**	55,681
Computer equipment pending installation		**60,332**	17,509
Advance to suppliers and contractors		**182,385**	138,093
		2,583,090	2,144,395

4.2.1 The movement in capital work-in-progress is as follows:

	2013	2012
Balance as at beginning of the year	**2,144,395**	1,033,489
Additions during the year		
- Civil works	**352,136**	604,946
- Plant and machinery	**526,051**	1,164,813
- Power and other installations	**455,524**	2,848
- Furniture and fittings	**53,765**	52,077
- Computer equipment pending installations	**99,595**	6,990
- Advance to suppliers and contractors	**597,992**	63,946
	2,085,063	1,895,620
Transfers to operating fixed assets		
- Buildings on freehold land	**67,586**	13,938
- Leasehold improvements	**24,949**	142,385
- Plant and machinery	**854,536**	209,275
- Furniture and fixtures	**63,296**	42,352
- Office equipment	**6,647**	2,784
- Vehicles	**522,104**	305,484
- Power and other installations	**50,478**	44,653
- Computer equipment	**56,772**	23,843
	1,646,368	784,714
Balance at end of the year	**2,583,090**	2,144,395

4.2.2 This includes plant and machinery in transit aggregating Rs Nil (2012: Rs 166.220 million).

5. INTANGIBLES

	Note	2013	2012
		Computer software (Rupees in thousand)	
At January 1			
Cost		**35,247**	189,409
Accumulated amortisation		**2,101**	187,659
Net book value		**33,146**	1,750
Year ended December 31			
Additions		**833**	33,447
Write offs			
Cost		**-**	(187,609)
Accumulated amortisation		**-**	187,609
		-	-
Amortisation for the year	5.1	**7,784**	2,051
Net book value as at December 31		**26,195**	33,146
At December 31			
Cost		**36,080**	35,247
Accumulated amortisation		**9,885**	2,101
Net book value		**26,195**	33,146

5.1 Amortisation for the year relates to administrative expenses (note 24).

6. 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, two shares are in the name of the nominees. During the year ended December 31, 2013, 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, 2013 amounted to Rs Nil, in accordance with the audited financial statements for the year ended.

7. LONG TERM LOANS

	Note	2013	2012
		(Rupees in thousand)	
Considered good			
		-	51
Loans to employees	7.1	**-**	(51)
Less: Current portion shown under current assets	13	**-**	-

7.1 These represented mark-up free loans given to employees for purchase of vehicles in accordance with the Company policy and were secured by pledge of original registration documents of the vehicles and demand promissory notes. These loans were recoverable in equal monthly installments over a period of five years. The difference between the carrying amount and the related amortised cost was not considered material in the overall context of the financial statements for the year ended December 31, 2012, therefore, was not recognised.

8. LONG TERM DEPOSITS AND PREPAYMENTS

	2013	2012
	(Rupees in thousand)	
Deposits	**32,203**	36,967
Prepayments	**8,898**	4,380
	41,101	41,347

9. DEFERRED TAXATION

	2013	2012
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	**(499,663)**	(426,320)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	**1,350**	1,150
Amortisation of intangible	**115**	119
Unutilised tax loss and credit	**652,017**	278,983
Minimum tax	**207,440**	152,006
Provision for obsolete stocks	**17,798**	-
Provision for doubtful debts	**921**	949
	879,641	433,207
Deferred tax asset	**379,978**	6,887

9.1 The movement in temporary differences is as follows:

	Balance as at January 1, 2012	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2012	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2013
	Rupees in '000						
Deferred tax Credits:							
Tax depreciation allowance	(400,040)	(26,280)	-	(426,320)	(73,343)	-	(499,663)
Deferred tax debits:							
Accrual for employees compensated absences	878	272	-	1,150	200	-	1,350
Amortisation of intangible	4,282	(4,163)	-	119	(4)	-	115
Unutilised tax loss and credit	59,598	223,722	(4,337)	278,983	375,721	(2,687)	652,017
Minimum tax	112,313	39,693	-	152,006	55,434	-	207,440
Provision for spares	488	(488)	-	-	-	-	-
Provision for obsolete stocks	532	(532)	-	-	17,798	-	17,798
Provision for doubtful debts	949	-	-	949	(28)	-	921
	179,040	258,504	(4,337)	433,207	449,121	(2,687)	879,641
	(221,000)	232,224	(4,337)	6,887	375,778	(2,687)	379,978

10. STORES AND SPARES - net

	Note	2013	2012
		(Rupees in thousand)	
Stores	10.2	**12,125**	9,332
Spares	10.2	**576,205**	514,483
		588,330	523,815
Less: Provision for slow moving spares	10.1	**-**	(3,726)
		588,330	520,089

10.1 Provision for slow moving spares

	2013	2012
Opening balance	**3,726**	1,428
Provision made during the year	**-**	2,298
Provision written off	**(3,726)**	-
Closing balance	**-**	3,726

10.2 During the year, the Company has written off stores and spares aggregating Rs 15.502 million (2012: Rs 13.270 million).

11. STOCK IN TRADE - net

	Note	2013	2012
		(Rupees in thousand)	
Raw and packing materials	11.1	**6,314,446**	6,526,894
Work-in-process		**49,849**	34,388
Finished goods	11.1 to 11.3	**1,120,668**	279,877
		7,484,963	6,841,159
Less: Provision for obsolete stocks		**(53,730)**	-
		7,431,233	6,841,159

11.1 These include raw and packing material in transit aggregating Rs 80.411 million (2012: Rs 13.764 million) and finished goods in transit aggregating Rs 12.417 million (2012: Rs 14.409 million).

11.2 During the year, the Company has written off inventory aggregating Rs 2.237 million (2012: Rs 52.961 million).

11.3 Finished goods include items costing Rs 99.427 million (2012: Rs 43.077 million) which are stated at their net realisable value aggregating Rs 78.949 million (2012: Rs 19.538 million). The amount charged to the profit and loss account in respect of stocks written down to their net realisable values is Rs 20.478 million (2012: Rs 23.539 million).

12. TRADE DEBTS - net

	Note	2013	2012
		(Rupees in thousand)	
Considered good-unsecured	12.1	**996**	195,376
Considered doubtful		**2,780**	2,780
		3,776	198,156
Less: Provision for doubtful debt	12.3	**(2,780)**	(2,780)
		996	195,376

12.1 The amount includes outstanding balance from the following group undertakings:

	2013	2012
	(Rupees in thousand)	
Philip Morris (Malaysia) Sdn. Bhd.	**-**	1,620
PMFTC Inc.	**-**	47,589
PT Hanjaya Mandala Sampoerna Tbk	**-**	5,183
	-	54,392

12.2 The amounts due from group undertakings are neither past due nor impaired.

12.3 Provision for doubtful debts

	2013	2012
Balance at beginning of the year	**(2,780)**	(2,780)
Provision for the year	**-**	-
Balance at end of the year	**(2,780)**	(2,780)

13. LOANS AND ADVANCES

	Note	2013	2012
		(Rupees in thousand)	
Considered good			
Secured			
Current portion of long term loans to employees	7	**-**	51
Unsecured			
Advances to:			
- Employees	13.1 & 13.2	**25,999**	23,610
- Suppliers and contractors		**43,435**	52,309
		69,434	75,919
		69,434	75,970

13.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 14.236 million (2012: Rs 7.349 million).

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

14. OTHER RECEIVABLES

	Note	2013	2012
		(Rupees in thousand)	
Receivable from 'associated undertakings'	14.1	**209,557**	25,576
Others	14.2	**5,465**	28,780
		215,022	54,356

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

	2013	2012
	(Rupees in thousand)	
Philip Morris Services S.A.	**184,189**	18
Philip Morris Management Services (Middle East) L.L.C.	**-**	1,586
Philip Morris International	**11,174**	-
Philip Morris Products S.A.	**-**	2,683
PMFTC Inc.	**1,233**	-
Philip Morris Services India S.A.	**3,664**	1,195
Philip Morris Asia Limited Hong Kong	**-**	5,004
Philip Morris (Malaysia) Sdn. Bhd.	**-**	14
PT Philip Morris Indonesia	**409**	-
Philip Morris Philippines Manufacturing Inc.	**-**	9,876
Philip Morris Limited	**2,177**	-
Philip Morris Japan KK	**135**	-
Pt Hanjaya Mandala Sampoerna Tbk	**6,576**	5,200
	209,557	25,576

14.2 This included derivative financial instruments aggregating Rs Nil (2012: Rs 5.682 million) on forward foreign exchange contract and foreign exchange currency swap as at December 31, 2013, the notional principal amounts of which as at December 31, 2013 were Rs Nil (2012: 972.50 million) and Rs Nil (2012: Rs 972.50 million) respectively.

15. CASH AND BANK BALANCES

	Note	2013	2012
		(Rupees in thousand)	
With banks			
• in saving accounts	15.1	**-**	100
• in current accounts			
- Foreign currency		**306**	665
- Local currency		**11,989**	15,784
		12,295	16,449
		12,295	16,549
Cash in hand		**458**	824
		12,753	17,373

15.1 These carry mark-up rates ranging from 6 % to 8.46% (2012 : 5% to 10.35%) per annum.

16. SHARE CAPITAL

16.1 Authorised capital

2013	2012		2013	2012
(Number of shares)			(Rupees in thousand)	
100,000,000	100,000,000	Ordinary shares of Rs 10 each	1,000,000	1,000,000

16.2 Issued, subscribed and paid-up capital

2013	2012		2013	2012
(Number of shares)				
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

16.3 As at December 31, 2013, the number of ordinary shares of Rs 10 each held by Philip Morris Investments B.V. (the parent company) and Philip Morris Brands Sarl (subsidiaries of Philip Morris International Inc.) were 47,819,356 and 12,316,061 respectively (2012: 47,819,356 and 12,316,061 respectively).

17. STAFF RETIREMENT BENEFITS

17.1 Defined benefit plan

As stated in note 2.4.15, 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, 2013.

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

	Note	2013	2012
		(Rupees in thousand)	
17.1.1 Net liability			(Restated)
Present value of defined benefit obligation	17.1.5	**516,907**	434,847
Fair value of plan assets	17.1.6	**(516,907)**	(434,847)
Liability recognised in the balance sheet		**-**	-
17.1.2 Amounts charged to profit and loss account:			
Current service cost		**52,872**	41,092
Net interest cost		**(1,373)**	(1,149)
	17.1.3	**51,499**	39,943
17.1.3 The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	22.1	**7,336**	4,713
Manufacturing expenses	22.2	**18,070**	11,484
Distribution and marketing expenses	23	**14,852**	14,957
Administrative expenses	24	**11,241**	8,789
		51,499	39,943
17.1.4 Movement in the liability recognised in the balance sheet:			
Balance as at the beginning of the year		**-**	-
Net charge for the year	17.1.3	**51,499**	39,943
Contribution to the fund		**(60,564)**	(52,651)
Net remeasurements for the year		**9,065**	12,708
Balance as at the end of the year		**-**	-
17.1.5 Movement in the present value of defined benefit obligation:			
Opening balance		**434,847**	383,002
Current service cost		**52,872**	41,092
Interest cost		**53,486**	56,301
Benefits paid		**(28,523)**	(61,862)
Remeasurements on obligation		**4,225**	16,314
Closing balance		**516,907**	434,847
17.1.6 Movement in the fair value of plan assets:			
Opening balance		**434,847**	383,002
Interest income		**54,859**	57,450
Contributions		**60,564**	52,651
Benefits paid		**(28,523)**	(61,862)
Remeasurements on plan assets		**(4,840)**	3,606
Closing balance		**516,907**	434,847

	2013	2012
	(Rupees in thousand)	
17.1.7 Principal actuarial assumptions used are as follows:		
Expected rate of increase in salary level	**11.80%**	11.60%
Valuation discount rate	**13.15%**	12.30%
17.1.8 Major categories / composition of plan assets are as follows:		
Debt instruments	**10,332**	10,155
Equity	**49,085**	68,841
Balances with banks	**457,490**	355,851
	516,907	434,847

17.1.9 Actual gain on plan assets during the year ended December 31, 2013 was Rs 50.019 million (2012: Rs 61.056 million).

17.1.10 Expected contribution to defined benefit plan for the year ending December 31, 2014 is Rs 57.695 million (2013: Rs 41.132 million).

17.1.11 Weighted average duration of the defined benefit obligation is 12 years.

17.1.12 Mortality rates assumed were based on EFU 1961-66 mortality tables.

17.1.13 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumptions	Impact on present value of defined benefit obligation	
		Increase in assumption	Decrease in assumption
	(%)	(Rupees in thousand)	
Discount rate	1%	(476,150)	601,435
Salary growth rate	1%	601,667	(475,042)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

17.2 Defined contribution plan

	Note	2013	2012
		(Rupees in thousand)	
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	22.1	**10,463**	8,318
Manufacturing expenses	22.2	**22,927**	15,138
Distribution and marketing expenses	23	**35,747**	28,309
Administrative expenses	24	**16,603**	12,925
		85,740	64,690

18. SHARE-BASED PAYMENT PLAN

Details of share-based payments under 'Time-vested Share Plan' (note 2.4.17) in relation to the Company are as follows:

18.1 Grant dates

Grant dates	February 4, 2009, February 11, 2010, February 11, 2011, February 11, 2012 & February 7, 2013
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)
Share price at grant date (February 7, 2013)	Rs 8,771 / share (US $ 89.82 / share)
Number of shares outstanding at the end of the year	8,739

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

	Note	2013	2012
		(Number of shares)	
Outstanding as at the beginning of the year		**13,639**	17,659
Granted during the year		**3,470**	4,990
Vested / exercised during the year	18.4	**(6,240)**	(8,620)
Forfeited during the year		**(2,130)**	(390)
Outstanding as at the end of the year		**8,739**	13,639

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

	Note	2013	2012
		(Rupees in thousand)	
Purchase, redrying and related expenses	22.1	**3,918**	2,568
Manufacturing expenses	22.2	**1,324**	720
Distribution and marketing expenses	23	**16,398**	10,135
Administrative expenses	24	**4,496**	18,801
		26,136	32,224

18.4 During the year ended December 31, 2013 shares granted on February 11, 2010 were fully vested alongwith early vesting for certain employees from the respective grant dates. An amount of Rs 37.806 million (US$ 377,510) was recharged by Philip Morris International Inc. New York during the year, which was payable as at the year end.

19. SHORT TERM BORROWINGS

	Note	2013	2012
		(Rupees in thousand)	
Secured			
Running finance under mark-up arrangements	19.1	**2,957,634**	1,728,921
Short term loans	19.1	**-**	1,250,000
		2,957,634	2,978,921
Unsecured			
Loans from an associated undertaking	19.2	**5,819,000**	1,945,000
		8,776,634	4,923,921

19.1 The Company has arranged for running finance and other short term loan facilities to the extent of Rs 6,000 million (2012: Rs 6,000 million) from commercial banks These facilities are available for various periods expiring between April 30, 2014 to November 29, 2014 (2012: April 30, 2013 to November 30, 2013). The facilities are secured by way of hypothecation of stock in trade and other moveable assets of the Company and are carrying markup rates ranging from 9.18 % to 10.65% (2012: 8.44% to 12.72%) per annum.

The facilities for opening of letters of credit included in the aforementioned facilities of Rs 6,000 million as at December 31, 2013 aggregated Rs 1,650 million of which amount remaining unutilised was Rs 1,625.272 million as at December 31, 2013.

19.2 The Company has obtained four short term loans from its associated company, Philip Morris Finance S.A., amounting to US $ 55 million. The repayment dates of these loans are March 10, April 15, April 16 and April 22, 2014 respectively. These loans carry mark-up rates of LIBOR plus 1% per annum.

20. TRADE AND OTHER PAYABLES

	Note	2013	2012
		(Rupees in thousand)	
Creditors	20.1	**646,282**	886,027
Bills payable		**608,900**	517,137
Royalty payable to a related party	20.1	**85,497**	54,786
Accrued expenses		**563,982**	536,309
Tobacco development cess	20.2	**24,125**	32,815
Contractors' retention money		**24,049**	9,252
Advance from customers		**11,616**	16,765
Unpaid and unclaimed dividends		**28,412**	28,251
Others	20.3	**34,948**	9,107
		2,027,811	2,090,449

20.1 The amount due to group undertakings included in creditors and royalty payable aggregated Rs 314.784 million (2012: Rs 449.49 million).

	2013	2012
	(Rupees in thousand)	
20.2 The movement of tobacco development cess is as follows:		
Balance as at the beginning of the year	**32,815**	36,511
Provision for the year	**48,250**	65,004
	81,065	101,515
Less: Payments made during the year	**(56,940)**	(68,700)
Balance at the end of the year	**24,125**	32,815

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 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.

20.3 This included derivative financial instruments aggregating Rs 24.976 million (2012: Nil) on foreign exchange currency swap as at December 31, 2013, the notional principal amounts of which as at December 31, 2013 were Rs 5,819 million (2012: Nil)

21. CONTINGENCIES AND COMMITMENTS

21.1 Guarantees

Indemnities given to bank for guarantees issued by it in the normal course of business aggregated Rs 78.22 million (2012: 38.193 million)

21.2 Commitments	2013	2012
	(Rupees in thousand)	
Capital expenditure contracted for but not incurred	**496,181**	1,207,414
Letters of credit	**24,728**	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. Commitments in respect of such operating lease are as follows:

	2013	2012
	(Rupees in thousand)	
Not later than 1 year	**22,116**	141,526
Later than 1 year and not later than 5 years	**176,108**	376,561
	198,224	518,087

21.3 Contingent liabilities

21.3.1 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 20.025 million (2012: Rs 57.244 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.

21.3.2 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 leveled 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 through its order dated July 14, 2007. The Company proceeded to file tax references 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.

21.3.3 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 written 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 the date of next hearing.

During the year ended December 31, 2012, three orders issued by custom authorities have been received by the Company against which appeals have been filed with the concerned authorities which are pending adjudication. The Company filed a fresh petition in the High Court of Sindh on July 12, 2012 and obtained a stay order till March 19, 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.

During the current year, the Court through its order dated December 18, 2013 has extended the interim injunction available to the Company till the date of next hearing. The appeal filed before the Appellate Tribunal Customs & Excise heard the matter on January 10, 2014 and reserved the matter for judgment. The management based on the merits of the case is confident that the ultimate decision shall be in its (the Company's) favour; therefore, a provision has not been made in these financial statements.

21.3.4 While reviewing the income tax return of the Company for the tax year 2011 (accounting year ended December 31, 2010) 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 28, 2013 amending its assessment for that tax year and has disallowed certain deductions aggregating Rs 177.872 million, the tax impact of which is Rs 62.255 million. The Company has filed an appeal before the Commissioner Inland Revenue – Appeals III against the aforementioned order which is pending adjudication. The management is of the view that the aforementioned disallowed deductions include items having an aggregate tax impact of Rs 17.658 million which represent apparent errors and has filed a rectification application under section 221 of the Tax Ordinance on February 21, 2014 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.

21.3.5 While reviewing the income tax return of the Company for the tax year 2009 (accounting year ended December 31, 2008) the assessing officer has under section 122(1) of 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. However, during the year a rectification order has been obtained by the Company reducing the tax demand to Rs 57.502 million. For such Rs 57.502 million, the Company's appeal before the Commissioner Inland Revenue – Appeals III is pending adjudication. However, the management is confident that the decision of such appeal shall be in the Company's favour; therefore, a provision has not been recorded in these financial statements.

21.3.6 Through the Finance Act, 2013, section 2(22-A) of the Sales Tax Act,1990 has been amended on which the Federal Board of Revenue (FBR) contends that unless the Federal Government through a notification in the official gazette declares any tax levied under the provincial laws to be the provincial sales tax for the purpose of 'input tax', no adjustment can be taken for any provincial sales tax paid on services. In this regard constitution petitions have been filed by certain companies (including the Company) in the High Court of Sindh praying either to declare aforementioned section 2(22-A) amended through the Finance Act, 2013 to be completely unconstitutional, without jurisdiction, illegal, void ab-initio and of no legal effect; or hold and declare that the aforementioned section 2(22-A) amended through the Finance Act, 2013 does not have any bearing on the definition of the 'input tax' as stated in section 2(14)(d) of the Sales Tax Act, 1990. The constitutional petition is pending before the High Court of Sindh, however, an interim relief has been granted that no coercive action should be initiated against the petitioners (which includes the Company) who have filed sales tax returns manually or electronically after adjustment of provincial sales tax on services. Accordingly, the sales tax on services aggregating Rs 28.557 million paid by the Company from July 1, 2013 upto December 31, 2013 has been adjusted as 'input tax' by the Company while filing monthly sales tax returns. The Company is confident of a favourable outcome of the aforementioned constitution petition and, therefore, has not provided for the aforementioned amount of Rs 28.557 million in these financial statements.

22. COST OF SALES

	Note	2013	2012
		(Rupees in thousand)	
Raw material consumed			
Opening stock		**6,526,894**	6,500,703
Purchases, redrying and related expenses	22.1	**8,406,385**	7,941,367
		14,933,279	14,442,070
Closing stock	11	**(6,314,446)**	(6,526,894)
		8,618,833	7,915,176
Government levies		**80,394**	95,685
Manufacturing expenses	22.2	**2,021,257**	1,565,602
		10,720,484	9,576,463
Work in process			
Opening stock		**34,388**	13,748
Closing stock	11	**(49,849)**	(34,388)
Sale of waste		**(32,054)**	(47,090)
		(81,903)	(81,478)
		(47,515)	(67,730)
		10,672,969	9,508,733
Cost of goods manufactured			
Finished goods			
Opening stock		**279,877**	263,798
Finished goods purchased		**227,950**	245,410
Closing stock	11	**(1,120,668)**	(279,877)
		(612,841)	229,331
		10,060,128	9,738,064

	Note	2013	2012
		(Rupees in thousand)	
22.1 Purchases, redrying and related expenses			(Restated)
Raw and packing material		**7,462,313**	7,139,831
Salaries, wages and other benefits	17 & 18.3	**346,351**	292,446
Stores and spares consumed		**47,075**	55,815
Fuel and power		**120,996**	148,726
Rent, rates and taxes		**52,884**	48,517
Freight and stacking		**172,352**	91,116
Postage, telephone and stationery		**15,538**	7,537
Depreciation	4.1.1	**41,083**	37,122
Repair and maintenance		**20,044**	9,070
Travelling and vehicle expenses		**49,664**	44,668
Professional charges		**2,081**	177
Fumigation and pesticide expenses		**15,430**	9,327
Security charges		**46,347**	50,912
Other expenses		**14,227**	6,103
		944,072	801,536
		8,406,385	7,941,367

22.2 Manufacturing expenses

	Note	2013	2012
Salaries, wages and other benefits	17 & 18.3	**763,637**	547,438
Stores and spares consumed		**375,831**	302,594
Fuel and power		**307,574**	247,905
Rent, rates and taxes		**11,590**	9,025
Cartage		**106,701**	84,206
Postage, telephone and stationery		**8,694**	8,899
Depreciation	4.1.1	**283,508**	222,860
Travelling and vehicle expenses		**79,689**	82,805
Security charges		**28,464**	23,448
Other expenses		**55,569**	36,422
		2,021,257	1,565,602

23. DISTRIBUTION AND MARKETING EXPENSES

	Note	2013	2012
Salaries, allowances and other benefits	17 & 18.3	**892,915**	791,067
Selling expenses		**1,387,494**	1,551,849
Freight expense		**149,736**	116,414
Rent, rates and taxes		**44,908**	32,695
Postage, telephone and stationery		**27,787**	23,062
Depreciation	4.1.1	**100,457**	77,519
Travelling and vehicle expenses		**317,193**	131,891
Royalty		**30,711**	28,869
Repair and maintenance		**14,853**	6,893
Security charges		**16,843**	15,721
Other expenses		**52,318**	28,188
		3,035,215	2,804,168

24. ADMINISTRATIVE EXPENSES

	Note	2013	2012
		(Rupees in thousand)	
			(Restated)
Salaries, allowances and other benefits	17 & 18.3	**532,185**	463,692
Rent, rates and taxes		**123,248**	108,650
Postage, telephone and stationery		**20,344**	26,415
Travelling and vehicle expenses		**94,929**	103,555
Repairs and maintenance		**50,227**	60,031
Legal and professional charges		**48,525**	39,081
Utilities		**21,695**	22,719
Fee and subscription		**49,748**	133,619
Insurance		**60,596**	49,345
Auditors' remuneration	24.1	**4,802**	6,147
Depreciation	4.1.1	**97,904**	82,773
Donation	24.2	**905**	2,945
Amortisation	5.1	**7,784**	2,051
Security charges		**42,838**	56,440
Other expenses		**6,854**	11,062
		1,162,584	1,168,525

24.1 Auditors' remuneration

	2013	2012
	(Rupees in thousand)	
Audit fee	**1,950**	1,750
Review of half yearly financial statements	**650**	550
Taxation and other services	**2,062**	3,690
Out of pocket expenses	**140**	157
	4,802	6,147

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

25. OTHER EXPENSES

	Note	2013	2012
Exchange loss - net		**-**	83,740
Workers' welfare fund - prior period		**-**	1,195
Property, plant and equipment written off	4.1	**38**	48,938
Miscellaneous expenses		**46,952**	31,072
		46,990	164,945

26. OTHER INCOME

	Note	2013	2012
Income from financial assets:			
● Exchange gain - net	26.1	**22,735**	-
● Profit on short term deposits		**940**	2,778
● Others		**69,629**	5,682
		93,304	8,460
Income from assets other than financial assets:			
● Profit on disposal of items of property, plant and equipment		**301,751**	23,874
		395,055	32,334

26.1 This includes unrealised exchange gain amounting to Rs 57 million and Rs 27.057 million arising on 'loans from an associated undertaking' and 'trade and other payables' respectively.

27. FINANCE COST

	Note	2013	2012
		(Rupees in thousand)	
Mark-up on short term borrowings	27.1	**505,894**	315,590
Bank commission and other charges		**21,531**	14,253
		527,425	329,843

27.1 The mark-up on short term borrowings includes mark-up aggregating Rs 39.411 million on the loan from group undertaking (2012: Rs 4.639 million).

28. TAXATION

	Note	2013	2012
		(Rupees in thousand)	
			(Restated)
Current - for the year		**123,081**	84,313
for prior years		**(20,079)**	91,579
		103,002	175,892
Deferred	28.1	**(370,404)**	(223,550)
		(267,402)	(47,658)

28.1 In case of another company the Division Bench of the Sindh High Court in its decision dated May 7, 2013 on carry forward of minimum tax in the cases of taxable loss for the year has held by interpreting Section 113(2)(c) of the Tax Ordinance that the benefit of carry forward of minimum tax paid by a Company is only available if there is tax paid in a particular year is less than minimum tax payable. Accordingly, if no tax is paid / payable by the Company due to taxable loss the right to carry forward the minimum tax does not arise. However, the management based on the advice of its legal counsel is of the view that this matter is subject to appeal in larger bench of the High Court as well as the Supreme Court and valid legal grounds are available to substantiate the Company's case for carry forward of minimum tax, therefore, deferred tax asset on 'minimum tax' aggregating Rs 207.440 million has been recognised in the these financial statements as at December 31, 2013.

28.2 Relationship between tax expense and accounting loss

	Note	2013	2012
		(Rupees in thousand)	
			(Restated)
Accounting loss before tax		**(708,860)**	(622,042)
Effective tax rate		**33.150%**	34.125%
Tax on accounting loss		**(234,987)**	(212,272)
Tax effect of:			
● expenses that are not allowed in determining taxable income		**674**	5,009
● exempt income		**(75,902)**	-
● effect of change in tax rate		**(112)**	-
● income assessed under Final Tax Regime		**67,029**	69,255
● others		**(4,025)**	(1,229)
		(247,323)	(139,237)
Adjustments in respect of current tax of prior periods		**(20,079)**	91,579
Tax expense for the year		**(267,402)**	(47,658)

29. LOSS PER SHARE - BASIC

	Note	2013	2012
		(Rupees in thousand)	
			(Restated)
Loss for the year after taxation		**(441,458)**	(574,384)
		(No. of shares)	
Number of ordinary shares	16.2	**61,580,341**	61,580,341
		Rupees	
Loss per share		**(7.17)**	(9.33)

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2013 or 2012.

30. 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	
	2013	2012	2013	2012	2013	2012	2013	2012
	(Rupees in thousand)							
Remuneration	**38,988**	40,114	**32,148**	56,819	**459,573**	321,967	**530,709**	418,900
House rent	**-**	-	**14,467**	4,991	**206,892**	144,885	**221,359**	149,876
Bonus	**-**	-	**5,957**	7,990	**94,291**	89,824	**100,248**	97,814
Retirement benefits	**-**	-	**2,778**	3,277	**69,304**	56,760	**72,082**	60,037
Utilities	**-**	-	**3,215**	1,109	**46,098**	32,197	**49,313**	33,306
Others	**12**	23	**1,110**	2,263	**84,989**	63,874	**86,111**	66,160
	39,000	40,137	**59,675**	76,449	**961,147**	709,507	**1,059,822**	826,093
Number of persons	**1**	1	**3**	5	**451**	332	**455**	338

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

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

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

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

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 26.136 million (2012: Rs 32.224 million).

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

31. RELATED PARTIES DISCLOSURES

Related parties comprise of Philip Morris Investments B.V. (the parent company) 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 30, are as follows:

	Nature of transactions	2013	2012
		(Rupees in thousand)	
Associated undertakings	Sale of goods	**496,613**	768,181
	Services rendered	**610,689**	2,683
	Purchase of goods	**457,713**	257,857
	Services procured	**89,645**	180,473
	Loans received	**17,469,950**	1,915,000
	Loans repaid / adjusted	**13,538,950**	-
	Mark-up on loan	**39,411**	4,369
	Royalty charges	**30,711**	28,869
	Share based payment expense	**26,136**	32,224
	Share based payment recharge	**37,806**	59,562
	Unrealised exchange gain / (loss) on loan	**57,000**	(30,000)
Staff retirement plans	Contribution to gratuity fund	**60,564**	52,651
	Contribution to provident fund	**85,740**	64,690

The related party status of outstanding balances as at December 31, 2013 is included in notes 6, 12.1, 14.1, 17.1, 19.2 and 20.1. These are settled in ordinary course of business.

32. CAPACITY AND PRODUCTION

Against an installed manufacturing capacity of 63,412 million (2012: 51,969 million) cigarettes, actual production was 22,298 million (2012: 23,207 million) cigarettes. Actual production was sufficient to meet the demand.

33. CASH GENERATED FROM OPERATIONS

	Note	2013	2012
		(Rupees in thousand)	
			(Restated)
Loss before taxation		**(708,860)**	(622,042)
Adjustments for:			
Depreciation		**522,952**	420,274
Property, plant and equipment written off		**38**	48,938
Amortisation		**7,784**	2,051
Provision for slow moving spares		**-**	2,298
Stores and spares written off		**11,776**	13,270
Provision / (reversal) for obsolete stocks -packing material		**53,730**	(1,560)
Stock in trade - written off		**2,237**	52,961
Stock in trade - written down to net realisable value		**20,478**	23,539
Provision for doubtful debts		**-**	-
Expenses arising from equity-settled share-based payment plan		**26,136**	32,224
Gratuity expense		**51,499**	39,943
Unrealised exchange (gain) / loss		**(84,057)**	71,066
Profit on short term deposits		**(940)**	(2,778)
Profit on disposal of items of property, plant and equipment		**(301,751)**	(23,874)
Finance cost		**505,894**	315,590
Working capital changes	33.1	**(1,389,449)**	(129,286)
		(1,282,533)	242,614

33.1 Working capital changes

	2013	2012
(Increase) / decrease in current assets		
Stores and spares	**(80,017)**	(176,829)
Stock in trade	**(666,519)**	(139,410)
Trade debts	**194,380**	15,405
Loans and advances	**6,536**	(5,690)
Prepayments	**(83,936)**	(23,987)
Other receivables	**(160,666)**	61,753
	(790,222)	(268,758)
Decrease in current liabilities		
Trade and other payables	**(73,387)**	872,706
Sales tax and excise duty payable	**(525,840)**	(733,234)
	(1,389,449)	(129,286)

34. CASH AND CASH EQUIVALENTS

	Note	2013	2012
Cash and bank balances	15	**12,753**	17,373
Short term borrowings	19	**(2,957,634)**	(2,978,921)
		(2,944,881)	(2,961,548)

35. FINANCIAL RISK MANAGEMENT

35.1 The Company's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but are 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.

- 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, 2013, 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, 2013, 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 higher / lower by Rs 28.963 million (2012: Rs 16.003 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 20), trade debts (note 12), other receivables (note 14), bank balances (note 15) and loans from associated undertaking (note 19) in respect of import of packing materials, stores and spares and plant and machinery and export sales.

As at December 31, 2013, 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 212.721 million (2012: Rs 87.865 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 35.3, those that are subject to credit risk aggregates Rs 260.516 million (2012: Rs 303.399 million). The analysis below summarises the credit quality of the Company's financial assets as at December 31, 2013:

- 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 209.557 million (2012: Rs 79.968 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:

	2013	2012
	(Maturity within one year)	
	(Rupees in thousand)	
Short term borrowings	**8,776,634**	4,931,039
Trade and other payables	**1,818,107**	1,859,333
Accrued mark-up on short term borrowings	**78,072**	70,231
	10,672,813	6,860,603

35.2 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, 2013, 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.

35.3 Financial instruments by category

	2013	2012
	(Rupees in thousand)	
FINANCIAL ASSETS		
Loans and receivables at amortised cost		
Loans	**-**	51
Long term deposits	**32,203**	36,967
Trade debts	**996**	195,376
Other receivables	**215,022**	54,356
Cash and bank balances	**12,753**	17,373
	260,974	304,123
FINANCIAL LIABILITIES		
Loans and receivables at amortised cost		
Short term borrowings	**8,776,634**	4,923,921
Trade and other payables	**1,818,107**	1,859,333
Accrued mark-up on short term borrowings	**78,072**	70,231
	10,672,813	6,853,485

36. 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 2013, the Company's strategy, which was unchanged from 2012, was to maintain gearing ratio at a minimum level. The gearing ratios as at December 31, 2013 and 2012 were 61% and 45% respectively. The increase in the gearing ratio is primarily due to the Company's cash requirements to invest in capital expenditure.

37. 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) -----------------					
Freehold land	2,909	-	2,909	231,874	Tender	Artistic Garments Industries (Private) Limited
Buildings on freehold land	8,175	(631)	7,544	7,650	Tender	Artistic Garments Industries (Private) Limited
Plant and machinery	4,741	(2,694)	2,047	2,245	Group policy	Philip Morris Cigatam Productos y
Vehicles	469	(375)	94	154	Company Policy	Mr. Imran Aslam
	560	(448)	112	184	----do ----	Mr. Khalid Javed
	1,328	(868)	460	579	----do ----	Mr. Shaheed Kazi
	744	(595)	149	260	----do ----	Mr. Muhammad Javed
	806	(222)	584	648	----do ----	Ms. Aaizah Syed
	888	(623)	265	444	----do ----	Mr. Usman Sharif
	842	(447)	395	547	----do ----	Ms. Uzma Chisiti
	879	(503)	376	307	----do ----	Mr. Muhammad Zeeshan
	1,328	(1,062)	266	465	----do ----	Mr. Babar Rauf
	1,328	(1,062)	266	465	----do ----	Mr. Shabih Saleem
	1,080	(864)	216	378	----do ----	Mr. Zia Ullah
	842	(506)	336	421	----do ----	Ms. Mariam Durrani
	1,389	(835)	554	695	----do ----	Mr. Fahim Moosani
	1,354	(688)	666	880	----do ----	Mr. Irshad Khan
	806	(330)	476	648	----do ----	Mr. Abdul Rasheed
	806	(330)	476	648	----do ----	Mr. Nadeem Ahmed
	1,395	(1,116)	279	488	----do ----	Mr. Nasir Najam
	888	(710)	178	311	----do ----	Mr. Muhammad Shiraz Ahmed
	888	(649)	239	311	----do ----	Ms. Sarah Hassan
	884	(575)	309	442	----do ----	Mr. Farhan Ahmed
	755	(428)	327	491	----do ----	Mr. Muhammad Faisal Aziz
	810	(390)	420	527	----do ----	Mr. Khanzada Taimur Khan
	806	(400)	406	527	----do ----	Mr. Muhammad Sajjad Muzaffar
	4,716	(3,773)	943	1,651	----do ----	Ms. Muneeza Kazi
	4,942	(3,954)	988	1,730	----do ----	Mr. Asmer Naeem
	1,389	(1,111)	278	486	----do ----	Mr. Rizwan Ahmed
	879	(703)	176	307	----do ----	Mr. Syed Sohail Ahsan
	1,859	(1,487)	372	651	----do ----	Mr. Kher Muhammad
	618	(494)	124	495	Insurance claim	Century Insurance Company Limited
	507	(223)	284	497	----do ----	----do ----
	367	(294)	73	320	----do ----	----do ----
	367	(294)	73	320	----do ----	----do ----
	630	(175)	455	615	----do ----	----do ----
	467	(258)	209	457	----do ----	----do ----
	1,399	(732)	667	1,098	----do ----	----do ----
	232	(19)	213	182	----do ----	----do ----
	654	(52)	602	644	----do ----	----do ----
	1,870	(842)	1,028	1,851	----do ----	----do ----
	513	(411)	102	469	----do ----	----do ----
	654	(78)	576	644	----do ----	----do ----
	654	(78)	576	644	----do ----	----do ----
	1,538	(287)	1,251	1,538	----do ----	----do ----
Balance c / f	61,955	(32,616)	29,339	267,188		

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

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	---------------- (Rupees in thousand) ----------------					
Balance b / f	61,955	(32,616)	29,339	267,188		
	654	(105)	549	644	Insurance Claim	Century Insurance Company Limited
	367	(294)	73	310	Negotiation	Mr. Imran Khan
	560	(448)	112	473	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	312	(250)	62	264	----do ----	----do ----
	618	(494)	124	522	----do ----	----do ----
	469	(375)	94	396	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	315	(252)	63	266	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	744	(595)	149	629	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	367	(294)	73	310	----do ----	----do ----
	513	(411)	102	434	----do ----	----do ----
	513	(411)	102	434	----do ----	----do ----
	513	(411)	102	434	----do ----	----do ----
	320	(256)	64	270	----do ----	----do ----
	367	(294)	73	325	Tender	Mr. Abdul Basit & Sons
	618	(494)	124	450	----do ----	----do ----
	367	(294)	73	340	----do ----	----do ----
	618	(494)	124	450	----do ----	----do ----
	367	(294)	73	330	----do ----	----do ----
	367	(294)	73	335	----do ----	----do ----
	367	(294)	73	370	----do ----	----do ----
	312	(250)	62	271	----do ----	Aleem Autos
	367	(294)	73	319	----do ----	----do ----
	469	(375)	94	408	----do ----	----do ----
	469	(375)	94	408	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	80,982	(47,432)	33,550	283,409		

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

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	------------------ (Rupees in thousand) ------------------					
Balance b / f	80,982	(47,432)	33,550	283,409		
	367	(294)	73	319	Tender	Aleem Autos
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	599	(479)	120	521	----do ----	----do ----
	560	(448)	112	487	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	1,125	(900)	225	979	----do ----	----do ----
	1,238	(990)	248	1,077	----do ----	----do ----
	1,003	(802)	201	873	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	469	(375)	94	408	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	469	(375)	94	408	----do ----	----do ----
	404	(323)	81	352	----do ----	----do ----
	461	(369)	92	401	----do ----	----do ----
	461	(369)	92	401	----do ----	----do ----
	469	(375)	94	408	----do ----	----do ----
	365	(292)	73	318	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	513	(411)	102	447	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	319	----do ----	----do ----
	367	(294)	73	251	----do ----	Mr. Shahid Jalal
	1,039	(831)	208	663	----do ----	Mr. Tahir Abbas
	315	(252)	63	280	----do ----	Mr. Ibrar Hanif
	618	(494)	124	481	----do ----	Mr. M. Zia Hameedi
	312	(250)	62	376	----do ----	Mr. Noor Azam
	312	(250)	62	266	----do ----	Mr. Mukhtar Ahmad
	367	(294)	73	295	----do ----	Mr. Mati Ullah
	101,990	(64,249)	37,741	301,395		

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

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	----------------- (Rupees in thousand) -----------------					
Balance b / f	101,990	(64,249)	37,741	301,395		
	367	(294)	73	365	Tender	Mr. Faiz Rusool
	367	(294)	73	275	----do ----	Mr. Muhammad Danish
	513	(411)	102	486	----do ----	Mr. Anwar Hussain
	513	(411)	102	490	----do ----	Mr. Sarfarz Ahmed
	513	(411)	102	500	----do ----	Mr. Nisar Ahmed Soomro
	513	(411)	102	491	----do ----	Mr. Hassan Sami
	513	(411)	102	495	----do ----	Mr. Iqbal Mustafa
	513	(411)	102	456	----do ----	Mr. Furqan Ahmed
	513	(411)	102	430	----do ----	Mr. Ibad Habib
	513	(411)	102	483	----do ----	Mr. Saif ur Rehman
	560	(421)	139	506	----do ----	Mr. Shamim Anwar Ansari
	775	(519)	256	548	----do ----	Mr. Jemshed Anwar
	367	(294)	73	330	----do ----	Mr. Syed Abdur Rehman
	367	(294)	73	348	----do ----	Mr. M. Ahmed Khan
	513	(411)	102	492	----do ----	Mr. Ghulam Raza
	367	(294)	73	362	----do ----	Mr. Muhammad Azam
	513	(411)	102	480	----do ----	Mr. Nabeel Mazhar
	513	(411)	102	485	----do ----	Mr. Zahir Hyder
	513	(411)	102	430	----do ----	Mr. Mohammad Kamran
	367	(294)	73	315	----do ----	Mr. Sahir Azam
	1,087	(870)	217	800	----do ----	Mr. Shahzad Babar
	367	(294)	73	361	----do ----	Mr. Mohammad Farooq
	513	(411)	102	422	----do ----	Mr. Muhammad Faheem Modi
	513	(411)	102	601	----do ----	Mr. Waseem Mirza
	513	(411)	102	504	----do ----	Mr. Muhammad Arif
	312	(250)	62	407	----do ----	----do ----
	513	(411)	102	477	----do ----	----do ----
	513	(411)	102	500	----do ----	Mr. Iftikhar Ahmed
	513	(411)	102	525	----do ----	Mr. Waseem Mirza
	367	(294)	73	369	----do ----	Mr. Muhammad Arif
	367	(294)	73	377	----do ----	----do ----
	513	(411)	102	469	----do ----	----do ----
	513	(411)	102	462	----do ----	----do ----
	513	(411)	102	474	----do ----	----do ----
	513	(411)	102	484	----do ----	----do ----
	513	(411)	102	472	----do ----	Mr. Naveed Rauf
	513	(411)	102	493	----do ----	Mr. Muhammad Arif
	513	(411)	102	467	----do ----	----do ----
	513	(411)	102	540	----do ----	Mr. Waseem Mirza
	367	(294)	73	347	----do ----	Mr. Muhammad Arif
	513	(411)	102	477	----do ----	----do ----
	1,564	(1,251)	313	1,350	----do ----	Mr. Iftikhar Ahmed
	367	(294)	73	317	----do ----	Mr. Laique Ahmed
	367	(294)	73	333	----do ----	----do ----
	367	(294)	73	327	----do ----	----do ----
	367	(294)	73	327	----do ----	----do ----
	125,277	(82,773)	42,504	322,844		

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	---- (Rupees in thousand) ----					
Balance b / f	125,277	(82,773)	42,504	322,844		
	367	(294)	73	317	Tender	Mr. Laique Ahmed
	367	(294)	73	313	----do ----	----do ----
	367	(294)	73	327	----do ----	----do ----
	367	(294)	73	317	----do ----	----do ----
	367	(294)	73	313	----do ----	----do ----
	367	(294)	73	287	----do ----	----do ----
	367	(294)	73	289	----do ----	----do ----
	367	(294)	73	317	----do ----	----do ----
	404	(323)	81	375	----do ----	Mr. Syed Anwer
	367	(294)	73	370	----do ----	Mr. Faizan Akber Shah
	513	(411)	102	446	----do ----	Mr. Kamran Akber
	983	(786)	197	983	----do ----	Mr. Mohammad Abid
	1,711	(1,369)	342	138	----do ----	Mr. Younus/ M. Ismail Trading
	1,200	(960)	240	138	----do ----	----do ----
	1,938	(1,550)	388	138	----do ----	----do ----
	2,042	(1,634)	408	138	----do ----	----do ----
	137,371	(92,452)	44,919	328,050		

38. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on the financial statements of the Fund as of December 31, 2013 and 2012:

	2013 (Un-audited)	2012 (Audited)
	(Rupees in thousand)	
Size of the Fund - Total Assets	**1,182,435**	1,011,138
Cost of investments made	**1,041,280**	899,363
Percentage of investments made	**91.18%**	88.64%
Fair value of investments	**1,078,161**	896,242

38.1 The break-up of fair value of investments is:

	2013		2012	
	(Rs in '000)	(Percentage)	(Rs in '000)	(Percentage)
Shares in listed companies	**126,426**	**12%**	172,920	19%
Government Securities	**10,208**	**1%**	10,000	1%
Debt Securities	**941,527**	**87%**	713,322	80%
	1,078,161	**100%**	896,242	100%

The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

39. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at December 31, 2013 and 2012 respectively are as follows:

	2013	2012
	No of employees	
Number of employees as at December 31, 2013 / 2012	**2,686**	2,682
Average number of employees during the year	**2,710**	2,532

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 13, 2014 by the Board of Directors of the Company.

41. GENERAL

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

Karachi: March 13, 2014

ALEJANDRO PASCHALIDES
Chairman and Chief Executive

JOSEPH ZIOMEK
Director

Auditors' Report to the Members

INTRODUCTION:

We have audited the annexed balance sheet of **LAKSON PREMIER TOBACCO COMPANY (PRIVATE) LIMITED** ("the Company') as at December 31, 2013 and the related Profit & Loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit. It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

SCOPE OF 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 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 & 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 & loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required, and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2013 its result, cash flows and changes in equity 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).

EMPHASIS OF MATTER:

We draw your attention to the fact that the company is not in operations for past many years and being a significantly owned subsidiary of Phillips Morris (Pakistan) Limited has been kept alive to meet future requirements as asserted in note 1 of the annexed financial statements. We however have not been provided with any information regarding future plans of the company. Our Opinion is not qualified is respect of this matter.

Hyder Bhimji & Co

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

Karachi: March 13, 2014

Balance Sheet

AS AT DECEMBER 31, 2013

	Note	December 31, 2013 Rupees	December 31, 2012 Rupees
ASSETS:		-	-
EQUITY & LIABILITIES:			
SHARES CAPITAL:			
Authorized Capital:			
1,000,000 Ordinary Shares of Rs.10 each		10,000,000	10,000,000
Issued, Subscribed & Paid-up Capital	4	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

Profit & Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	December 31, 2013 Rupees	December 31, 2012 Rupees
Income:		-	-
Expenditure:		-	-
Income / Loss for the year		-	-
Other Comprehensive Income / (Loss)		-	-
Total Comprehensive Income/ (Loss)		-	-

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

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	December 31, 2013 Rupees	December 31, 2012 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		-	-

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

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

Statement Of Changes In Equity

FOR THE YEAR ENDED DECEMBER 31, 2013

	Issued, Subscribed & Paid-up Capital	Accumulated (Loss)	Total
		Rupees	
Balance as at January 01, 2012	1,030	(1,030)	-
Total comprehensive income / (Loss) for the year ended December 31, 2012	-	-	-
Balance as at December 31, 2012	1,030	(1,030)	-
Total comprehensive income / (Loss) for the year ended December 31, 2013	-	-	-
Balance as at December 31, 2013	1,030	(1,030)	-

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

JOSEPH ZIOMEK
Chief Executive

MUJTABA HUSSAIN
Director

Notes To The Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2013

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 significantly owned by Philip Morris (Pakistan) Limited, which is the holding company. The Philip Morris (Pakistan) Limited has sufficient facilities to meet the Tobacco production requirements so LaksonPremier Tobacco Company (Pvt) Ltd is not in operation. The Company has been kept alive for meeting the future requirements and accordingly no going concern issue has arisen.

2 STATEMENT OF COMPLIANCE

TheseFinancial Statements have been prepared in accordance with approved accounting standards, as applicable in Pakistan. Approved accounting standards comprise of such International Financial Repoting Standards (IFRS) issued by International Accounting Standards Board (IASB) as notified the Companies Ordinance, 1984 (the Ordinance). In case requirements differ, the provisions / directives of the ordinance shall prevail.

3 ACCOUNTING POLICIES

3.1 Accounting Convention

These financial statements have been prepared under the historical cost convention.

	Note	December 31, 2013 Rupees	December 31, 2012 Rupees
4 ISSUED, SUBSCRIBED & PAID UP CAPITAL			
103 (2012: 103) Ordinary Shares of Rs 10 each alloted for consideration in cash	4.1	1,030	1,030

4.1 Out of 103 issued shares, 101 shares are owned by M/s. Philip Morris (Pakistan) Limited - Holding Company.

5 TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS/RELATED PARTY:

Expenses borne by Holding Company :

	December 31, 2013	December 31, 2012
Filing fees for Corporate Forms	3,750	4,500
Auditors Remuneration - Audit Fee	68,000	68,000

6 DATE OF AUTHORIZATION FOR ISSUE:

These financial statement were authorized for issue on March 13, 2014 by the Board of Directors of the Company.

7 GENERAL

Figures have been rounded off nearest rupee.

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 23, 2014 and at any adjournment thereof.

Signed this ____________________ day of ________________ 2014.

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 along with attested photocopies of Computerized National Identity Card (CNIC) or the Passport of the beneficial owner. Representative 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