Philip Morris (Pakistan) Limited
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HC-3, Block-4, Clifton Karachi-75600

www.philipmorrispakistan.com.pk

PHILIP MORRIS (PAKISTAN) LIMITED

2014 Annual Report

PHILIP MORRIS (PAKISTAN) LIMITED

Annual Report December 31, 2014

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Corporate Information

BOARD OF DIRECTORS

KAMRAN Y. MIRZA (with effect from October 29, 2014) (Chairman)
(Director with effect from September 27, 2014)
ALEJANDRO PASCHALIDES
(from February 1, 2014 until October 28, 2014) (Chairman & Chief Executive)
(with effect from February 1, 2014) (Chief Executive)
NICOLAS FLOROS
DANIEL FAHRNY (with effect from July 1, 2014)
JOSEPH ZIOMEK
ATHAR ABBAS (with effect from September 27, 2014)
CHARLES BENDOTTI
ARPAD KONYE (until January 31, 2014) (Chairman & Chief Executive)
ANDREAS FRANZ KURALI (until June 30, 2014)
MUJTABA HUSSAIN (until September 26, 2014)
ASMER NAIM (until September 26, 2014)

COMPANY SECRETARY

MUJTABA HUSSAIN

AUDIT COMMITTEE

ATHAR ABBAS (with effect from September 27, 2014) (Chairman)
DANIEL FAHRNY (with effect from July 1, 2014)
NICOLAS FLOROS (with effect from September 27, 2014)
ASMER NAIM (until September 26, 2014) (Chairman)
ANDREAS FRANZ KURALI (until June 30, 2014)
CHARLES BENDOTTI (until September 26, 2014)
MUJTABA HUSSAIN (until September 26, 2014)

HUMAN RESOURCE & REMUNERATION COMMITTEE

CHARLES BENDOTTI (Chairman)
ALEJANDRO PASCHALIDES (with effect from February 1, 2014)
DANIEL FAHRNY (with effect from July 1, 2014)
ARPAD KONYE (until January 31, 2014)
ANDREAS FRANZ KURALI (until June 30, 2014)
DION LESWARA (Secretary)

AUDITORS

A. F. FERGUSON & CO.
Chartered Accountants

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

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

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 46th Annual General Meeting of **PHILIP MORRIS (PAKISTAN) LIMITED** will be held on Tuesday, April 28, 2015 at 3.00 p.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, 2014 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, 2015.

By Order of the Board

MUJTABA HUSSAIN
Company Secretary

Karachi: March 30, 2015

NOTES:

1. The share transfer books of the Company will remain closed from April 20, 2015 to April 28, 2015 (both days inclusive). Transfer 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 17, 2015 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 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

Philip Morris (Pakistan) Limited Year ended December 31, 2014 (the "Company")

This statement is being presented to comply with the Code of Corporate Governance ("CCG") contained in Regulation No.35 of listing regulations of Karachi and Lahore Stock Exchanges (hereinafter collectively referred to as the "Listing Regulations") 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	Kamran Y. Mirza Athar Abbas
Executive Directors	Alejandro Paschalides Joseph Ziomek
Non-Executive Directors	Daniel Fahrny Nicolas Floros Charles Bendotti

   The independent directors meet the criteria of independence under clause i(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

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. Two casual vacancies occurring on February 01, 2014 & July 01, 2014 on the board during the year were filled up by the directors within 90 days.

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

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

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

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

9. During the year, the directors remained compliant with the provision with regard to their training program and one of the directors has also attended Director's Training Program offered by the Pakistan Institute of Corporate Governance.

Statement of Compliance with the Code of Corporate Governance

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

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

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

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

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

15. The board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors and the chairman of the committee is an independent director.

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

17. The board has formed a Human Resource and Remuneration Committee. It comprises of three members, 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.

KAMRAN Y. MIRZA
Chairman

Karachi: March 6, 2015

Review Report to the Members on the Statement of Compliance with the 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, 2014 to comply with the requirements of Listing Regulation No. 35 of the 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 a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended December 31, 2014.

A.F. Ferguson & Co.

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

Karachi: March 27, 2015

FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2014 in comparison with the previous year is as follows:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Rs million	**%**	**Rs million**	**%**
Gross Turnover	38,046	100.00	35,985	100.00
Gross Profit	3,911	10.28	3,668	10.19
Operating Loss	(861)	(2.26)	(530)	(1.47)
Loss before tax	(1,513)	(3.98)	(709)	(1.97)
Loss after tax	(1,482)	(3.90)	(441)	(1.23)

In 2014, the gross turnover increased by 5.73% while gross profit increased by 6.62%. Expenses for the current year were higher as compared to 2013, mainly due to higher marketing investment in the support of Company's brand portfolio. Finance cost also increased in 2014 due to higher borrowing to meet working capital requirements. The non-tax paid tobacco industry continues to adversely impact the Company's profitability; significantly contributing to the net loss incurred for the year. Non-tax paid cigarette brands are increasingly damaging the Company, and the legitimate industry as a whole, as excise tax-driven price increases provide the non-tax paid products with an increasingly unfair competitive advantage.

The Company's loss per share was Rs. 24.07 in 2014 as compared to a loss per share of Rs. 7.17 in 2013.

The Federal Ministry for National Health Services, Regulations and Coordination has recently announced through media a SRO increasing the size of graphical health warning ("GHW") on front and back of cigarette packs from 40% to 85%.

The Company supports health warning requirements designed to inform consumers of the risks of smoking. In fact, where health warnings are not required, we place them on packaging voluntarily in the official language or languages of the country. We defer to governments on the content of warnings except for content that vilifies tobacco companies or does not fairly represent the actual effects of smoking. However, the Company oppose excessively large health warnings. Evidence suggests that disproportionately increasing the size of health warnings does not effectively reduce tobacco consumption. Yet, such health warnings impede our ability to compete in the market by leaving insufficient space for our distinctive trademarks and pack designs.

This development if implemented will adversely impact the Company's legal rights, including unjustifiably emasculating our intellectual property rights and is expected to put pressure on the Company's sales volume by further fuelling the smuggled cigarette trade.

OPERATIONAL CAPACITY

The Company continued to review its operational capabilities and, as such, invested in property, plant and equipment of Rs. 1,707 million in 2014. These investments are primarily made under the umbrella of a comprehensive project of modernizing manufacturing facilities and equipment to achieve 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 in anticipation that 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 2014.

MATERIAL CHANGES AND COMMITMENTS

Subsequent to the year-end the Company has announced its decision to shut down its manufacturing facility in Mandra and filed an application in the court for closure of the factory. This decision was taken based primarily on reasons that; (i) the production at Mandra factory is in excess of Company's production requirements; (ii) absence of a primary facility at the factory makes it difficult to control quality which results in greater wastage and variance; and (iii) outdated manufacturing footprint at the factory results in a lower quality product at a higher production cost compared to other two manufacturing facilities. The management believes that the Mandra plant production volume can be absorbed by the other two factories and that closure of this manufacturing facility will not impact Company's ability to supply products to the market.

Other than as noted above, no changes and commitments have occurred which materially affect the financial position of the Company.

CONTRIBUTION TO THE NATIONAL EXCHEQUER

The Company continues to contribute substantially to the Federal Government's revenues. In 2014, the Company contributed Rs 25.3 billion to the national Exchequer in the form of Federal Excise Duties, Custom Duties, Sales Tax and Income Tax, which represents a 6.3% increase compared to 2013.

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.

The Company values the importance of working together with its employees and with all other stakeholders in this area. Due to its collaboration with Philip Morris International Inc., significant milestones were reached in 2014, including:

- Rehabilitation of 15 new schools in Khyber Pakhtunkhwa province ("KPK"), Sahiwal and Kotri; Agricultural Labor Practices ("ALP") - Summer School Program in various schools, as a component of the ALP program to curb child labor in the tobacco growing districts.
- Supporting 2,100 vulnerable and poor households in the tobacco growing districts through Economic Opportunity for Poor & Vulnerable.

- Benefitting more than 200 families of farming community by the Sustainable Initiative for Women Empowerment.
- Expanding economic security of more than 400 individuals through vocational training and placement opportunities in KPK.
- Reaching out to domestic violence burn victims by funding reconstructive surgery and trainings of 125 individuals across Pakistan.
- Benefiting 100 women and indirectly 650 family members through the initiative of Reorganizing Women Capabilities for Generating Income in Sahiwal.

The Company in collaboration with Philip Morris International Inc. 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.

ENVIRONMENT HEALTH SAFETY AND SECURITY

The Company is committed to manufacture and deliver high quality tobacco products through established and internationally recognized quality, environment, health and safety procedures. We are committed to meet the expectations of adult consumers and build consumer loyalty through continuous improvement and excellence in our products.

The Company aims to conduct business with utmost care for the environment and recognizes the health and safety of its employees as a value added commodity to its business. The policies and practices are in place to prevent occupational injuries, illnesses and foreseeable hazards. During 2014 the Company successfully completed the ISO 14001 (environment) and OHSAS 18001 (health & safety) audit surveillances.

INVESTMENT IN HUMAN RESOURCE

The Company believes and invests in the development of its employees. The Company conducts various training programs and courses, throughout the year, to ensure that employees are equipped with the requisite skill set to help the Company achieve its objectives and long term goals.

CODE OF CORPORATE GOVERNANCE

The Company's Directors are committed to adhere to the highest standards of corporate governance. As such, in 2014, the Company continued to take steps to comply with the requirements of the Code of Corporate Governance (the "Code") as required by the Securities & Exchange Commission of Pakistan ("SECP").
As required under the Code, 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. 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, 2014 and for the last six financial years are set out on page 17; 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.

STATEMENT OF COMPLIANCE

The Company is responsible for publishing a statement of compliance. Statement of compliance 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	1,115	(Financial statements audited as of December 31, 2013)
Gratuity Fund	521	(Financial statements audited as of December 31, 2013)

HOLDING COMPANY

Incorporated in the Netherlands, Philip Morris Investments B.V. (Formerly Park 1989 B.V.) is the holding company having 77.65% of shares in the Company.

Philip Morris Brands SARL is the associate company having 20% of shares in the Company.

CHANGES IN BOARD OF DIRECTORS

During the year Mr. Alejandro Paschalides joined as the Chairman & Chief Executive of the Company replacing Mr. Arpad Konye. Mr. Andreas Franz Kurali resigned during the year, the resulting casual vacancy was subsequently filled by Mr. Daniel Fahrny.

In the Extra Ordinary General Meeting of the members held on September 25, 2014, a new Board of Directors was elected, for a term of three years as under:

1. Kamran Y. Mirza
2. Alejandro Paschalides
3. Daniel Fahrny
4. Nicolas Floros
5. Charles Bendotti
6. Joseph Ziomek
7. Athar Abbas

Mr. Kamran Y. Mirza was elected as Chairman of the Board of Directors in a meeting held in the month of October 2014.

One of the director has attended directors' training program during the year 2014.

BOARD OF DIRECTORS MEETINGS

The Board of Directors is comprised of seven Directors, of which two are independent Directors, three are non-executive Directors and two are executive Directors.

During 2014, the Board of Directors (the "Board") held 5 meetings. The attendance of Directors in those meetings is documented and provided here under:

Name of Directors	No. of meetings attended
Kamran Y. Mirza	2
Alejandro Paschalides	5
Athar Abbas	2
Joseph Ziomek	5
Daniel Fahrny	1
Charles Bendotti	-
Nicolas Floros	2
Andreas Franz Kurali	2
Mujtaba Hussain	3
Asmer Naim	3

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

CHANGES IN BOARD AUDIT COMMITTEE COMPOSITION

The new Board of Directors formed an Audit Committee in compliance with the Code. Mr. Athar Abbas was elected as the Chairman of the Audit Committee in its meeting held on October 27, 2014.

During the year Mr. Daniel Fahrny, Mr. Nicolas Floros & Mr. Athar Abbas joined the audit committee replacing Mr. Charles Bendotti, Mr. Mujtaba Hussain, Mr. Andreas Franz Kurali & Mr. Asmer Naim.

BOARD AUDIT COMMITTEE

The Audit Committee performs according to the terms of reference determined by the Board of the Company and which conforms to the requirements of the Code issued by the SECP.

The Audit Committee was re-constituted following implementation of the Code, by the Company, and comprises of three members, of which one is an independent Director and two are non-executive Directors.

At present following are acting as members and secretary of the Audit Committee;

1. Athar Abbas
2. Nicolas Floros
3. Daniel Fahrny
4. Mujtaba Hussain (Secretary)

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
Athar Abbas	1
Joseph Ziomek	3
Andreas Franz Kurali	1
Asmer Naim	2
Daniel Fahrny	2
Charles Bendotti	-
Nicolas Floros	-
Mujtaba Hussain	3

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

CHANGES IN HUMAN RESOURCE AND REMUNERATION COMMITTEE

During the year Mr. Alejandro Paschalides joined the committee in place of Mr. Arpad Konye and Mr. Daniel Fahrny joined the committee in place of Mr. Andreas Franz Kurali.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

After the promulgation of revised Code of Corporate Governance the Human Resource and Remuneration Committee ("HR&R Committee") was formed and three members were elected including the Chairman of the HR&R Committee, of which two are non-executive Directors.

At present following Directors are acting as member of the HR&R Committee.

1. Charles Bendotti
2. Daniel Fahrny
3. Alejandro Paschalides
4. Dion Leswara (Secretary)

During 2014, one meeting has been held by the HR&R Committee. The attendance of members in this meeting is documented and provided here under:

Name of Directors	No. of meetings attended
Alejandro Paschalides	1
Daniel Fahrny	1
Charles Bendotti	-

Leaves of absence were granted to the Directors who could not attend the HR&R Committee meetings.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2014 is included further in this Annual Report as per the requirements of the Code on page 15 and 16.

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, 2015. 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 as applicable during 2014. Details of those are provided in the Notes to the Financial Statements section 2.2.1.

COMPANY'S FOCUS

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

The Company's Directors and management continue to be focused on delivering such long term shareholder value through improvements in all aspects of the Company's operations. This includes, and is not limited to, innovative product offering, enhanced product quality, optimization of 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 continues to engage with the government to implement regulation in this area and thereby securing a level playing field for the overall tobacco industry as well as benefit the national exchequer.

ACKNOWLEDGEMENTS

The Directors wish to take this opportunity to thank all the Company's employees for their efforts, dedication, commitment and support in 2014.

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

KAMRAN Y. MIRZA
Chairman

Karachi: March 6, 2015

PATTERN OF HOLDING OF SHARES AS AT DECEMBER 31, 2014
INCORPORATION NUMBER - 0002832

NUMBER OF SHAREHOLDERS	SHAREHOLDING From	- To	TOTAL SHARES HELD
920	1	100	21,038
357	101	500	92,399
128	501	1000	88,815
203	1001	5000	408,760
25	5001	10000	174,265
5	10001	15000	59,905
2	15001	20000	33,350
1	20001	25000	21,206
1	25001	30000	28,915
1	35001	40000	37,773
1	45001	50000	46,255
1	430001	435000	432,250
1	12315001	12320000	12,316,060
1	47500001	50000000	47,819,350

CATEGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer and their spouse and minor children	65	0.00%
Associated Companies, undertakings and related parties	60,135,410	97.65%
Nit and ICP	58	0.00%
Banks, Development Financial Institutions, Non-Banking Financial Institutions	12,360	0.02%
Insurance Companies	21,206	0.03%
Shareholders holding 5% and above	60,135,410	97.65%
General Public (Local)	866,962	1.41%
Others	544,280	0.88%

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

KAMRAN Y. MIRZA
Chairman

Karachi: March 6, 2015

Details of Pattern of Shareholding as per Requirements of the Code of Corporate Governance

CATEGORIES OF SHAREHOLDERS	NO. OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKING 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. KAMRAN Y. MIRZA	50
MR. ATHAR ABBAS	10
MR. ALEJANDRO PASCHALIDES	1
MR. JOSEPH ZIOMEK	1
MR. CHARLES BENDOTTI	1
MR. DANIEL FAHRNY	1
MR. NICOLAS FLOROS	1
	65
PUBLIC SECTOR COMPANIES AND CORPORATION, BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, TAKAFUL, MODARBAS AND PENSION FUNDS	
INVESTMENT CORPORATION OF PAKISTAN	58
HABIB BANK LIMITED	132
MCB BANK LIMITED	3,228
SUMMIT BANK LIMITED	9,000
PAKISTAN REINSURANCE COMPANY LIMITED	21,206
	33,624
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					
	2014	2013	2012 (Restated)	2011 (Restated)	2010 (Restated)	2009 (Restated)
	(Rupees in thousand)					
Share Capital	615,803	615,803	615,803	615,803	615,803	615,803
Reserves & Surplus	3,373,047	4,877,776	5,337,282	5,947,375	6,549,018	6,204,126
Share Holders' Equity	**3,988,850**	**5,493,579**	**5,953,085**	**6,563,178**	**7,164,821**	**6,819,929**
Deferred liabilities	-	-	-	221,000	472,000	391,000
TOTAL CAPITAL EMPLOYED	**3,988,850**	**5,493,579**	**5,953,085**	**6,784,178**	**7,636,821**	**7,210,929**
Fixed assets - Net	7,416,512	6,902,926	5,389,680	3,945,989	3,847,679	3,845,739
Long-term investment	1	1	1	1	1	1
Long-term loans, deposits & prepayments	36,760	41,101	41,347	57,371	52,099	43,456
Deferred tax assets	527,615	379,978	6,887	-	-	-
Working capital	(3,992,038)	(1,830,427)	515,170	2,780,817	3,737,042	3,321,733
TOTAL ASSETS	**3,988,850**	**5,493,579**	**5,953,085**	**6,784,178**	**7,636,821**	**7,210,929**
Turnover	38,045,693	35,984,891	35,552,536	31,926,667	33,910,750	30,475,781
(Loss) / Profit before tax	(1,513,269)	(708,860)	(622,042)	(518,272)	881,623	1,507,190
(Loss) / Profit after tax & adjustment	(1,482,455)	(441,458)	(574,384)	(442,329)	577,506	965,441
Dividends declared (Cash)	-	-	-	-	153,951	246,321
	(Rupees)					
Break-up value of shares	64.77	89.21	96.67	106.58	116.35	110.75
Dividend per share	-	-	-	-	2.50	4.00
Net (Loss) / Earning per share	(24.07)	(7.17)	(9.33)	(7.18)	9.38	15.68

Auditors' Report to the Members

We have audited the annexed balance sheet of Philip Morris (Pakistan) Limited as at December 31, 2014 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion-

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2014 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.

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

Karachi: March 27, 2015

Balance Sheet as at December 31, 2014

	Note	2014	2013
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
FIXED ASSETS			
Property, plant and equipment	3	**7,393,065**	6,876,731
Intangibles	4	**23,447**	26,195
		7,416,512	6,902,926
Investment in a subsidiary company	5	**1**	1
Long term deposits and prepayments	6	**36,760**	41,101
Deferred taxation	7	**527,615**	379,978
		7,980,888	7,324,006
CURRENT ASSETS			
Stores and spares - net	8	**593,690**	588,330
Stock in trade - net	9	**7,960,101**	7,431,233
Trade debts - net	10	**225,182**	996
Loans and advances	11	**49,280**	69,434
Prepayments		**315,792**	256,141
Other receivables	12	**598,446**	215,022
Income tax - net		**747,423**	670,942
Cash and bank balances	13	**36,763**	12,753
		10,526,677	9,244,851
TOTAL ASSETS		**18,507,565**	16,568,857
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital	14	**1,000,000**	1,000,000
Issued, subscribed and paid-up capital	14	**615,803**	615,803
Reserves		**6,226,367**	6,248,641
Unappropriated loss		**(2,853,320)**	(1,370,865)
TOTAL EQUITY		**3,988,850**	5,493,579
CURRENT LIABILITIES			
Short term borrowings	17	**11,090,651**	8,776,634
Trade and other payables	18	**2,388,492**	2,027,811
Accrued mark-up on short term borrowings		**65,760**	78,072
Sales tax and excise duty payable		**973,812**	192,761
TOTAL LIABILITIES		**14,518,715**	11,075,278
TOTAL EQUITY AND LIABILITIES		**18,507,565**	16,568,857
CONTINGENCIES AND COMMITMENTS	19		

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

ALEJANDRO PASCHALIDES
Chief Executive

JOSEPH ZIOMEK
Director

Karachi: March 6, 2015

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014	2013
		(Rupees in thousand)	
Gross turnover		**38,045,693**	35,984,891
Less: Sales tax		**5,834,250**	5,182,547
Excise duty		**18,447,700**	17,073,917
Turnover - net of sales tax and excise duty		**13,763,743**	13,728,427
Cost of sales	20	**9,852,699**	10,060,128
Gross profit		**3,911,044**	3,668,299
Distribution and marketing expenses	21	**3,536,256**	3,035,215
Administrative expenses	22	**1,235,294**	1,162,584
		4,771,550	4,197,799
Operating loss		**(860,506)**	(529,500)
Other expenses	23	**220,125**	111,255
		(1,080,631)	(640,755)
Other income	24	**171,548**	372,320
		(909,083)	(268,435)
Finance cost	25	**604,186**	440,425
Loss before taxation		**(1,513,269)**	(708,860)
Taxation	26	**(30,814)**	(267,402)
Loss after taxation		**(1,482,455)**	(441,458)
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		**36,391**	9,065
Impact of deferred tax		**(11,322)**	(2,687)
Total items that will not be reclassified to profit and loss		**25,069**	6,378
Total comprehensive loss for the year		**(1,507,524)**	(447,836)
		(Rupees)	
Loss per share - basic	27	**(24.07)**	(7.17)

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

ALEJANDRO PASCHALIDES
Chief Executive

JOSEPH ZIOMEK
Director

Karachi: March 6, 2015

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2014

	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, 2013	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	-	-	(37,806)	-	(37,806)	-	(37,806)
(notes 2.4.17 and 16)	-	-	(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
Transactions with owners							
Share-based payment							
- expense	-	-	22,128	-	22,128	-	22,128
- recharge	-	-	(19,333)	-	(19,333)	-	(19,333)
(notes 2.4.17 and 16)	-	-	2,795	-	2,795	-	2,795
Total comprehensive loss							
Loss after taxation for the year ended December 31, 2014	-	-	-	-	-	(1,482,455)	(1,482,455)
Other comprehensive loss for the year	-	-	-	(25,069)	(25,069)	-	(25,069)
	-	-	-	(25,069)	(25,069)	(1,482,455)	(1,507,524)
Balance as at December 31, 2014	615,803	6,347,000	16,025	(136,658)	6,226,367	(2,853,320)	3,988,850

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

Karachi: March 6, 2015

ALEJANDRO PASCHALIDES
Chief Executive

JOSEPH ZIOMEK
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014	2013
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	31	**198,799**	(1,233,521)
Staff retirement gratuity paid		**(91,584)**	(60,564)
Finance cost paid		**(991,183)**	(314,421)
Income taxes paid		**(181,982)**	(332,100)
Long term deposits and prepayments		**4,341**	246
Net cash used in operating activities		**(1,061,609)**	(1,940,360)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		**(1,706,924)**	(2,088,323)
Acquisition of intangible		**(6,218)**	(833)
Proceeds from disposal of items of property, plant and equipment		**120,282**	346,887
Profit received on savings accounts		**462**	940
Net cash used in investing activities		**(1,592,398)**	(1,741,329)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds of loans obtained from associated undertaking		**18,522,800**	17,469,950
Repayment of loans from associated undertaking		**(15,418,300)**	(13,771,594)
Net cash provided by financing activities		**3,104,500**	3,698,356
Net increase in cash and cash equivalents during the year		**450,493**	16,667
Cash and cash equivalents at the beginning of the year		**(2,944,881)**	(2,961,548)
Cash and cash equivalents at the end of the year	32	**(2,494,388)**	(2,944,881)

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

Karachi: March 6, 2015

ALEJANDRO PASCHALIDES
Chief Executive

JOSEPH ZIOMEK
Director

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

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/233/619/02-749 dated November 27, 2014 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 5.

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), provisions of and directives 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, 2014:

There were certain new standards, amendments to the approved accounting standards and a new interpretation issued by the International Financial Reporting Interpretations Committee (IFRIC) which became effective during the year ended December 31, 2014 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.

2.2.2 New standards, amendments to published approved accounting standards and interpretations that are effective for the periods beginning after January 1, 2014:

There are certain new standards and amendments to the approved accounting standards that are mandatory for accounting periods beginning after January 1, 2014 but are considered not to be relevant or do not have any significant effect on the Company's operations and are, therefore, not disclosed 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 9). 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

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.

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 15 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 3.1) below. Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month the asset is no longer in use. Assets' residual values and useful lives are annually reviewed, and adjusted, if material.

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

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.

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':

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

- 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 a 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.

All actuarial gains and losses are recognised in 'Other comprehensive income' as they occur.

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.

	Note	2014	2013
		(Rupees in thousand)	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	**5,383,968**	4,286,803
Capital work-in-progress	3.2	**1,990,821**	2,583,090
Major capital spares and stand-by equipment		**18,276**	6,838
		7,393,065	6,876,731

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

3.1 Operating property, plant and equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on 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, 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
Year ended December31, 2013												
Transfers from CWIP see note 3.2.1	-	-	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 3.1.1	-	(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
Year ended December 31, 2014												
Transfers from CWIP see note 3.2.1	7,609	-	479,234	-	2,398	834,279	39,841	13,126	166,894	280,762	54,063	1,878,206
Disposals												
Cost	-	-	(670)	-	-	(14,906)	(2,864)	-	(118,930)	(435)	(7,095)	(144,900)
Accumulated depreciation	-	-	95	-	-	14,906	2,436	-	84,519	403	7,095	109,454
	-	-	(575)	-	-	-	(428)	-	(34,411)	(32)	-	(35,446)
Write-offs - note 3.1.5 & 23												
Cost	-	-	(12,919)	-	(255)	(105,737)	(4,280)	(2,155)	(720)	(13,186)	(2,182)	(141,434)
Accumulated depreciation	-	-	5,554	-	81	93,281	4,216	2,130	228	12,415	819	118,724
	-	-	(7,365)	-	(174)	(12,456)	(64)	(25)	(492)	(771)	(1,363)	(22,710)
Impairment - note 3.1.4 & 23												
Cost	-	(2,284)	-	-	-	(297,570)	-	-	-	-	-	(299,854)
Accumulated depreciation	-	2,255	-	-	-	206,148	-	-	-	-	-	208,403
	-	(29)	-	-	-	(91,422)	-	-	-	-	-	(91,451)
Depreciation charge - note 3.1.1	-	(90)	(10,732)	(1,505)	(43,194)	(278,337)	(32,442)	(5,432)	(187,021)	(32,880)	(39,801)	(631,434)
Net book value as at December 31, 2014	113,150	1,559	767,570	31,118	85,333	2,827,692	111,141	14,533	817,015	528,466	86,391	5,383,968
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
At December 31, 2014												
Cost	113,150	2,441	1,106,574	60,190	189,389	5,676,930	256,404	61,426	1,411,109	820,522	292,642	9,990,777
Accumulated depreciation	-	(853)	(339,004)	(29,072)	(104,056)	(2,717,902)	(144,801)	(46,193)	(594,094)	(281,930)	(205,753)	(4,463,658)
Accumulated impairment	-	(29)	-	-	-	(131,336)	(462)	(700)	-	(10,126)	(498)	(143,151)
Net book value	113,150	1,559	767,570	31,118	85,333	2,827,692	111,141	14,533	817,015	528,466	86,391	5,383,968
Depreciation rate	-	4%	2.50%	2.50%	20% to 33.33%	6.67% to 20%	20%	20%	20%	6.67%	33.33%	

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

	Note	2014	2013
		(Rupees in thousand)	
Purchases, redrying and related expenses	20.1	**59,764**	41,083
Manufacturing expenses	20.2	**328,191**	283,508
Distribution and marketing expenses	21	**123,600**	100,457
Administrative expenses	22	**119,879**	97,904
		631,434	522,952

3.1.2 Operating property, plant and equipment include assets having cost of Rs 1,009 million (2013: Rs 1,176 million) which were fully depreciated as at the year end.

3.1.3 Details of items of property, plant and equipment disposed of during the year and having net book value of more than Rs 50,000 either individually or in aggregate are given in note 35.

3.1.4 During the year, the Company has identified certain items of property, plant and equipment from which further economic benefits are no longer expected to be derived i.e. the Company neither intends to utilise nor can it dispose of the same in accordance with its policy except as scrap material. Accordingly such assets having a cost and net book value of Rs 299.854 million and Rs 91.451 million respectively have been impaired and thus have been reduced to Nil value in these financial statements as at December 31, 2014. Further, cost incurred on civil works amounting to Rs 79.834 million have been written off in these financial statements.

3.1.5 This includes items of property, plant and equipment written off having a cost and net book value of Rs 109.8 million and Rs 20.958 million respectively based on a physical verification exercise.

	Note	2014	2013
		(Rupees in thousand)	
3.2 Capital work-in-progress			
Civil works		**73,460**	530,288
Plant and machinery	3.2.2	**1,191,597**	1,262,194
Power and other installations		**424,526**	501,741
Furniture and fittings		**77,241**	46,150
Computer equipment pending installation		**128,197**	60,332
Advance to suppliers and contractors		**95,800**	182,385
		1,990,821	2,583,090

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

	Note	2014	2013
		(Rupees in thousand)	
Balance as at beginning of the year		**2,583,090**	2,144,395
Additions during the year			
- Civil works		**104,638**	352,136
- Freehold land		**7,609**	-
- Plant and machinery		**1,093,397**	526,051
- Power and other installations		**203,547**	455,524
- Furniture and fittings		**70,932**	53,765
- Computer equipment pending installations		**121,928**	99,595
- Advance to suppliers and contractors		**93,435**	597,992
		1,695,486	2,085,063
Transfers to operating fixed assets			
- Buildings on freehold land		**479,234**	67,586
- Freehold land		**7,609**	-
- Leasehold improvements		**2,398**	24,949
- Plant and machinery		**834,279**	854,536
- Furniture and fixtures		**39,841**	63,296
- Office equipment		**13,126**	6,647
- Vehicles		**166,894**	522,104
- Power and other installations		**280,762**	50,478
- Computer equipment		**54,063**	56,772
		1,878,206	1,646,368
Civil works written off	3.1.4	**79,834**	-
Disposal of plant and machinery from capital work in progress	3.2.3	**329,715**	-
Balance at the end of the year		**1,990,821**	2,583,090

3.2.2 This includes plant and machinery in transit aggregating Rs 103.364 million (2013: Rs Nil).

3.2.3 This represents the disposal of plant and machinery to an associated company (note 29).

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

4. INTANGIBLES

	Note	2014	2013
		Computer software (Rupees in thousand)	
At January 1			
Cost		**36,080**	35,247
Accumulated amortisation		**9,885**	2,101
Net book value		**26,195**	33,146
Year ended December 31			
Additions		**6,218**	833
Amortisation for the year	4.1	**8,966**	7,784
Net book value as at December 31		**23,447**	26,195
At December 31			
Cost		**42,298**	36,080
Accumulated amortisation		**18,851**	9,885
Net book value		**23,447**	26,195

4.1 Amortisation for the year relates to distribution and marketing expenses (note 21) and administrative expenses (note 22).

5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in Laksonpremier Tobacco Company (Private) Limited. Out of such 103 shares, two shares are in the name of the nominees. During the year ended December 31, 2014, 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, 2014 amounted to Rs Nil, in accordance with the audited financial statements for the year ended.

6. LONG TERM DEPOSITS AND PREPAYMENTS

	2014	2013
	(Rupees in thousand)	
Deposits	**28,250**	32,203
Prepayments	**8,510**	8,898
	36,760	41,101

7. DEFERRED TAXATION

	2014	2013
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	**(557,366)**	(499,663)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	**6,255**	1,350
Amortisation of intangible	**164**	115
Unutilised tax losses and credit	**1,059,074**	652,017
Minimum tax	**-**	207,440
Provision for spares	**501**	-
Provision for obsolete stocks	**18,093**	17,798
Provision for doubtful debts	**894**	921
	1,084,981	879,641
Deferred tax asset	**527,615**	379,978

7.1 The movement in temporary differences is as follows:

	Balance as at January 1, 2013	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at December 31, 2013	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at December 31, 2014
	----------	----------	----------	Rupees in '000	----------	----------	----------
Deferred tax Credits:							
Tax depreciation allowance	(426,320)	(73,343)	-	(499,663)	(57,703)	-	(557,366)
Deferred tax debits:							
Accrual for employees compensated absences	1,150	200	-	1,350	4,905	-	6,255
Amortisation of intangible	119	(4)	-	115	49	-	164
Unutilised tax loss and credit	278,983	375,721	(2,687)	652,017	395,735	11,322	1,059,074
Minimum tax	152,006	55,434	-	207,440	(207,440)	-	-
Provision for stores and spares	-	-	-	-	501	-	501
Provision for obsolete stocks	-	17,798	-	17,798	295	-	18,093
Provision for doubtful debts	949	(28)	-	921	(27)	-	894
	433,207	449,121	(2,687)	879,641	194,018	11,322	1,084,981
	6,887	375,778	(2,687)	379,978	136,315	11,322	527,615

8. STORES AND SPARES - net

	Note	2014	2013
		(Rupees in thousand)	
Stores		**11,777**	12,125
Spares	8.2	**583,470**	576,205
		595,247	588,330
Less: Provision for slow moving spares	8.1	**(1,557)**	-
		593,690	588,330

8.1 Provision for slow moving spares

	2014	2013
Opening balance	**-**	3,726
Provision made during the year	**30,204**	11,776
Write off against provision	**(28,647)**	(15,502)
Closing balance	**1,557**	-

8.2 This includes spares in transit amounting to Rs 2.459 million (2013: Rs Nil).

9. STOCK IN TRADE - net

	Note	2014	2013
		(Rupees in thousand)	
Raw and packing materials	9.2	**7,287,025**	6,314,446
Work-in-process		**82,817**	49,849
Finished goods	9.2 & 9.3	**646,492**	1,120,668
		8,016,334	7,484,963
Less: Provision for obsolete stocks	9.1	**(56,233)**	(53,730)
		7,960,101	7,431,233

9.1 Provision for obsolete stocks

	2014	2013
Opening balance	**53,730**	-
Provision made during the year	**131,391**	55,967
Write off against provision	**(128,888)**	(2,237)
Closing balance	**56,233**	53,730

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

9.2 These include raw and packing material in transit aggregating Rs 25.252 million (2013: Rs 80.411 million) and finished goods in transit aggregating Rs Nil (2013: Rs 12.417 million).

9.3 Finished goods include items costing Rs 108.28 million (2013: Rs 99.427 million) which are stated at their net realisable value aggregating Rs 104.197 million (2013: Rs 78.949 million). The amount charged to the profit and loss account in respect of stocks written down to their net realisable value is Rs 4.083 million (2013: Rs 20.478 million).

10. TRADE DEBTS - net

	Note	2014	2013
		(Rupees in thousand)	
Considered good - unsecured		**225,182**	996
Considered doubtful		**2,780**	2,780
		227,962	3,776
Less: Provision for doubtful debts	10.1	**(2,780)**	(2,780)
		225,182	996

10.1 Provision for doubtful debts

	Note	2014	2013
		(Rupees in thousand)	
Balance at beginning of the year		**(2,780)**	(2,780)
Provision for the year		**-**	-
Balance at end of the year		**(2,780)**	(2,780)

11. LOANS AND ADVANCES

	Note	2014	2013
Considered good - unsecured			
Advances to:			
- Employees and executives	11.1 & 11.2	**24,766**	25,999
- Suppliers and contractors		**24,514**	43,435
		49,280	69,434

11.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 13.603 million (2013: Rs 14.236 million). Further, amounts due from executives as at December 31, 2014 aggregated Rs 10.369 million (2013: Rs 11.993 million).

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

12. OTHER RECEIVABLES

	Note	2014	2013
		(Rupees in thousand)	
Receivable from 'associated undertakings'	12.1	**593,078**	209,557
Others		**5,368**	5,465
		598,446	215,022

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

	2014	2013
	(Rupees in thousand)	
Philip Morris Services S.A.	**263,042**	184,189
Papastratos Cigarette Manufacturing	**323,331**	-
Philip Morris International	**-**	11,174
PMFTC Inc.	**1,403**	1,233
Philip Morris Services India S.A.	**2,710**	3,664
Z-Philip Morris (Thailand) Limited	**335**	-
PT Philip Morris Indonesia	**-**	409
Philip Morris Limited	**-**	2,177
Philip Morris Japan KK	**-**	135
Pt Hanjaya Mandala Sampoerna Tbk	**2,257**	6,576
	593,078	209,557

13. CASH AND BANK BALANCES

	2014	2013
With banks in current accounts		
- Foreign currency	**16,362**	306
- Local currency	**20,021**	11,989
	36,383	12,295
Cash in hand	**380**	458
	36,763	12,753

14. SHARE CAPITAL

14.1 Authorised capital

2014	2013		2014	2013
(Number of shares)			(Rupees in thousand)	
100,000,000	100,000,000	Ordinary shares of Rs 10 each	**1,000,000**	1,000,000

14.2 Issued, subscribed and paid-up capital

2014	2013			
(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

14.3 As at December 31, 2014, 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 (2013: 47,819,356 and 12,316,061 respectively).

15. STAFF RETIREMENT BENEFITS

15.1 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, 2014.

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	2014	2013
		(Rupees in thousand)	
15.1.1 Net liability			
Present value of defined benefit obligation	15.1.5	**615,624**	516,907
Fair value of plan assets	15.1.6	**(615,624)**	(516,907)
Liability recognised in the balance sheet		**-**	-
15.1.2 Amounts charged to profit and loss account:			
Current service cost		**61,215**	52,872
Net interest cost		**(6,022)**	(1,373)
	15.1.3	**55,193**	51,499
15.1.3 The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	20.1	**8,058**	7,336
Manufacturing expenses	20.2	**19,983**	18,070
Distribution and marketing expenses	21	**15,548**	14,852
Administrative expenses	22	**11,604**	11,241
		55,193	51,499
15.1.4 Movement in the liability recognised in the balance sheet:			
Balance as at the beginning of the year		**-**	-
Net charge for the year	15.1.3	**55,193**	51,499
Contribution to the fund		**(91,584)**	(60,564)
Net remeasurements for the year		**36,391**	9,065
Balance as at the end of the year		**-**	-

	2014	2013
	(Rupees in thousand)	
15.1.5 Movement in the present value of defined benefit obligation:		
Opening balance	**516,907**	434,847
Current service cost	**61,215**	52,872
Interest cost	**65,061**	53,486
Benefits paid	**(51,521)**	(28,523)
Remeasurements on obligation	**23,962**	4,225
Closing balance	**615,624**	516,907
15.1.6 Movement in the fair value of plan assets:		
Opening balance	**516,907**	434,847
Interest income	**71,083**	54,859
Contributions	**91,584**	60,564
Benefits paid	**(51,521)**	(28,523)
Remeasurements on plan assets	**(12,429)**	(4,840)
Closing balance	**615,624**	516,907
15.1.7 Principal actuarial assumptions used are as follows:		
Expected rate of increase in salary level	**12.70%**	11.80%
Valuation discount rate	**13.70%**	13.15%

15.1.8 Major categories / composition of plan assets are as follows:

	2014	2013
	(Rupees in thousand)	
Debt instruments	**489,563**	10,332
Equity	**54,751**	49,085
Balances with banks	**71,310**	457,490
	615,624	516,907

15.1.9 Actual gain on plan assets during the year ended December 31, 2014 was Rs 58.654 million (2013: Rs 50.019 million).

15.1.10 Expected contribution to defined benefit plan for the year ending December 31, 2015 is Rs 74.860 million (2014: Rs 57.695 million).

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

15.1.12 Mortality rates assumed were based on SLIC 2001- 2005 mortality tables.

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

		Impact on present value of defined benefit obligation	
	Change in assumptions	**Increase in assumption**	**Decrease in assumption**
	(%)	**(Rupees in thousand)**	
Discount rate	1%	(547,109)	697,450
Salary growth rate	1%	697,937	(545,576)

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.

15.2 Defined contribution plan

	Note	**2014**	**2013**
		(Rupees in thousand)	
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	20.1	**12,464**	10,463
Manufacturing expenses	20.2	**25,929**	22,927
Distribution and marketing expenses	21	**37,584**	35,747
Administrative expenses	22	**17,874**	16,603
		93,851	85,740

16. 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:

16.1 Grant dates

Grant dates	February 11, 2011, February 11, 2012, February 7, 2013 & February 6, 2014
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)
Share price at grant date (February 6, 2014)	Rs 8,225 / share (US $ 78.11 / share)
Number of shares outstanding at the end of the year	8,369

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

	Note	2014	2013
		(Number of shares)	
Outstanding as at the beginning of the year		**8,739**	13,639
Granted during the year		**3,750**	3,470
Vested / exercised during the year	16.4	**(2,670)**	(6,240)
Forfeited during the year		**(1,450)**	(2,130)
Outstanding as at the end of the year		**8,369**	8,739

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

	Note	2014	2013
		(Rupees in thousand)	
Purchase, redrying and related expenses	20.1	**3,141**	3,918
Manufacturing expenses	20.2	**1,972**	1,324
Distribution and marketing expenses	21	**2,638**	16,398
Administrative expenses	22	**14,377**	4,496
		22,128	26,136

16.4 During the year ended December 31, 2014 shares granted on February 11, 2011 were fully vested alongwith early vesting for certain employees from the respective grant dates. An amount of Rs 19.333 million (US$ 198,381) was recharged by Philip Morris International Inc. New York during the year, which was payable as at the year end.

17. SHORT TERM BORROWINGS

	Note	2014	2013
		(Rupees in thousand)	
Secured			
Running finance under mark-up arrangements	17.1 & 32	**2,531,151**	2,957,634
Unsecured			
Loans from an associated undertaking	17.2	**8,559,500**	5,819,000
		11,090,651	8,776,634

17.1 The Company has arranged for running finance and other short term loan facilities to the extent of Rs 7,125 million (2013: Rs 6,000 million) from commercial banks. These facilities are available for various periods expiring between January 31, 2015 to November 29, 2015 (2013: April 30, 2014 to November 29, 2014). The facilities are secured by way of hypothecation of stock in trade and other receivable assets of the Company and are carrying markup rates ranging from 10.24% to 10.94% (2013: 9.18% to 10.65%) per annum.

The facilities for opening of letters of credits included in the aforementioned facilities of Rs 7,125 million as at December 31, 2014 aggregated Rs 1,650 million of which amount unutilised was Rs 1,546.333 million as at December 31, 2014.

17.2 The Company has obtained nine short term loans from its associated company, Philip Morris Finance S.A., amounting to US $ 85 million. The repayment dates of these loans are January 15, January 29, February 3, April 1, April 22, May 15, May 21, June 9 and June 18, 2015 respectively and the loans payable on January 15, January 29 and February 3, 2015 have been rolled over subsequent to the year end for further period of six months. These loans carry mark-up rates of LIBOR plus 1% per annum.

18. TRADE AND OTHER PAYABLES

	Note	2014	2013
		(Rupees in thousand)	
Creditors	18.1	**862,373**	646,282
Bills payable		**474,003**	608,900
Royalty payable to a related party	18.1	**125,185**	85,497
Accrued expenses		**749,625**	563,982
Tobacco development cess	18.2	**43,681**	24,125
Contractors' retention money		**37,039**	24,049
Advance from customers		**7,108**	11,616
Unpaid and unclaimed dividends		**28,412**	28,412
Others	18.3	**61,066**	34,948
		2,388,492	2,027,811

18.1 The amount due to group undertakings included in creditors and royalty payable aggregated Rs 408.602 million (2013: Rs 314.784 million).

18.2 The movement of tobacco development cess is as follows:	2014	2013
	(Rupees in thousand)	
Balance as at the beginning of the year	**24,125**	32,815
Provision for the year	**86,346**	48,250
	110,471	81,065
Less: Payments made during the year	**(66,790)**	(56,940)
Balance at the end of the year	**43,681**	24,125

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.

18.3 This included derivative financial instruments aggregating Rs 0.26 million (2013: Rs 24.976 million) on foreign exchange currency swap as at December 31, 2014, the notional principal amounts of which as at December 31, 2014 were Rs 8,559.50 million (2013: Rs 5,819 million).

19. CONTINGENCIES AND COMMITMENTS

19.1 Guarantees

Indemnities given to bank for guarantees issued by it in the normal course of business aggregated Rs 98.193 million (2013: Rs 78.220 million).

19.2 Commitments	2014	2013
	(Rupees in thousand)	
Capital expenditure contracted for but not incurred	**423,374**	496,181
Letters of credit	**103,667**	24,728

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:

	2014	2013
	(Rupees in thousand)	
Not later than 1 year	**84,941**	22,116
Later than 1 year and not later than 5 years	**92,107**	176,108
	177,048	198,224

19.3 Contingent liabilities

19.3.1 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 18.579 million (2013: Rs 20.025 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.

19.3.2 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 show cause notices were confirmed and demands were raised against the Company along with 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.

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

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

During the year ended December 31, 2012, three orders issued by custom authorities were 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 to (i) suspend the operation of the customs orders; and (ii) restrain the tax authorities from demanding, FED or other taxes calculated on a basis other than the retail price which the Company prints on its cigarette packs imported into Pakistan.

The appeal filed before the Appellate Tribunal Customs & Excise was heard on June 6, 2014 and the matter was reserved for judgment. Subsequent to the year end the High Court of Sindh through its order dated February 6, 2015 directed the Appellate Tribunal to decide the case within 60 days from the date of receipt of the order and restrained custom authorities from taking any coercive action till 7 days following the order of the Appellate Tribunal. 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.

19.3.4 While reviewing the income tax return of the Company for the tax year 2009 (accounting year ended December 31, 2008) the Deputy Commissioner Inland Revenue has under section 122(1) of the Income Tax Ordinance 2001 (the Tax Ordinance) served the Company with an order dated May 30, 2012 amending its assessment for that tax year and has disallowed certain deductions aggregating Rs 256.444 million, the tax impact of which was Rs 100.525 million. However, during the year ended December 31, 2013 a rectification order dated September 23, 2013 was received amounting to Rs 43.023 million thereby 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 II is pending adjudication.

During the current year an amount of Rs 27.401 million out of the said rectification order has been adjusted by the tax authorities against the Company's liabilities pertaining to FED and subsequent to the year end a cheque dated January 26, 2015 amounting to Rs 11.439 million has been received. For the remaining portion of the rectification order i.e. Rs 4.183 million, the management is of the view that the same shall also be allowed as adjustment towards the Company's tax liability (either pertaining to income tax, FED or sales tax) or will be received in due course. Further, for the pending appeal against the tax demand of Rs 57.502 million, the management is continuing with its earlier view that the decision of the appeal shall be in the Company's favour.

19.3.5 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 has under section 122(1) of 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 235.705 million, the tax impact of which is Rs 100.927 million. The Company has filed an appeal before the Commissioner Inland Revenue – Appeals II 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 35.162 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.

19.3.6 While reviewing the income tax return of the Company for the tax year 2013 (accounting year ended December 31, 2012) the Additional Commissioner Inland Revenue has under section 122(1) of the Tax Ordinance served the Company with an order dated April 28, 2014 amending its assessment for that tax year and has disallowed certain deductions aggregating Rs 455.747 million. The Company has filed an appeal before the Commissioner Inland Revenue – Appeals II against the aforementioned order which is pending adjudication. 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 aforementioned disallowed deductions in these financial statements.

19.3.7 During the year, the Deputy Commissioner Inland Revenue (DCIR) under section 14(1) of Federal Excise Act, 2005 and section 11(2) of the Sales Tax Act, 1990 has issued an order dated September 29, 2014 and raised a demand on account of short paid FED and Sales Tax amounting to Rs 2,320.757 million and Rs 964.591 million respectively. The Company's appeal was dismissed by the Commissioner Inland Revenue (CIR) - Appeals through order dated December 15, 2014. The Company filed an appeal before the Appellate Tribunal Inland Revenue against the order of CIR - Appeals on January 13, 2015 which is pending adjudication. Further, the Company simultaneously has also filed suit before the High Court of Sindh on October 22, 2014 and has obtained an injunction restraining tax authorities from taking coercive action against the Company vide order dated January 15, 2015. The management based on the merits of the case is confident that the ultimate decision shall be in its (the Company's) favour and therefore, a provision has not been recognised in these financial statements.

	Note	2014	2013
20. COST OF SALES		**(Rupees in thousand)**	
Raw material consumed			
Opening stock		**6,314,446**	6,526,894
Purchases, redrying and related expenses	20.1	**7,898,507**	8,406,385
		14,212,953	14,933,279
Closing stock	9	**(7,287,025)**	(6,314,446)
		6,925,928	8,618,833
Government levies		**116,485**	80,394
Manufacturing expenses	20.2	**2,055,059**	2,021,257
		9,097,472	10,720,484
Work in process			
Opening stock		**49,849**	34,388
Closing stock	9	**(82,817)**	(49,849)
Sale of waste		**(18,304)**	(32,054)
		(101,121)	(81,903)
		(51,272)	(47,515)
Cost of goods manufactured		**9,046,200**	10,672,969
Finished goods			
Opening stock		**1,120,668**	279,877
Finished goods purchased		**332,323**	227,950
Closing stock	9	**(646,492)**	(1,120,668)
		806,499	(612,841)
		9,852,699	10,060,128

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

		Note	2014	2013
20.1	Purchases, redrying and related expenses		(Rupees in thousand)	
	Raw and packing material		**6,840,476**	7,462,313
	Salaries, wages and other benefits	15 & 16	**388,096**	346,351
	Stores and spares consumed		**69,298**	47,075
	Fuel and power		**126,434**	120,996
	Rent, rates and taxes		**57,971**	52,884
	Freight and stacking		**158,686**	172,352
	Postage, telephone and stationery		**10,561**	15,538
	Depreciation	3.1.1	**59,764**	41,083
	Repair and maintenance		**18,489**	20,044
	Travelling and vehicle expenses		**52,034**	49,664
	Professional charges		**176**	2,081
	Fumigation and pesticide expenses		**15,213**	15,430
	Security charges		**75,041**	46,347
	Other expenses		**26,268**	14,227
			1,058,031	944,072
			7,898,507	8,406,385
20.2	Manufacturing expenses			
	Salaries, wages and other benefits	15 & 16	**712,181**	763,637
	Stores and spares consumed		**385,029**	375,831
	Fuel and power		**307,894**	307,574
	Rent, rates and taxes		**2,427**	11,590
	Cartage		**99,557**	106,701
	Postage, telephone and stationery		**10,464**	8,694
	Depreciation	3.1.1	**328,191**	283,508
	Travelling and vehicle expenses		**78,200**	79,689
	Security charges		**61,251**	28,464
	Other expenses		**69,865**	55,569
			2,055,059	2,021,257

21. DISTRIBUTION AND MARKETING EXPENSES

	Note	2014	2013
Salaries, allowances and other benefits	15 & 16	**1,083,536**	892,915
Selling expenses		**1,633,091**	1,387,494
Freight expense		**182,737**	149,736
Rent, rates and taxes		**36,834**	44,908
Postage, telephone and stationery		**23,577**	27,787
Depreciation	3.1.1	**123,600**	100,457
Amortisation	4.1	**488**	-
Travelling and vehicle expenses		**310,249**	317,193
Royalty		**42,154**	30,711
Repair and maintenance		**15,566**	14,853
Security charges		**25,856**	16,843
Other expenses		**58,568**	52,318
		3,536,256	3,035,215

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

		Note	2014	2013
22.	**ADMINISTRATIVE EXPENSES**		(Rupees in thousand)	
	Salaries, allowances and other benefits	15 & 16	**593,466**	532,185
	Rent, rates and taxes		**133,229**	123,248
	Postage, telephone and stationery		**17,708**	20,344
	Travelling and vehicle expenses		**94,170**	94,929
	Repairs and maintenance		**52,223**	50,227
	Legal and professional charges		**50,181**	48,525
	Utilities		**20,408**	21,695
	Fee and subscription		**4,836**	49,748
	Insurance		**59,178**	60,596
	Auditors' remuneration	22.1	**15,500**	4,802
	Depreciation	3.1.1	**119,879**	97,904
	Donation	22.2	**521**	905
	Amortisation	4.1	**8,478**	7,784
	Security charges		**63,626**	42,838
	Other expenses		**1,891**	6,854
			1,235,294	1,162,584

			2014	2013
22.1	Auditors' remuneration			
	Audit fee		**2,250**	1,950
	Review of half yearly financial statements		**750**	650
	Taxation and other services		**11,400**	2,062
			14,400	4,662
	Out of pocket expenses		**1,100**	140
			15,500	4,802

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

		Note	2014	2013
23.	**OTHER EXPENSES**			
	Property, plant and equipment written off	3.1.5	**22,710**	38
	Impairment charge on items of property, plant and equipment	3.1.4	**91,451**	-
	Civil works written off	3.1.4	**79,834**	-
	Loss on disposal of plant and machinery from capital work in progress	3.2.3	**6,384**	-
	Exchange loss - net	23.1 & 25.4	**-**	64,265
	Miscellaneous expenses		**19,746**	46,952
			220,125	111,255

23.1 This includes unrealised exchange loss amounting to Rs Nil (2013: Rs 2.943 million) arising from 'trade and other payables'.

		Note	2014	2013
24.	**OTHER INCOME**			
	Income from financial assets:			
	• Exchange gain - net	24.1 & 25.4	**65,491**	-
	• Profit on savings accounts		**462**	940
	• Others		**20,759**	69,629
			86,712	70,569
	Income from assets other than financial assets:			
	• Profit on disposal of items of property, plant and equipment		**84,836**	301,751
			171,548	372,320

24.1 This includes unrealised exchange gain amounting to Rs 49.477 million (2013: Rs Nil) arising from 'trade and other payables'.

25. FINANCE COST

	Note	2014	2013
		(Rupees in thousand)	
Mark-up on short term borrowings	25.1 & 25.4	**292,871**	298,085
Exchange (gain) / loss on foreign currency loan	25.2 & 25.4	**(364,000)**	175,644
Loss / (gain) on foreign currency swap derivatives	25.3 & 25.4	**661,284**	(54,835)
Bank commission and other charges		**14,031**	21,531
		604,186	440,425

25.1 The mark-up on short term borrowings includes mark-up aggregating Rs 86.406 million on the loans from an associated undertaking (2013: Rs 39.411 million).

25.2 This represents realised and unrealised exchange gain amounting to Rs 328 million and Rs 36 million respectively on foreign currency short term borrowings from an associated undertaking.

25.3 This represents loss / (gain) on foreign currency swap derivatives on foreign currency short term borrowings from an associated undertaking.

25.4 For better presentation certain reclassifications have been made which resulted in the following changes to the corresponding amounts:

From	To	2013 (Rupees in thousand)
'Exchange gain (net)' under 'Other income'	'Exchange (gain) / loss on foreign currency loan' under 'Finance cost'	(87,000)
'Mark-up on short term borrowings' under 'Finance cost'	'Exchange (gain) / loss on foreign currency loan' under 'Finance cost'	262,644
'Mark-up on short term borrowings' under 'Finance cost'	'Loss / (gain) on foreign currency swap derivatives' under 'Finance cost'	(54,835)

26. TAXATION

	2014	2013
	(Rupees in thousand)	
Current - for the year	**131,433**	123,081
Current - for prior years	**(25,932)**	(20,079)
	105,501	103,002
Deferred	**(136,315)**	(370,404)
	(30,814)	(267,402)

26.1 Relationship between tax expense and accounting loss

	2014	2013
	(Rupees in thousand)	
Accounting loss before tax	**(1,513,269)**	(708,860)
Effective tax rate	**32.175%**	33.150%
Tax on accounting loss	**(486,894)**	(234,987)
Tax effect of:		
• expenses that are not allowed in determining taxable income	**45,118**	674
• income chargeable at lower rate / exempt income	**(11,583)**	(75,902)
• effect of change in tax rate	**4,379**	(112)
• income assessed under Final Tax Regime	**148,856**	67,029
• minimum tax	**265,644**	-
• others	**29,598**	(4,025)
	(4,882)	(247,323)
Adjustments in respect of current tax of prior periods	**(25,932)**	(20,079)
Tax expense for the year	**(30,814)**	(267,402)

27. LOSS PER SHARE - BASIC

	Note	2014	2013
		(Rupees in thousand)	
Loss for the year after taxation		**(1,482,455)**	(441,458)
		(No. of shares)	
Number of ordinary shares	14.2	**61,580,341**	61,580,341
		Rupees	
Loss per share		**(24.07)**	(7.17)

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2014 or 2013.

28. 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	
	2014	2013	2014	2013	2014	2013	2014	2013
	(Rupees in thousand)							
Remuneration	**11,614**	38,988	**15,813**	32,148	**501,202**	459,573	**528,629**	530,709
House rent	**-**	-	**7,116**	14,467	**225,541**	206,892	**232,657**	221,359
Bonus	**-**	-	**5,347**	5,957	**114,647**	94,291	**119,994**	100,248
Retirement benefits	**-**	-	**2,208**	2,778	**93,684**	69,304	**95,892**	72,082
Utilities	**-**	-	**1,581**	3,215	**50,120**	46,098	**51,701**	49,313
Others	**9**	12	**648**	1,110	**69,692**	84,989	**70,349**	86,111
	11,623	39,000	**32,713**	59,675	**1,054,886**	961,147	**1,099,222**	1,059,822
Number of persons	**2**	1	**3**	3	**468**	451	**473**	455

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

No remuneration in respect of independent directors / non-executive directors of the Company have been charged during the year.

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

The Company considers its chief executive and executive 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 22.128 million (2013: Rs 26.136 million).

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

29. 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 28, are as follows:

	Nature of transactions	2014	2013
		(Rupees in thousand)	
Associated undertakings	Sale of goods	**400,220**	496,613
	Sale of plant and machinery	**323,331**	-
	Services rendered	**294,298**	610,689
	Purchase of goods	**295,049**	325,635
	Purchase of plant and machinery	**90,959**	132,078
	Services procured	**61,429**	89,645
	Loans received	**18,522,800**	17,469,950
	Loans repaid / adjusted	**15,418,300**	13,771,594
	Mark-up on short term borrowings	**86,406**	39,411
	Royalty charges	**42,154**	30,711
	Share based payment expense	**22,128**	26,136
	Share based payment recharge	**19,333**	37,806
	Unrealised exchange gain on loan	**36,000**	57,000
Subsidiary	Expenses borne by the Company	**110**	72
Staff retirement plans	Contribution to gratuity fund	**91,584**	60,564
	Contribution to provident fund	**93,851**	85,740

The related party status of outstanding balances as at December 31, 2014 is included in notes 5, 11.1, 12.1, 15.1, 17.2, and 18.1. These are to be settled in ordinary course of business.

30. CAPACITY AND PRODUCTION

Against an installed manufacturing capacity of 55,674 million (2013: 55,110 million) cigarettes, actual production was 17,554 million (2013: 22,298 million) cigarettes. Actual production was sufficient to meet the demand.

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

31. CASH GENERATED FROM / (USED IN) OPERATIONS

	Note	2014	2013
		(Rupees in thousand)	
Loss before taxation		**(1,513,269)**	(708,860)
Adjustments for:			
Depreciation		**631,434**	522,952
Property, plant and equipment written off		**22,710**	38
Impairment charge on items of property, plant and equipment		**91,451**	-
Civil works written off		**79,834**	-
Loss on disposal of plant and machinery from capital work in progress		**6,384**	-
Amortisation		**8,966**	7,784
Provision for slow moving spares		**30,204**	11,776
Provision for obsolete stocks - packing material		**131,391**	55,967
Stock in trade - written down to net realisable value		**4,083**	20,478
Expenses arising from equity-settled share-based payment plan		**22,128**	26,136
Gratuity expense		**55,193**	51,499
Unrealised exchange (gain) / loss		**(49,477)**	2,943
Exchange (gain) / loss - on loans from associated undertaking		**(364,000)**	175,644
Profit on savings accounts		**(462)**	(940)
Profit on disposal of items of property, plant and equipment		**(84,836)**	(301,751)
Finance cost		**954,155**	352,920
Working capital changes	31.1	**172,910**	(1,450,107)
		198,799	(1,233,521)

31.1 Working capital changes

	2014	2013
(Increase) / decrease in current assets		
Stores and spares	**(35,564)**	(80,017)
Stock in trade	**(664,342)**	(666,519)
Trade debts	**(224,186)**	194,380
Loans and advances	**20,154**	6,536
Prepayments	**(59,651)**	(83,936)
Other receivables	**(60,093)**	(166,348)
	(1,023,682)	(795,904)
Increase / (decrease) in current liabilities		
Trade and other payables	**415,541**	(128,363)
Sales tax and excise duty payable	**781,051**	(525,840)
	172,910	(1,450,107)

32. CASH AND CASH EQUIVALENTS

	Note	2014	2013
Cash and bank balances	13	**36,763**	12,753
Short term borrowings	17	**(2,531,151)**	(2,957,634)
		(2,494,388)	(2,944,881)

33. FINANCIAL RISK MANAGEMENT

33.1 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, 2014, 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, 2014, 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 37.154 million (2013: Rs 28.963 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 18), trade debts (note 10), other receivables (note 12), bank balances (note 13) and loans from associated undertaking (note 17) in respect of import of packing materials, stores and spares and plant and machinery and export sales etc.

As at December 31, 2014, 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 295.872 million (2013: Rs 212.721 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 33.3, those that are subject to credit risk aggregates Rs 888.261 million (2013: Rs 260.516 million). The analysis below summarises the credit quality of the Company's financial assets as at December 31, 2014:

- 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 593.078 million (2013: Rs 209.557 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:

	2014	2013
	(Maturity within one year)	
	(Rupees in thousand)	
Short term borrowings	**11,090,651**	8,776,634
Trade and other payables	**2,301,238**	1,818,107
Accrued mark-up on short term borrowings	**65,760**	78,072
	13,457,649	10,672,813

33.2 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, 2014, 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.

33.3 Financial Instruments by Category

	2014	2013
FINANCIAL ASSETS	(Rupees in thousand)	
Loans and receivables at amortised cost		
Long term deposits	**28,250**	32,203
Trade debts	**225,182**	996
Other receivables	**598,446**	215,022
Cash and bank balances	**36,763**	12,753
	888,641	260,974
FINANCIAL LIABILITIES		
Loans and receivables at amortised cost		
Short term borrowings	**11,090,651**	8,776,634
Trade and other payables	**2,300,978**	1,793,131
Accrued mark-up on short term borrowings	**65,760**	78,072
	13,457,389	10,647,837
Fair value through profit and loss		
Foreign currency swap derivatives	**260**	24,976
	13,457,649	10,672,813

34. 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 2014, the Company's strategy, which was unchanged from 2013, was to maintain gearing ratio at a minimum level. The gearing ratios as at December 31, 2014 and 2013 were 73% and 61% respectively. The increase in the gearing ratio is primarily due to the Company's cash requirements to invest in capital expenditure and meet working capital requirements.

35. 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)					
Building	320	(52)	268	250	Tender	Amar Agro Industries
	350	(43)	307	250	Tender	----do----
	670	(95)	575	500		
Furniture and Fixture	1,034	(707)	327	24	Tender	Mr. Muhammad Salik Sultan
Plant and Machinery	323,331	-	323,331	323,331	Negotiation	Papastratos Cigarette Manufacturing
Vehicle	879	(703)	176	307	Company Policy	Mr. Mir Kaiser Yaqoob
	806	(458)	348	527	----do----	Mr. Shahrukh Ansari
	2,750	(2,200)	550	2,325	----do----	Mr. Fauz Jamal
	1,087	(870)	217	636	----do----	Mr. Rana Muhammad Sufiyan
	1,087	(870)	217	755	----do----	Mr. Gulzar Ahmad
	4,716	(3,773)	943	2,740	----do----	Mr. Syed Musa Raza Zaidi
	6,391	(4,607)	1,784	3,501	----do----	Mr. Naazer Ahmed Minhaj
	1,080	(730)	350	724	----do----	Mr. Asif Khan Marwat
	1,389	(1,111)	278	486	----do----	Mr. Rahan Saeed
	884	(707)	177	309	----do----	Mr. Asad Anees
	842	(674)	168	295	----do----	Mr. Muhammad Rafiq
	842	(674)	168	295	----do----	Mr. Imran Ul Haque
	772	(618)	154	270	----do----	Mr. Khalid Jaffery
	755	(604)	151	264	----do----	Mr. Shahid Aziz
	755	(604)	151	264	----do----	Mr. Muhammad Umer
	367	(294)	73	320	Insurance Claim	Century Insurance Company Limited
	1,930	(926)	1,004	1,720	----do----	----do----
	574	(184)	390	574	----do----	----do----
	2,392	(383)	2,009	2,325	----do----	----do----
	1,010	(135)	875	1,010	----do----	----do----
	654	(131)	523	644	----do----	----do----
	674	(81)	593	664	----do----	----do----
	1,538	(287)	1,251	1,475	----do----	----do----
	1,010	(256)	754	925	----do----	----do----
	674	(135)	539	625	----do----	----do----
	99	(16)	83	90	----do----	----do----
	99	(16)	83	90	----do----	----do----
	1,673	(335)	1,338	1,575	----do----	----do----
	99	(15)	84	90	----do----	----do----
	99	(15)	84	90	----do----	----do----
	2,392	(478)	1,914	2,012	Tender	Mr. Irfan Ali Shah
	678	(542)	136	456	----do----	Mr. Haji Sultan Jan Niazi
	678	(542)	136	436	----do----	----do----
	678	(542)	136	356	----do----	----do----
	678	(542)	136	386	----do----	----do----
	678	(542)	136	486	----do----	----do----
	1,080	(864)	216	716	----do----	----do----
	1,080	(864)	216	686	----do----	----do----
	1,080	(864)	216	686	----do----	----do----
	930	(351)	579	744	----do----	Mr. Junaid Phulpoto
	560	(448)	112	642	----do----	Mr. Khaqan Khan
	1,087	(870)	217	702	----do----	Mr. Khawaja Kamran
	1,039	(831)	208	700	----do----	Mr. Mohammad Kafeel
	459	(367)	92	415	----do----	----do----
	367	(294)	73	410	----do----	Mr. Habib Ibaad
	367	(294)	73	432	----do----	----do----
Balance c / f	376,793	(32,449)	344,344	360,035		

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	376,793	(32,449)	344,344	360,035		
	367	(294)	73	386	Tender	Mr. Muhammad Anwar
	367	(294)	73	366	----do----	----do----
	367	(294)	73	366	----do----	----do----
	367	(294)	73	386	----do----	----do----
	367	(294)	73	368	----do----	----do----
	367	(294)	73	386	----do----	----do----
	367	(294)	73	390	----do----	----do----
	344	(275)	69	421	----do----	Mr. Muhammad Amir
	1,809	(1,447)	362	950	----do----	Mr. Mubashir Khalil
	1,169	(935)	234	806	----do----	Mr. Muhammad Atif Essani
	1,279	(1,023)	256	833	----do----	----do----
	1,080	(864)	216	752	----do----	----do----
	1,080	(864)	216	740	----do----	----do----
	886	(709)	177	815	----do----	----do----
	513	(411)	102	479	----do----	Mr. Muhammad Nasir Khan
	513	(411)	102	474	----do----	----do----
	513	(411)	102	454	----do----	----do----
	678	(542)	136	439	----do----	Mr. Muhammad Nasir Khan
	1,200	(960)	240	759	----do----	----do----
	1,200	(960)	240	701	----do----	Mr. Muhammad Junaid
	513	(411)	102	490	----do----	Mr. Muhammad Faisal
	367	(294)	73	361	----do----	Mr. Nadeem Elahi
	367	(294)	73	351	----do----	----do----
	367	(294)	73	361	----do----	----do----
	367	(294)	73	351	----do----	----do----
	1,080	(864)	216	650	----do----	----do----
	1,087	(870)	217	725	----do----	----do----
	1,200	(960)	240	695	----do----	----do----
	620	(496)	124	501	----do----	----do----
	620	(496)	124	463	----do----	----do----
	620	(496)	124	465	----do----	----do----
	620	(496)	124	465	----do----	----do----
	620	(496)	124	467	----do----	----do----
	367	(294)	73	351	----do----	----do----
	367	(294)	73	356	----do----	----do----
	513	(411)	102	475	----do----	----do----
	620	(496)	124	480	----do----	----do----
	620	(496)	124	460	----do----	----do----
	818	(654)	164	412	----do----	MH Traders
	502	(402)	100	224	----do----	----do----
	265	(212)	53	118	----do----	----do----
	300	(240)	60	118	----do----	----do----
	367	(294)	73	388	----do----	Mr. Noor Azam
	367	(294)	73	415	----do----	----do----
	367	(294)	73	406	----do----	----do----
	312	(250)	62	398	----do----	----do----
	1,419	(1,135)	284	935	----do----	----do----
	620	(496)	124	489	----do----	Mr. Shoaib ul hassan
	620	(496)	124	461	----do----	----do----
	620	(496)	124	470	----do----	Mr. Saif ur Rehman
	367	(294)	73	340	----do----	Mr. Sohail Arif
	1,673	(509)	1,164	1,673	----do----	Century Insurance Company Limited
	367	(294)	73	340	----do----	Mr. Shamrez Mughal
	5,200	(4,160)	1,040	2,000	----do----	Mr. Tasneem Noorani
	367	(294)	73	307	----do----	Mr. Shoaib ul Hassan
	6,391	(5,113)	1,278	2,500	----do----	Mr. Daniyal Muzaffar
Balance c / f	423,503	(68,998)	354,505	391,767		

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b / f	423,503	(68,998)	354,505	391,767		
	312	(250)	62	378	Tender	Mr. Naveed Rauf
	367	(294)	73	322	----do----	----do----
	357	(285)	72	330	----do----	Mr. Mushtaq Khan
	10,000	(8,000)	2,000	3,600	----do----	Mr. Ashraf Mahmood
	513	(411)	102	450	----do----	Mr. Muhammad Naveed
	1,120	(896)	224	878	----do----	Mr. Sahebzada Ehtesham Uddin Afridi
	5,745	(4,596)	1,149	3,030	----do----	Mr. Faizan Elahi
	441,917	(83,730)	358,187	400,755		

36. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on the financial statements of the Fund as of December 31, 2014 and 2013:

	2014 (Un-audited)	2013 (Audited)
	(Rupees in thousand)	
Size of the Fund - Total Assets	**1,279,819**	1,182,435
Cost of investments made	**860,164**	1,041,280
Percentage of investments made	**68.13%**	91.18%
Fair value of investments	**871,972**	1,078,161

The break-up of fair value of investments is:

	2014		2013	
	(Rs in '000)	(Percentage)	(Rs in '000)	(Percentage)
Shares in listed companies	**121,923**	**14%**	126,426	12%
Government Securities	**-**	**-**	10,208	1%
Debt Securities	**750,049**	**86%**	941,527	87%
	871,972	**100%**	1,078,161	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.

37. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at December 31, 2014 and 2013 respectively are as follows:

	2014	2013
	No of employees	
Number of employees as at December 31, 2014 / 2013	**2,521**	2,686
Average number of employees during the year	**2,587**	2,710

38. SUBSEQUENT EVENT

Subsequent to the year-end the Company has announced its decision to shut down its manufacturing facility in Mandra. However, the management believes that such decision shall not have a material impact on the overall production capacity of the Company.

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 6, 2015 by the Board of Directors of the Company.

40. GENERAL

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

Karachi: March 6, 2015

ALEJANDRO PASCHALIDES
Chief Executive

JOSEPH ZIOMEK
Director

Auditors' Report to the Members

We have audited the annexed balance sheet of Laksonpremier Tobacco Company (Private) Limited as at December 31, 2014 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; and

  (ii) no business was conducted, no investments were made or expenditure incurred during the year;

(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, 2014 and its results, 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).

Other Matter

The financial statements of the company for the year ended December 31, 2013 were audited by another firm of Chartered Accountants whose report dated March 13, 2014 expressed an unqualified opinion on those statements.

A.F. Ferguson & Co.

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

Karachi: March 20, 2015

Balance Sheet

AS AT DECEMBER 31, 2014

	Note	2014	2013
		Rupees	
ASSETS		-	-
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
500,000 Ordinary Shares of Rs 10 each	3	5,000,000	5,000,000
Issued, subscribed and paid-up capital	3	1,030	1,030
Accumulated loss		(1,030)	(1,030)
		-	-
LIABILITIES		-	-
TOTAL EQUITY AND LIABILITIES		-	-

The annexed notes from 1 to 5 form an integral part of these financial statements.

Karachi: March 9, 2015

JOSEPH ZIOMEK
Chief Executive Officer

MUJTABA HUSSAIN
Director

Profit & Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	Rupees	
Income	-	-
Expenses	-	-
Profit / (loss) before taxation	-	-
Taxation	-	-
Profit / (loss) after taxation	-	-
Other comprehensive income / (loss)	-	-
Total comprehensive income / (loss)	-	-

The annexed notes from 1 to 5 form an integral part of these financial statements.

Karachi: March 9, 2015

JOSEPH ZIOMEK
Chief Executive Officer

MUJTABA HUSSAIN
Director

Statement Of Changes In Equity

FOR THE YEAR ENDED DECEMBER 31, 2014

	Issued, subscribed & paid-up capital	Accumulated (loss)	Total
	Rupees		
Balance as at January 1, 2013	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)	-
Total comprehensive income / (loss) for the year ended December 31, 2014	-	-	-
Balance as at December 31, 2014	1,030	(1,030)	-

The annexed notes from 1 to 5 form an integral part of these financial statements.

Karachi: March 9, 2015

JOSEPH ZIOMEK
Chief Executive Officer

MUJTABA HUSSAIN
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	Rupees	
Cash flow from operating activities	-	-
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Net increase / (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

The annexed notes from 1 to 5 form an integral part of these financial statements.

Karachi: March 9, 2015

JOSEPH ZIOMEK
Chief Executive Officer

MUJTABA HUSSAIN
Director

Notes To The Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Laksonpremier Tobacco Company (Private) Limited (the Company) was incorporated in Pakistan on March 14, 1955 as a private limited company under the Companies Act, 1913 (now Companies Ordinance, 1984). 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 wholly owned subsidiary of Philip Morris (Pakistan) Limited (the Holding Company).

1.3 The purpose of the Company is to provide support to the Holding Company for complying with the tobacco production requirements. At present the Holding Company has sufficient manufacturing facilities to meet the tobacco production requirements, therefore, the Company is not in operation.

1.4 The expenditure of the Company for the year which were restricted to the corporate filing and audit fees have been borne by the Holding Company.

1.5 The Holding Company has confirmed to the Company through its letter dated February 13, 2015, that all necessary expenditure will continue to be provided by it (i.e. the Holding Company) to ensure the Company's going concern status. Accordingly, these financial statements have been prepared on a going concern basis.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

2.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Ordinance and the requirements of and directives issued under that Ordinance. However, the requirements of and the directives issued under that Ordinance have been followed where those requirements are not consistent with the requirements of the IFRSs as notified under the Ordinance.

3. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2014	2013		2014	2013
Number of shares			Rupees	
		Authorised share capital		
500,000	500,000	Ordinary shares of Rs 10 each	5,000,000	5,000,000
		Issued, subscribed and paid-up share capital		
		Ordinary shares of Rs 10 each fully		
103	103	paid in cash	1,030	1,030

3.1 All the shares are held by the Holding Company. Out of 103 shares, two shares are in the name of nominee directors.

4. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of the chief executive officer and director of the Company and the Holding Company. The transactions carried out with related parties are as follows:

	2014	**2013**
	Rupees	
Expenses borne by the Holding Company		
Filing fees for corporate forms	9,675	3,750
Audit fee	100,000	68,000

5. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 9, 2015 by the Board of Directors of the Company.

JOSEPH ZIOMEK
Chief Executive Officer

MUJTABA HUSSAIN
Director

Karachi: March 9, 2015

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PHILIP MORRIS (PAKISTAN) LIMITED

FORM OF PROXY

I / We____

of ____

a member of **Philip Morris (Pakistan) Limited (the "Company")**
hereby appoint ____

of ____

or failing him ____

of ____

who is / are also members of the Company 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 28, 2015 and at any adjournment thereof

Signed this__________________ day of ________________ 2015

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, 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.