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

www.philipmorrispakistan.com.pk

PHILIP MORRIS (PAKISTAN) LIMITED

2016 Annual Report

PHILIP MORRIS (PAKISTAN) LIMITED

Annual Report December 31, 2016

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Corporate Information

BOARD OF DIRECTORS

KAMRAN Y. MIRZA	(Chairman)
ALEXANDER REISCH (From April 19, 2016)	(Chief Executive)
ALEJANDRO PASCHALIDES (Until April 19, 2016)	(Chief Executive)
HEE KYUNG YUN (From June 01, 2016)	
DANIEL FAHRNY (Until June 01, 2016)	
NICOLAS FLOROS (Until October 27, 2016)	
JOAO MANUEL (From October 27, 2016)	
JOSEPH ZIOMEK (Until February 01, 2016)	
ANTON STANKOV (From February 01, 2016)	
CHARLES BENDOTTI (Until October 27, 2016)	
EE WON CHEN (From October 27, 2016)	
LT. GEN. (R) TARIQ KHAN (From March 2, 2016)	

COMPANY SECRETARY

FAIZA KAPADIA RAFFAY

AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN (From March 2, 2016)	(Chairman)
HEE KYUNG YUN (From June 01, 2016)	
DANIEL FAHRNY (Until June 01, 2016)	
EE WON CHEN (From October 27, 2016)	
NICOLAS FLOROS (Until October 27, 2016)	

HUMAN RESOURCE & REMUNERATION COMMITTEE

CHARLES BENDOTTI (Until October 27, 2016)	(Chairman)
JOAO MANUEL (From October 27, 2016)	(Chairman)
ALEXANDER REISCH (From April 19, 2016)	
ALEJANDRO PASCHALIDES (Until April 19, 2016)	
HEE KYUNG YUN (From June 01, 2016)	
DANIEL FAHRNY (Until June 01, 2016)	
C. DAVID ESCARDA	(Secretary)

AUDITORS

A. F. FERGUSON & CO.
Chartered Accountants

BANKERS

UNITED BANK LIMITED
STANDARD CHARTERED BANK PAKISTAN LIMITED
MCB BANK LIMITED
HABIB BANK LIMITED
CITI BANK N.A.
DEUTSCHE BANK A.G.
FAYSAL BANK LIMITED

REGISTERED OFFICE

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

FACTORIES

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

2) G.T. ROAD, QUADIRABAD,
DISTRICT: SAHIWAL (PUNJAB)

3) LEAF DIVISION COMPLEX,
22ND KM, MARDAN SAWABI ROAD,
MARDAN (KPK)

4) PLOT NO. 14-17, EXPORT PROCESSING
ZONE, WEST SITE TOWN, KARACHI
(NON-OPERATIONAL)

SHARE REGISTRAR

THK ASSOCIATES (PVT.) LTD.
FIRST FLOOR, 40-C, BLOCK-6,
P.E.C.H.S, KARACHI - 75400

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

NOTICE IS HEREBY GIVEN that the 48th Annual General Meeting of **PHILIP MORRIS (PAKISTAN) LIMITED** will be held on Friday, April 21, 2017 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, 2016 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, 2017.

By Order of the Board

FAIZA KAPADIA RAFFAY
Company Secretary

Karachi: March 29, 2017

NOTES:

1. The share transfer books of the Company will remain closed from April 11, 2017 to April 21, 2017 (both days inclusive). Transfer received in order at the Office of the Company's share Registrar, THK Associates (Pvt.) Ltd., 1st Floor, 40-C, Block-6, P.E.C.H.S Karachi - 75400 up to April 10, 2017 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, 2016 (the "Company")

This statement is being presented to comply with the Code of Corporate Governance ("CCG") contained in Rule 5.19 of the Rule book of Pakistan Stock Exchange (hereinafter collectively referred to as the "Rule book") 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 Lt. Gen. (R) Tariq Khan
Executive Directors	Alexander Reisch Anton Stankov
Non-Executive Directors	Hee Kyung Yun Ee Won Chen Joao Manuel

The independent directors meet the criteria of independence under clause 5.19.1(b) of the CCG.

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

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. Five casual vacancies occurring on the board on February 1, April 19, June 1 and October 27 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. The board arranged a training program offered by the Pakistan Institute of Corporate Governance, for one of its director.

Statement of Compliance with the Code of Corporate Governance

10. The board has approved appointment of CFO, Company Secretary, 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 Rule book and the auditors have confirmed that they have observed IFAC guidelines in this regard.

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

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

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

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

KAMRAN Y. MIRZA
Chairman

Karachi: March 10, 2017

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors (the Board) of Philip Morris (Pakistan) Limited (the Company) for the year ended December 31, 2016 to comply with the requirements of Rule 5.19 of the Rule book of the Pakistan Stock Exchange 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's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board 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 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, 2016.

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

Karachi: March 24, 2017

FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2016 in comparison with the previous year is as follows:

	Year ended December 31, 2016		Year ended December 31, 2015	
	Rs million	**%**	**Rs million**	**%**
Gross Turnover	40,343	100.00	40,157	100.00
Gross Profit	6,021	14.92	4,855	12.09
Operating Profit/ (Loss)	1,133	2.81	(894)	(2.23)
Profit/ (Loss) before tax	770	1.91	(1,677)	(4.18)
Profit/ (Loss) after tax	575	1.43	(1,315)	(3.27)

In 2016, the Company's gross turnover remained flat while gross profit increased by 24.01% as compared to 2015. Other Expenses for the current year decreased, mainly due to higher restructuring costs charged in 2015 as well as operational efficiencies and improved cost management, allowing the Company to post a modest profit after tax of Rs. 575 million following five years of consecutive losses. However, volumes remained under pressure due to the exceptional growth in the low price non-tax paid tobacco products triggering an accelerated consumer down trading.

The excise tax driven price increases further widened the price differential between the tax-paid and the low price non-tax paid tobacco products, thus creating an unfair playing field for the tax-paying tobacco industry. The Company is actively supporting all Government policies and actions to address the issue of smuggled and non-tax paid cigarettes ("Illicit Trade").

The Company's earnings per share are Rs. 8.79 in 2016, as compared to a loss per share of Rs. 21.35 in 2015.

REGULATORY

Despite recommendation of the inter-ministerial committee in July 2015 to reduce the Graphical Health Warning to 50%, the Ministry of Health has not yet revised the 85% GHW regulations ("SRO") to reflect the committee's recommendation. Instead, the Ministry Of Health continues to extend the implementation of the SRO on a monthly basis which creates uncertainty for the business.

OPERATIONAL CAPACITY

The Company continued to review its operational capabilities and, as such, in 2016 invested in property, plant and equipment Rs. 1,452 million. The Company primarily made these investments under the umbrella of a comprehensive project of modernizing manufacturing facilities and equipment to achieve overall improvements in productivity and product quality. These investments reflect the Company's commitment towards the business and confidence in its future growth in anticipation that the prevalence of illicit Trade will be addressed by the Government on an urgent basis.

DIVIDEND

While the Company posted a modest profit during 2016 and improved its cash flows, we are still operating at a net borrowing position. Hence the directors of the Company have recommended no dividend for the year 2016.

MATERIAL CHANGES AND COMMITMENTS

During the year, the Company issued 1,046,400,000 Class A Preference Shares of Rs. 10 each to the Holding Company and Associated Undertaking as approved by the shareholders of the Company in the Extraordinary General Meeting held on October 28, 2015. The injection of funds has helped the Company in reducing the finance cost, improve manufacturing facilities and equipment for improved productivity and product quality.

As part of a strategic review to continuously optimize process efficiencies and operational effectiveness and to best position the Company for strong and viable future growth, the Company carried out re-structuring at its factories at Sahiwal and Kotri.

CONTRIBUTION TO THE NATIONAL EXCHEQUER

The Company continues to make substantial contribution to the Federal Government's revenues. In 2016, 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 decrease of 2.31% compared to 2015.

CORPORATE SOCIAL RESPONSIBILITY ("CSR")

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 the focus areas of education, women empowerment, economic opportunity, and disaster relief and preparedness. Due to its collaboration with Philip Morris International Inc., significant milestones were achieved in 2016, with some CSR projects carried forward to the first quarter of 2017. Brief details about these projects are as follows:

- The Company aims to promote fair and safe labor practices on all farms from where tobacco is sourced. Agricultural Labor Practice is a key component of Company's broader Good Agricultural Practices Program (GAP). Under GAP, the Company has seven focus areas; one of them is to curb child labor. During summer vacation which is also the time of tobacco harvesting, Idara-e-Taleem-o-Agahi (ITA - a local NGO) organizes summer camps in local government schools. The main purpose of summer camps is to prevent farmer's children from working in the tobacco farms during their summer holidays. In 2016, Summer School Program was conducted in 21 schools in three districts of Khyber Pakhtunkhwa province (KPK), catering to more than 1507 students. In addition to providing in-kind contribution of fully operational desktop computers, funds were provided to develop computer labs in 10 secondary schools in 3 districts of KPK, Sahiwal, Punjab and Kotri, Sindh, benefitting between 1000-2000 children.

- Providing basic medical care and health awareness to more than 2300 families through community mobilization by Lady Health Workers, medical camps and health awareness sessions in Kotri, Sahiwal and 3 districts of KPK.

- Benefitting more than 300 families in Sahiwal, Kotri and Gujranwala districts through the Sustainable Initiative for Women Empowerment, through vocational trainings and asset distributions to help them set up small enterprises.

- Installation of 30 hand pumps for clean drinking water, dissemination of hygiene kits and hygiene awareness community sessions in 3 districts of KPK, Sahiwal, Gujranwala and Hafizabad in Punjab and Kotri in Sindh, serving more than 3000 community members.

- Creation of sustainable economic opportunities for 220 underprivileged households. The project is designed to create sustainable income generation opportunities for the communities in as well as allows beneficiaries to develop skills which are then used to earn a living to steer them out of poverty. This is done through livelihood training, job placements and provision of productive assets. The program started in two districts of Mardan and Swabi in October 2016 and will be completed by March 2017. A total of 220 individuals along with 1540 families are expected to benefit through this program.

- Reaching out to domestic violence female victims by funding reconstructive surgeries for 50, psycho-social support for 40, and vocational trainings for 12 victims across Pakistan.

- Contribution for the construction of SOS Youth Home in Peshawar, KPK which will provide housing to 50 children.

The Company was also recognized for its contribution efforts by the National Forum for Environment and Health on the occasion of their 9th Annual CSR Awards held in Islamabad and won awards in three categories, namely:

- Sustainability Initiatives
- Community Development and Welfare
- Women Empowerment

The Company in collaboration with Philip Morris International Inc., will continue 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 by adhering to its established and internationally recognized quality, environment, health and safety procedures and standards. Through these procedures, Company seeks to meet the expectations of its adult smokers and retain their loyalty through continuous improvement and excellence in its products.

The Company conducts business with utmost care for the environment and recognizes that the health and safety of its employees is a core principle and value of the business. The policies and practices are in place to prevent occupational injuries, illnesses and foreseeable hazards. During 2016 the Company successfully recertified its tobacco threshing site and both the manufacturing facilities with the ISO 14001 (environment) and OHSAS 18001 (health & safety) audit. The manufacturing facilities also exceeded the 5 million safe man-hours milestone, despite undergoing a sizeable amount of non-routine activities under mechanical, electrical and civil infrastructure upgrade.

INVESTMENT IN HUMAN RESOURCE

The Company believes in engaging and developing employees to maximize their potential. In terms of increasing employee engagement, Company intends to roll out many initiatives to improve diversity, inclusion, and work-life balance at the workplace. Talent development will also be a core focus, with comprehensive training programs/courses conducted and development centers introduced 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 2016, the Company continued to take steps to comply with the requirements of the Code of Corporate Governance (the "Code").
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 and enhanced;
- There are no 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, 2016 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	816	(Financial statements audited as of December 31, 2015)
Gratuity Fund	549	(Financial statements audited as of December 31, 2015)

HOLDING COMPANY

Incorporated in the Netherlands, Philip Morris Investments B.V. is the holding company having 77.65% of ordinary shares in the Company.

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

CHANGES IN BOARD OF DIRECTORS

During the year Lt. Gen. (R) Tariq Khan joined the Board as an independent director. Furthermore, during the year, Mr. Alejandro Paschalides, Mr. Joseph Ziomek, Mr Charles Bendotti, Mr. Nicolas Floros, Mr. Daniel Fahrny tendered their resignations as directors of the Company. To fill the casual vacancies created, Mr. Alexander Reisch, Mr. Anton Stankov, Ms. Ee Won Chen, Mr. Joao Manuel, Ms. Hee Kyung Yun were appointed respectively as Directors within 90 days of the casual vacancies.

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 director(s).

During 2016, 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	5
Alexander Reisch (From. April 19, 2016)	4
Lt. Gen. (R) Tariq Khan (From March 02, 2016)	5
Anton Stankov (From February 01, 2016)	5
Daniel Fahrny (up to June 01, 2016)	2
Hee Kyung Yun (From June 01, 2016)	-
Charles Bendotti (up to October 27, 2016)	-
Nicolas Floros (up to October 27, 2016)	-
Joao Manuel (From October 27, 2016)	-
Ee Won Chen (From October 27, 2016)	-
Alejandro Paschalides (up to April 19, 2016)	-

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

CHANGES IN BOARD AUDIT COMMITTEE COMPOSITION

Subsequent to the resignation of Mr. Daniel Fahrny and Mr. Nicolas Floros, Ms. Hee Kung Yun, Ms. Ee Won Chen and Lt. Gen. (R)Tariq Khan were appointed as members of Audit Committee.

BOARD AUDIT COMMITTEE

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

The Audit Committee 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. Lt. Gen. (R) Tariq Khan
2. Hee Kyung Yun
3. Ee Won Chen
4. Faiza Kapadia Raffay (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
Lt. Gen. (R) Tariq Khan (From March 02, 2016)	4
Anton Stankov (From February 01, 2016)	4
Daniel Fahrny (Up to June 01, 2016)	2
Nicolas Floros (Up to October 27, 2016)	-
Ms. Hee Kyung Yun (From June 01, 2016)	2
Ee Won Chen (From October 27, 2016)	-

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, Mr. Daniel Fahrny & Mr. Charles Bendotti resigned and Mr. Alexander Reisch, Mr. Joao Manuel & Ms. Hee Kyung Yun were appointed as members of Human Resource and Remuneration Committee.

HUMAN RESOURCE AND REMUNERATION COMMITTEE ("HR&R")

There are three members in the HR&R Committee, of which two are non-executive Directors.

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

1. Joao Manuel
2. Hee Kyung Yun
3. Alexander Reisch

During 2016, no meeting has been held by the HR&R Committee

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2016 is included further in this Annual Report as per the requirements of the Code.

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, 2017. 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 2016. Details of those are provided in the Notes to the Financial Statements section 2.2.1.

FUTURE OUTLOOK

The Company is a fully integrated affiliate of Philip Morris International Inc. and as such will continue to benefit 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, strengthening brand portfolio and continuous enhancement of product quality, optimization of manufacturing practices and facilities, development of human resources and continued emphasis on effectively managing the cost base.

In order to reduce financing costs, modernize manufacturing facilities and equipment and to achieve overall improvements in productivity and product quality, the Company issued 1,046 million Class A Preference Shares of Rs. 10 each.

However, the future operations of the Company will continue to be adversely impacted by the rapidly increasing market share of illicit trade, and unless the Government initiates serious steps to check and arrest it in the immediate future. This growth in illicit trade is likely to deprive Government of substantial tax revenue.

ACKNOWLEDGEMENTS

The Directors wish to take this opportunity to thank all the Company's employees for their efforts, dedication, commitment and support in 2016.

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 10, 2017

Pattern of Holding of Shares

AS AT DECEMBER 31, 2016
INCORPORATION NUMBER - 0002832

NUMBER OF SHAREHOLDERS (Ordinary Shareholders)	SHAREHOLDING		SHARES HELD
	From -	To	
899	1	100	19,535
330	101	500	84,868
122	501	1000	85,824
182	1001	5000	359,592
20	5001	10000	137,810
2	10001	15000	22,327
3	15001	20000	48,469
1	20001	25000	21,206
1	25001	30000	28,915
1	45001	50000	46,255
1	590001	595000	590,130
1	12315001	12320000	12,316,060
1	47500001	50000000	47,819,350

CATEGORIES OF SHAREHOLDERS (Ordinary Shareholders)	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer and their spouse and minor children	77	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	3,840	0.01%
Insurance Companies	21,206	0.03%
Shareholders holding 5% and above	60,135,410	97.65%
General Public (Local)	753,392	1.22%
Others	666,358	1.08%

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

KAMRAN Y. MIRZA
Chairman

Karachi: March 10, 2017

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

CATEGORIES OF SHAREHOLDERS (Ordinary Shareholders)

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
LT.GEN.(R).TARIQ KHAN	20
MR. ANTON STANKOV	3
MR. ALEXANDER REISCH	1
MR. JOAO MANUEL	1
MS. HEE KYUNG YUN	1
MS. EE WON CHEN	1
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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
CDC-TRUSTEE AKD INDEX TRACKER FUND	480
PAKISTAN REINSURANCE COMPANY LIMITED	21,206
	25,104

SHAREHOLDERS HOLDING (Ordinary Shareholders) 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

Pattern of Shareholdings - (Preference Shareholder)

DETAILS AS AT DECEMBER 31, 2016

CATEGORIES OF PREFERENCE SHAREHOLDERS	PREFERENCE SHARES HELD	PERCENTAGE
Holding and Associated Companies	1,046,400,000	100.00%

DETAILS OF PATTERN OF PREFERENCE SHAREHOLDING AS PER REQUIREMENTS OF THE CODE OF

CORPORATE GOVERNANCE

CATEGORIES OF PREFERENCE SHAREHOLDERS

ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES	
PHILIP MORRIS INVESTMENTS B.V.	832,097,280
PHILIP MORRIS BRANDS SARL	214,302,720
	1,046,400,000

PATTERN OF HOLDING OF PREFERENCE SHARES AS AT DECEMBER 31, 2016

INCORPORATION NUMBER – 0002832

NUMBER OF PREFERENCE SHAREHOLDERS	PREFERENCE SHAREHOLDING		PREFERENCE SHARES HELD
	FROM	TO	
1	1	250,000,000	214,302,720
1	250,000,001	850,000,000	832,097,280

KAMRAN Y. MIRZA
Chairman

Financial Highlights for Last Six Years

	Year ended December 31					
	2016	2015	2014	2013	2012 (Restated)	2011 (Restated)
	(Rupees in thousand)					
Share Capital						
- Ordinary shares	615,803	615,803	615,803	615,803	615,803	615,803
- Preference shares	10,464,000	-	-	-	-	-
Transaction cost on issuance of Preference - net of tax	(33,911)	-	-	-	-	-
Reserves	2,544,144	2,033,524	3,373,047	4,877,776	5,337,282	5,947,375
Share Holders' Equity	**13,590,036**	**2,649,327**	**3,988,850**	**5,493,579**	**5,953,085**	**6,563,178**
Deferred liabilities	-	-	-	-	-	221,000
TOTAL CAPITAL EMPLOYED	**13,590,036**	**2,649,327**	**3,988,850**	**5,493,579**	**5,953,085**	**6,784,178**
Fixed assets - NET	8,517,170	8,048,391	7,416,512	6,902,926	5,389,680	3,945,989
Investment in a subsidiary company	1	1	1	1	1	1
Long-term loans, deposits & prepayments	39,762	37,452	36,760	41,101	41,347	57,371
Deferred taxation	761,323	937,354	527,615	379,978	6,887	-
Working capital	4,271,780	(6,373,871)	(3,992,038)	(1,830,427)	515,170	2,780,817
TOTAL ASSETS	**13,590,036**	**2,649,327**	**3,988,850**	**5,493,579**	**5,953,085**	**6,784,178**
Turnover	40,343,161	40,157,144	38,045,693	35,984,891	35,552,536	31,926,667
Profit / (Loss) before tax	769,888	(1,676,939)	(1,513,269)	(708,860)	(622,042)	(518,272)
Profit / (Loss) after tax & adjustment	575,157	(1,315,008)	(1,482,455)	(441,458)	(574,384)	(442,329)
	(Rupees in thousand)					
Break-up value of shares	220.69	43.02	64.77	89.21	96.67	106.58
Net Earning / (Loss) per Share	8.79	(21.35)	(24.07)	(7.17)	(9.33)	(7.18)

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Philip Morris (Pakistan) Limited as at December 31, 2016 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, 2016 and of the profit, its changes in equity and cash flows for the year then ended; and

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

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

Karachi: March 24, 2017

Balance Sheet

AS AT DECEMBER 31, 2016

	Note	2016	2015
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
Fixed assets			
- Property, plant and equipment	3	**8,487,261**	8,025,683
- Intangibles	4	**29,909**	22,708
		8,517,170	8,048,391
Investment in a subsidiary company	5	**1**	1
Long term deposits and prepayments	6	**39,762**	37,452
Deferred taxation	7	**761,323**	937,354
		9,318,256	9,023,198
CURRENT ASSETS			
Stores and spares - net	8	**379,229**	491,672
Stock in trade - net	9	**7,273,187**	8,468,495
Trade debts - net	10	**1,523**	95,928
Advances	11	**33,278**	52,960
Prepayments		**92,828**	215,757
Other receivables	12	**210,304**	26,253
Income tax - net		**578,775**	798,593
Staff retirement benefits	13	**31,538**	60,155
Cash and bank balances	14	**108,093**	74,610
		8,708,755	10,284,423
TOTAL ASSETS		**18,027,011**	19,307,621
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital	15	**12,000,000**	1,000,000
Issued, subscribed and paid-up capital			
- Ordinary shares	15	**615,803**	615,803
- Preference shares	15	**10,464,000**	-
		11,079,803	615,803
Transaction cost on issuance of preference shares - net of tax		**(33,911)**	-
		11,045,892	615,803
Reserves		**6,137,315**	6,201,852
Unappropriated loss		**(3,593,171)**	(4,168,328)
TOTAL EQUITY		**13,590,036**	2,649,327
CURRENT LIABILITIES			
Short term borrowings	17	**1,338,557**	13,538,365
Trade and other payables	18	**2,643,360**	3,053,270
Accrued mark-up on short term borrowings		**7,249**	66,659
Sales tax and excise duty payable		**447,809**	-
TOTAL LIABILITIES		**4,436,975**	16,658,294
TOTAL EQUITY AND LIABILITIES		**18,027,011**	19,307,621
CONTINGENCIES AND COMMITMENTS	19		

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

Karachi: March 10, 2017

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		(Rupees in thousand)	
Turnover - net	20	**14,213,338**	14,416,905
Cost of sales	21	**8,192,406**	9,561,847
Gross profit		**6,020,932**	4,855,058
Distribution and marketing expenses	22	**2,941,858**	3,395,731
Administrative expenses	23	**1,352,482**	1,447,678
Other expenses	24	**783,481**	1,118,983
Other income	25	**(189,480)**	(213,516)
		4,888,341	5,748,876
Operating profit / (loss)		**1,132,591**	(893,818)
Finance cost and bank charges	26	**362,703**	783,121
Profit / (loss) before taxation		**769,888**	(1,676,939)
Taxation	27	**194,731**	(361,931)
Profit / (loss) after taxation		**575,157**	(1,315,008)
Other comprehensive loss for the year - net of tax			
Item that will not be reclassified to profit or loss			
Remeasurement expense relating to staff retirement benefits	13	**92,439**	17,847
- Current tax		**(56,348)**	-
- Deferred tax		**28,552**	(2,965)
		(27,796)	(2,965)
Total items that will not be reclassified to profit and loss		**64,643**	14,882
Total comprehensive income / (loss) for the year		**510,514**	(1,329,890)
		(Rupees)	
Earnings / (loss) per share - basic and dilutive	28	**8.79**	(21.35)

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

Karachi: March 10, 2017

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2016

	Issued, subscribed and paid-up capital: Ordinary shares	Issued, subscribed and paid-up capital: Preference shares	Transaction cost on issuance of preference shares - net of tax	Advance against issuance of preference shares	General reserve	Reserve for share based payments	Remeasurement of staff retirement gratuity plan - net of tax	Subtotal Reserves	Unappropriated loss	Total
	(Rupees in thousand)									
Balance as at January 1, 2015	615,803	-	-	-	6,347,000	16,025	(136,658)	6,226,367	(2,853,320)	3,988,850
Transactions with owners										
Share-based payment										
- expense	-	-	-	-	-	9,820	-	9,820	-	9,820
- recharge	-	-	-	-	-	(19,453)	-	(19,453)	-	(19,453)
(notes 2.4.17)	-	-	-	-	-	(9,633)	-	(9,633)	-	(9,633)
Total comprehensive loss										
Loss after taxation for the year ended December 31, 2015	-	-	-	-	-	-	-	-	(1,315,008)	(1,315,008)
Other comprehensive loss for the year	-	-	-	-	-	-	(14,882)	(14,882)	-	(14,882)
	-	-	-	-	-	-	(14,882)	(14,882)	(1,315,008)	(1,329,890)
Balance as at December 31, 2015	615,803	-	-	-	6,347,000	6,392	(151,540)	6,201,852	(4,168,328)	2,649,327
Transactions with owners										
Advance against issuance of preference shares	-	-	-	10,464,000	-	-	-	-	-	10,464,000
Issuance of preference shares	-	10,464,000	-	(10,464,000)	-	-	-	-	-	-
Transaction cost on issuance of preference shares - net of tax	-	-	(33,911)	-	-	-	-	-	-	(33,911)
Share-based payment										
- expense	-	-	-	-	-	18,418	-	18,418	-	18,418
- recharge	-	-	-	-	-	(18,312)	-	(18,312)	-	(18,312)
(notes 2.4.17)	-	10,464,000	(33,911)	-	-	106	-	106	-	10,430,195
Total comprehensive income										
Profit after taxation for the year ended December 31, 2016	-	-	-	-	-	-	-	-	575,157	575,157
Other comprehensive loss for the year	-	-	-	-	-	-	(64,643)	(64,643)	-	(64,643)
	-	-	-	-	-	-	(64,643)	(64,643)	575,157	510,514
Balance as at December 31, 2016	615,803	10,464,000	(33,911)	-	6,347,000	6,498	(216,183)	6,137,315	(3,593,171)	13,590,036

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

Karachi: March 10, 2017

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	32	**3,425,856**	107,346
Staff retirement gratuity paid		**(73,300)**	(91,759)
Finance cost paid		**(402,834)**	(393,232)
Income taxes refund / (paid)		**243,496**	(96,013)
Long term deposits and prepayments		**(2,310)**	(692)
Net cash generated from / (used in) operating activities		**3,190,908**	(474,350)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		**(1,451,653)**	(1,993,929)
Acquisition of intangibles		**(18,502)**	(10,941)
Proceeds from disposal of items of property, plant and equipment		**77,984**	426,714
Profit received on deposit accounts		**6,147**	10,939
Net cash used in investing activities		**(1,386,024)**	(1,567,217)
CASH FLOW FROM FINANCING ACTIVITIES			
Preference shares issued		**10,464,000**	-
Transaction cost on issuance of preference shares paid		**(48,493)**	-
Short term loans obtained		**13,582,400**	27,337,650
Repayment of short term loans		**(20,912,500)**	(28,922,450)
Net cash generated from / (used in) financing activities		**3,085,407**	(1,584,800)
Net increase in cash and cash equivalents during the year		**4,890,291**	(3,626,367)
Cash and cash equivalents at the beginning of the year		**(6,120,755)**	(2,494,388)
Cash and cash equivalents at the end of the year	33	**(1,230,464)**	(6,120,755)

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

Karachi: March 10, 2017

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

1. THE COMPANY AND ITS OPERATIONS

1.1 Philip Morris (Pakistan) Limited (the Company) was incorporated in Pakistan on February 10, 1969 as a public limited company under the Companies Act, 1913 (now Companies Ordinance, 1984). The Company is listed on the Pakistan Stock Exchange. The principal activity of the Company is the manufacturing and sale of cigarettes and tobacco products. 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 S.à.r.l.

1.3 In view of exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002-2159 dated May 4, 2016 from the requirement of Section 237 of the Companies Ordinance, 1984 (the Ordinance), the consolidated financial statements of the group comprising the Company and its subsidiary, Laksonpremier Tobacco Company (Private) Limited, have not been prepared. 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 Ordinance, provisions of, and directives issued under, the Ordinance. In case requirements differ, the provisions or directives of the Ordinance prevail.

2.2 Initial application of new standards and amendments to approved accounting standards

2.2.1 Amendments to approved accounting standards effective during the year ended December 31, 2016:

There were certain new amendments to the approved accounting standards which became effective during the year ended December 31, 2016 but are considered not to be relevant or have any significant effect on the Company's financial reporting and are, therefore, not disclosed in these financial statements.

2.2.2 Standards and amendments to approved accounting standards that are effective for the Company's accounting periods beginning on or after January 1, 2017:

There are certain new standards and amendments to the approved accounting standards that will become effective for the Company's annual accounting periods beginning on or after January 1, 2017. However, these amendments will not have a significant impact on the financial reporting of the Company and, therefore, have not been disclosed in these financial statements. Further, the new standards are yet to be adopted by the SECP.

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, 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 the Company's technical teams. 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, 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 of which the final outcome is determined.

Deferred taxes

Deferred tax assets are 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 as disclosed in note 13, are used for the 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 effect on the profit and loss account of the Company.

2.4 Summary of significant accounting policies

2.4.1 Property, plant and equipment

(i) Operating property, plant and equipment

Operating property, plant and equipment 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 management are capitalised. All other assets are charged to income in the year when acquired.

Depreciation is charged to income by 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 charged to income.

(ii) Capital work-in-progress

All expenditures, connected with specific assets, incurred during installation and construction period are carried under this head. Capital work-in-progress is transferred to specific assets as and when these assets become 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 the relevant categories of operating property, plant and equipment as and when these assets are consumed.

2.4.2 Intangibles

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 softwares) 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.

Intangibles 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 charged to income for the amount by which the asset's carrying amount exceeds its recoverable amount. Reversal of impairment losses is also charged to income, 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 financial instruments in the following categories:

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

- Financial instruments 'held-for-trading'

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

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

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

(b) Held to maturity:

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

(c) Loans and receivables originated by the enterprise:

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(d) Available for sale:

These are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, (b) held-to-maturity investments, or (c) loans and receivables.

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.

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

Stores and spares are valued at the 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. Provisions are made for slow moving items where necessary to bring them down to approximate net realisable value and is charged to income.

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

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

Cost of raw materials include 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 the tobacco leaf.

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

Consistent with prior years, cost in relation to trading goods is valued at the 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.

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 a review of the outstanding amounts at end of the year. 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 the 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 liabilities are 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 or alternative corporate tax computed on accounting income or minimum tax on turnover, whichever is higher, and taxes paid / payable on final tax basis, after taking into account tax credits available, if any. 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 are 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 in 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 on 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 turnover is 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 are made to this scheme on the basis of actuarial recommendations. The actuarial valuation is performed using the Project Unit Credit Method.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes. The benefit payments are made from a trustee - administered fund (Philip Morris (Pakistan) Employees Gratuity Fund Trust).

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 perform an actuarial valuation for this 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 charged to income.

2.4.19 Operating Leases

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

2.4.20 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.

2.4.21 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.

2.4.22 Segment reporting

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

	Note	2016	2015
		(Rupees in thousand)	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	**7,657,261**	6,368,729
Capital work-in-progress (CWIP)	3.2	**822,576**	1,650,223
Major capital spares and stand-by equipment		**7,424**	6,731
		8,487,261	8,025,683

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)											
As 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
Year ended December 31, 2015												
Transfers from CWIP see note 3.2.1	-	-	322,436	-	395	1,437,704	55,829	53,341	93,084	212,385	102,379	2,277,553
Disposals												
Cost	-	-	-	-	-	(438,789)	(2,849)	(17)	(500,453)	(4,600)	(402)	(947,110)
Accumulated depreciation	-	-	-	-	-	378,030	2,460	17	284,078	2,286	402	667,273
Accumulated impairment	-	-	-	-	-	60,695	389	-	-	2,186	-	63,270
	-	-	-	-	-	(64)	-	-	(216,375)	(128)	-	(216,567)
Write offs - see note 24												
Cost	-	-	-	-	-	-	-	-	(2,293)	-	(180)	(2,473)
Accumulated depreciation	-	-	-	-	-	-	-	-	2,293	-	16	2,309
	-	-	-	-	-	-	-	-	-	-	(164)	(164)
Impairment - note 3.1.3 & 24												
Cost	-	-	(11,456)	-	-	(857,212)	(2,439)	(17)	-	(47,681)	(103)	(918,908)
Accumulated depreciation	-	-	5,883	-	-	666,699	2,050	17	-	34,490	103	709,242
	-	-	(5,573)	-	-	(190,513)	(389)	-	-	(13,191)	-	(209,666)
Depreciation charge - note 3.1.1	-	(90)	(23,196)	(1,505)	(43,287)	(459,330)	(37,932)	(15,673)	(177,803)	(56,225)	(51,354)	(866,395)
Net book value as at December 31, 2015	113,150	1,469	1,061,237	29,613	42,441	3,615,489	128,649	52,201	515,921	671,307	137,252	6,368,729
Year ended December 31, 2016												
Transfers from CWIP see note 3.2.1	-	-	233,182	-	31,302	1,669,324	18,320	12,901	18,272	101,301	194,005	2,278,607
Disposals												
Cost	-	-	-	-	-	-	(820)	-	(110,136)	(25,530)	-	(136,486)
Accumulated depreciation	-	-	-	-	-	-	420	-	83,095	17,440	-	100,955
Accumulated impairment	-	-	-	-	-	-	-	-	-	8,090	-	8,090
	-	-	-	-	-	-	(400)	-	(27,041)	-	-	(27,441)
Write offs - see note 24												
Cost	-	-	(11,062)	-	-	(445,205)	-	-	(140)	-	(540)	(456,947)
Accumulated depreciation	-	-	5,505	-	-	349,746	-	-	37	-	114	355,402
Accumulated impairment	-	-	5,557	-	-	90,742	-	-	-	-	-	96,299
	-	-	-	-	-	(4,717)	-	-	(103)	-	(426)	(5,246)
Impairment - note 3.1.3 & 24												
Cost	-	-	(4,929)	-	-	(135,392)	(1,305)	-	-	(21,039)	(88)	(162,753)
Accumulated depreciation	-	-	2,944	-	-	88,306	1,009	-	-	9,772	78	102,109
	-	-	(1,985)	-	-	(47,086)	(296)	-	-	(11,267)	(10)	(60,644)
Depreciation charge - note 3.1.1	-	(90)	(28,952)	(1,505)	(47,198)	(489,568)	(39,033)	(17,554)	(131,924)	(59,607)	(81,313)	(896,744)
Net book value as at December 31, 2016	113,150	1,379	1,263,482	28,108	26,545	4,743,442	107,240	47,548	375,125	701,734	249,508	7,657,261
At December 31, 2015												
Cost	113,150	2,441	1,429,010	60,190	189,784	6,675,845	309,384	114,750	1,001,447	1,028,307	394,439	11,318,747
Accumulated depreciation	-	(943)	(362,200)	(30,577)	(147,343)	(2,799,202)	(180,273)	(61,849)	(485,526)	(335,869)	(256,689)	(4,660,471)
Accumulated impairment	-	(29)	(5,573)	-	-	(261,154)	(462)	(700)	-	(21,131)	(498)	(289,547)
Net book value	113,150	1,469	1,061,237	29,613	42,441	3,615,489	128,649	52,201	515,921	671,307	137,252	6,368,729
At December 31, 2016												
Cost	113,150	2,441	1,651,130	60,190	221,086	7,899,964	326,884	127,651	909,443	1,104,078	587,904	13,003,921
Accumulated depreciation	-	(1,033)	(385,647)	(32,082)	(194,541)	(2,939,024)	(218,886)	(79,403)	(534,318)	(378,036)	(337,888)	(5,100,858)
Accumulated impairment	-	(29)	(2,001)	-	-	(217,498)	(758)	(700)	-	(24,308)	(508)	(245,802)
Net book value	113,150	1,379	1,263,482	28,108	26,545	4,743,442	107,240	47,548	375,125	701,734	249,508	7,657,261
Depreciation rate	-	3.33%	2.50%	2.50%	20% to 33.33%	6.67% to 20%	20%	20%	20%	6.67%	20% to 33.33%	

	Note	2016	2015
		(Rupees in thousand)	

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

	Note	2016	2015
Purchases, redrying and related expenses	21.1	**67,507**	64,520
Manufacturing expenses	21.2	**589,533**	550,423
Distribution and marketing expenses	22	**114,958**	105,785
Administrative expenses	23	**124,746**	145,667
		896,744	866,395

3.1.2 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 36.

3.1.3 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 162.753 million (2015: Rs 918.908 million) and Rs 60.644 million (2015: Rs 209.666 million) respectively have been impaired and thus have been reduced to Rs Nil in these financial statements as at December 31, 2016.

3.2 Capital work-in-progress

	Note	2016	2015
		(Rupees in thousand)	
Civil works		**22,886**	110,077
Plant and machinery	3.2.2	**324,384**	1,101,133
Power and other installations		**295,340**	286,657
Furniture and fixtures		**96,727**	54,039
Computer equipment's pending installations		**51,965**	61,321
Advance to suppliers and contractors		**31,274**	36,996
		822,576	1,650,223

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

	Note	2016	2015
Balance as at beginning of the year		**1,650,223**	1,990,821
Additions during the year			
- Civil works		**177,293**	375,866
- Plant and machinery	3.2.2	**892,575**	1,399,341
- Power and other installations		**109,984**	74,516
- Furniture and fixtures		**61,008**	85,968
- Computer equipment pending installations		**184,649**	35,503
- Advance to suppliers and contractors		**25,451**	34,280
		1,450,960	2,005,474
Balance Carried forward		**3,101,183**	3,996,295

	Note	2016	2015
		(Rupees in thousand)	
Balance brought forward		**3,101,183**	3,996,295
Transfers to operating property, plant and equipment			
- Buildings on freehold land		**233,182**	322,436
- Leasehold improvements		**31,302**	395
- Plant and machinery		**1,669,324**	1,437,704
- Furniture and fixtures		**18,320**	55,829
- Office equipment		**12,901**	53,341
- Vehicles		**18,272**	93,084
- Power and other installations		**101,301**	212,385
- Computer equipment		**194,005**	102,379
		2,278,607	2,277,553
Civil works written off	3.1.3	**-**	16,418
Disposal of plant and machinery from capital work in progress	3.2.3	**-**	52,101
Balance at the end of the year		**822,576**	1,650,223

3.2.2 This includes plant and machinery held with a third party for upgradation purposes having a value of Rs 34.358 million (2015: Rs Nil) and in transit aggregating Rs Nil (2015: Rs 21.159 million).

3.2.3 This represents the disposal of plant and machinery to an associated company (note 30).

4. INTANGIBLES

	Note	2016	2015
		Computer software (Rupees in thousand)	
At January 1			
Cost		**53,239**	42,298
Accumulated amortisation		**(30,531)**	(18,851)
Net book value		**22,708**	23,447
Year ended December 31			
Additions		**18,502**	10,941
Amortisation for the year	4.1	**(11,301)**	(11,680)
Net book value as at December 31		**29,909**	22,708
At December 31			
Cost		**71,741**	53,239
Accumulated amortisation		**(41,832)**	(30,531)
Net book value		**29,909**	22,708

4.1 Amortisation for the year relates to manufacturing expenses (note 21.2), distribution and marketing expenses (note 22) and administrative expenses (note 23).

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 the 103 shares, two shares are in the name of the nominees. The profit and loss account of the subsidiary company for the year ended December 31, 2016 amounted 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, 2016 amounted to Rs Nil, in accordance with the audited financial statements for the year then ended.

The auditors of the subsidiary company have expressed an unmodified audit opinion on the financial statements of the subsidiary company for the year ended December 31, 2016.

The audited financial statements of the subsidiary company are available for inspection at the Company's registered office and are available to the members on request without any cost.

	2016	2015
	(Rupees in thousand)	
6. LONG TERM DEPOSITS AND PREPAYMENTS		
Deposits	**36,682**	37,094
Prepayments	**3,080**	358
	39,762	37,452

	Note	2016	2015
		(Rupees in thousand)	
7. DEFERRED TAXATION			
Deferred tax asset on deductible temporary differences:			
Accrual for employees compensated absences		**2,131**	2,696
Amortisation of intangible		**-**	99
Unutilised tax losses and credit	7.3	**1,448,262**	1,457,432
Provision for spares		**20,513**	49,283
Provision for obsolete stocks		**15,609**	12,845
Provision for doubtful debts		**809**	813
		1,487,324	1,523,168
Deferred tax liability on taxable temporary differences:			
Tax depreciation allowance		**(726,001)**	(585,814)
Deferred tax asset		**761,323**	937,354

7.1 The movement in temporary differences is as follows:

	Balance as at January 1, 2015	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at December 31, 2015	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at December 31, 2016
Deferred tax debits:	----------	----------	----------	Rupees in '000	----------	----------	----------
Accrual for employees compensated absences	6,255	(3,559)	-	2,696	(565)	-	2,131
Amortisation of intangibles	164	(65)	-	99	(99)	-	-
Unutilised tax losses and credits	1,059,074	395,393	2,965	1,457,432	19,382	(28,552)	1,448,262
Provision for spares	501	48,782	-	49,283	(28,770)	-	20,513
Provision for obsolete stocks	18,093	(5,248)	-	12,845	2,764	-	15,609
Provision for doubtful debts	894	(81)	-	813	(4)		809
	1,084,981	435,222	2,965	1,523,168	(7,292)	(28,552)	1,487,324
Deferred tax credits:							
Tax depreciation allowance	(557,366)	(28,448)	-	(585,814)	(140,187)	-	(726,001)
	527,615	406,774	2,965	937,354	(147,479)	(28,552)	761,323

7.2 The applicable income tax rate for the current year was reduced from 32% to 31% through the Finance Act, 2016. Further, income tax rate for future years have been enacted for the years ending on December 31, 2017 and thereafter at 30%.

7.3 The accumulated tax losses and tax credits of the Company as at December 31, 2016 aggregated Rs 4,909.884 million (2015: Rs 4,921.432 million) and Rs 19.485 million (2015: Rs Nil) respectively, in respect of which the Company has recognised deferred tax asset amounting to Rs 1,448.262 million (2015: Rs 1,457.432 million). The existing unutilized tax losses mainly refer to tax depreciation which can be utilized for an indefinite period against future profits. The Company carries out periodic assessment to determine the benefit of these losses that the Company would be able to set off against the taxable profits in future years. The amount of this benefit has been determined based on the projected taxable profits of the Company for future years. The determination of projected taxable profits are most sensitive to certain key assumptions such as volume of cigarettes, gross margin percentage and inflation rates which have been considered in the preparation of these projected taxable profits. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

8. STORES AND SPARES - net

	Note	2016	2015
		(Rupees in thousand)	
Stores		**4,761**	7,802
Spares	8.3	**444,961**	652,359
		449,722	660,161
Less: Provision for slow moving spares	8.1	**(70,493)**	(168,489)
		379,229	491,672

8.1 Provision for slow moving spares

	2016	2015
Opening balance	**168,489**	1,557
Provision made during the year	**55,826**	272,975
Write off against provision	**(153,822)**	(106,043)
Closing balance	**70,493**	168,489

8.2 During the year the Company has recognised provision against certain items of spares from which further economic benefits are no longer expected to arise, or on the basis of a time based criteria, have been identified as slow moving spares. Further, the Company has written off spares which have been scrapped during the current year due to recent upgradation and optimisation of it's manufacturing facilities.

8.3 This includes spares in transit amounting to Rs 1.999 million (2015: Rs Nil)

	Note	2016	2015
		(Rupees in thousand)	
9. STOCK IN TRADE - net			
Raw and packing materials	9.2	**6,992,580**	7,934,418
Work-in-process		**124,732**	74,011
Finished goods		**209,516**	503,983
		7,326,828	8,512,412
Less: Provision for obsolete stocks	9.1	**(53,641)**	(43,917)
		7,273,187	8,468,495

9.1 Provision for obsolete stocks

Opening balance	**43,917**	56,233
Provision made during the year	**58,544**	50,145
Write off against provision	**(48,820)**	(62,461)
Closing balance	**53,641**	43,917

9.2 These include raw material and packing material in transit aggregating Rs 160.723 million (2015: Rs 111.636 million).

	Note	2016	2015
		(Rupees in thousand)	
10. TRADE DEBTS - net			
Considered good - unsecured	10.1	**1,523**	95,928
Considered doubtful		**2,780**	2,780
		4,303	98,708
Less: Provision for doubtful debts		**(2,780)**	(2,780)
		1,523	95,928

10.1 The amount due from Philip Morris (Malaysia) Sdn. Bhd., an associated undertaking, included in trade debts aggregated Rs Nil (2015: Rs 0.788 million).

11. ADVANCES

	Note	2016	2015
		(Rupees in thousand)	
Considered good - unsecured			
Advances to:			
- Employees and executives	11.1 & 11.2	**13,189**	18,395
- Suppliers and contractors		**20,089**	34,565
		33,278	52,960

11.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 16.304 million (2015: Rs 13.145 million). Further, amounts due from executives as at December 31, 2016 aggregated Rs 10.575 million (2015: Rs 12.517 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	2016	2015
		(Rupees in thousand)	
Receivable from 'associated undertakings'	12.1	**203,407**	10,138
Others		**6,897**	16,115
		210,304	26,253

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

	Note	2016	2015
Philip Morris Services S.A.	12.2	**199,420**	2,869
Philip Morris South Africa Pty Limited		**-**	1,710
PMFTC Inc.		**550**	206
Philip Morris Services India S.A.		**-**	3,128
Philip Morris Asia Limited		**335**	-
Philip Morris Services India S.à.r.l.		**705**	696
Philip Morris Ltd.		**868**	-
PT Hanjaya Mandala Sampoerna TBK		**1,529**	1,529
		203,407	10,138

12.2 This represents amount of tax paid by the Company on behalf of certain executives on secondment from the group undertaking as referred to in note 29 to these financial statements.

13. STAFF RETIREMENT BENEFITS

13.1 Defined benefit plan

As stated in note 2.4.15, the Company operates an approved funded gratuity scheme for all its permanent employees. An actuarial valuation of the scheme is peformed every year with the latest actuarial valuation performed as at December 31, 2016.

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:

13.1.1 Net asset

	Note	2016	2015
		(Rupees in thousand)	
Fair value of plan assets	13.1.5	**487,536**	596,507
Present value of defined benefit obligation	13.1.6	**(455,998)**	(536,352)
		31,538	60,155

13.1.2 Amounts charged to profit and loss account:

	Note	2016	2015
Current service cost		**58,261**	67,611
Net interest cost		**(9,632)**	(6,287)
Plan curtailments / settlements		**(39,151)**	(47,567)
	13.1.3	**9,478**	13,757

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

	Note	2016	2015
Purchases, redrying and related expenses	21.1	**1,664**	2,196
Manufacturing expenses	21.2	**3,865**	4,735
Distribution and marketing expenses	22	**2,015**	4,151
Administrative expenses	23	**1,934**	2,675
		9,478	13,757

13.1.4 Movement in the asset recognised in the balance sheet:

	Note	2016	2015
Balance as at the beginning of the year		**60,155**	-
Net charge for the year	13.1.3	**(9,478)**	(13,757)
Contributions		**73,300**	91,759
Net remeasurements for the year		**(92,439)**	(17,847)
Balance as at the end of the year		**31,538**	60,155

13.1.5 Movement in the fair value of plan assets:

	2016	2015
Opening balance	**596,507**	615,624
Interest income	**57,168**	79,110
Contributions	**73,300**	91,759
Benefits paid	**(236,532)**	(168,138)
Remeasurements on plan assets	**(2,907)**	(21,848)
Closing balance	**487,536**	596,507

	Note	2016	2015
		(Rupees in thousand)	
13.1.6 Movement in the present value of defined benefit obligation:			
Opening balance		**536,352**	615,624
Current service cost		**58,261**	67,611
Interest cost		**47,536**	72,823
Benefits paid		**(236,532)**	(168,138)
Plan curtailments / settlements		**(39,151)**	(47,567)
Remeasurements on obligation		**89,532**	(4,001)
Closing balance		**455,998**	536,352
13.1.7 Principal actuarial assumptions used are as follows:			
Expected rate of increase in salary level		**7.90%**	8.95%
Valuation discount rate		**7.90%**	9.95%
13.1.8 Major categories / composition of plan assets are as follows:			
Debt instruments		**315,711**	489,873
Equity		**60,534**	48,022
Balances with banks		**111,291**	58,612
		487,536	596,507

13.1.9 Actual gain on plan assets during the year ended December 31, 2016 was Rs 54.261 million (2015: Rs 57.262 million).

13.1.10 Expected contribution to defined benefit plan for the year ending December 31, 2017 is Rs 59.487 million (2016: Rs 48.629 million).

13.1.11 Weighted average duration of the defined benefit obligation is 14 years.

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

13.1.13 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)	
Valuation discount rate	1%	(542,677)	624,996
Expected rate of increase / decrease in salary level	1%	625,022	(542,290)

13.1.14 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.

13.1.15 Through its defined benefit gratuity plan, the Fund is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The Fund believes that due to long-term nature of the plan liabilities and the strength of the Company's support, the current investment strategy manages this risk adequately.

Inflation risk

The majority of the plan's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. However, the Fund manages plan assets to offset inflationary impacts.

Life expectancy / withdrawal rate

The majority of the plan's obligations are to provide benefits on severance with the Company or on achieving retirement. Any change in life expectancy / withdrawal rate would impact plan liabilities.

		Note	2016	2015
			(Rupees in thousand)	
13.2	Defined contribution plan			
	The charge for the year has been allocated as follows:			
	Purchases, redrying and related expenses	21.1	**9,286**	12,626
	Manufacturing expenses	21.2	**25,137**	26,358
	Distribution and marketing expenses	22	**20,903**	20,732
	Administrative expenses	23	**19,029**	18,172
			74,355	77,888

14. CASH AND BANK BALANCES

	Note	2016	2015
With banks in current / deposit accounts			
- Foreign currency		**18,625**	1,335
- Local currency			
- Current accounts		**25,158**	17,776
- Deposit accounts	14.1 & 14.2	**64,034**	55,074
		89,192	72,850
		107,817	74,185
Cash in hand		**276**	425
		108,093	74,610

14.1 These carry markup at fixed rate of 3.75% (2015: 4%).

14.2 This includes an amount of Rs 18.861 million held by a commercial bank as security against the guarantees and funded facilities obtained from the bank in the normal course of business.

15. SHARE CAPITAL

15.1 Authorised capital

2016	2015		2016	2015
(Number of shares)			(Rupees in thousand)	
1,200,000,000	100,000,000	Shares of Rs 10 each	**12,000,000**	1,000,000

15.2 Issued, subscribed and paid-up capital

15.2.1 Ordinary shares

2016	2015			
(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

15.2.2 Preference shares

1,046,400,000	-	Preference shares of Rs 10 each fully paid in cash (note 15.4 to 15.7)	**10,464,000**	-
			11,079,803	615,803

15.3 As at December 31, 2016, the number of ordinary shares of Rs 10 each held by Philip Morris Investments B.V., (the parent company) and Philip Morris Brands S.à.r.l., both subsidiaries of Philip Morris International Inc., were 47,819,356 and 12,316,061 respectively.

15.4 During the current year, the Company has received Rs 10,464 million against irredeemable, non-voting, non-cumulative and convertible class A preference shares at the price of Rs 10 per share otherwise than by way of rights issue, from Philip Morris Investments B.V., and Philip Morris Brands S.à.r.l., in the ratio of 79.52% and 20.48% respectively.

15.5 The conversion option is exercisable by the holder at any time after the 10th anniversary of the issue date but not later than the 15th anniversary. At the 15th anniversary all the unconverted class A preference shares will mandatorily be converted into ordinary shares of the Company. The proceeds received against the aforementioned preference shares, shall be converted fully or partially, at the conversion ratio defined in the terms of agreement.

15.6 The holders are entitled to a non-cumulative dividend subject to available distributable profits, as declared by the Board from time to time, at a maximum rate of KIBOR + 1% spread on the face value of the shares.

15.7 These preference shares have been treated as part of equity on the following basis:

- The shares were issued under the provisions of section 86 of the Ordinance read with section 90 of the Ordinance and the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000.

- The issue of the shares were duly approved by the members of the Company at the Extra Ordinary General Meeting held on October 28, 2015.

- The requirements of the Ordinance takes precedence over the requirements of the IFRSs.

- The preference shareholders have the right to convert these shares into ordinary shares.

16. SHARE-BASED PAYMENT PLAN

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

16.1 Grant dates

	February 7, 2013, February 6, 2014, February 5, 2015 & February 4, 2016
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)
Share price at grant date (February 5, 2015)	Rs 8,340 / share (US $ 82.57 / share)
Share price at grant date (February 4, 2016)	Rs 9,311 / share (US $ 104.5 / share)
Number of shares outstanding at the end of the year	6,969

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

	Note	2016	2015
		(Number of shares)	
Outstanding as at the beginning of the year		**6,329**	8,369
Granted during the year		**2,840**	2,260
Vested / exercised during the year	16.4	**(1,760)**	(2,737)
Forfeited during the year		**(440)**	(1,563)
Outstanding as at the end of the year		**6,969**	6,329

		Note	2016	2015
			(Rupees in thousand)	
16.3	The charge for the year has been allocated as follows:			
	Purchase, redrying and related expenses	21.1	**1,744**	(1,885)
	Manufacturing expenses	21.2	**2,256**	(98)
	Distribution and marketing expenses	22	**3,074**	2,421
	Administrative expenses	23	**11,344**	9,382
			18,418	9,820

16.4 During the year ended December 31, 2016 shares granted on February 7, 2013 were fully vested alongwith early vesting for certain employees from the respective grant dates.

16.5 An amount of Rs 18.312 million (US$ 174,756) was recharged by Philip Morris International Inc. New York during the year, which was payable as at December 31, 2016 [2015: Rs 19.453 million (US$ 191,286)].

17. SHORT TERM BORROWINGS

	Note	2016	2015
		(Rupees in thousand)	
Secured			
Running finance under mark-up arrangements	17.1 & 33	**1,338,557**	6,195,365
Unsecured			
Loans from an associated undertaking		-	7,343,000
		1,338,557	13,538,365

17.1 The Company has arranged for running finance, letter of credit and other short term loan facilities to the extent of Rs 7,350 million (2015: Rs 6,925 million) from commercial banks. These facilities are available for various periods expiring between January 31, 2017 and July 22, 2017 (2015: May 21, 2016 and June 30, 2016). The running finance and other short term loan facilities are secured by way of hypothecation of stock in trade of the Company and are carrying markup rates ranging from 6.5% to 6.6% (2015: 6.91% to 10.4%) per annum.

The facilities for opening of letters of credits included in the aforementioned facilities of Rs 7,350 million as at December 31, 2016 aggregated Rs.1,750 million of which amount unutilized was Rs 1,750 million as at December 31, 2016.

18. TRADE AND OTHER PAYABLES

	Note	2016	2015
		(Rupees in thousand)	
Creditors	18.1	**1,179,281**	1,058,901
Bills payable		**468,363**	779,542
Royalty payable to a related party	18.1	**12,603**	167,299
Accrued expenses		**778,316**	805,978
Tobacco development cess	18.4	**16,188**	27,976
Contractors' retention money		**21,169**	38,662
Advance from customers		**18,065**	41,991
Workers' welfare fund	18.2	**16,499**	-
Unpaid and unclaimed dividends		**27,219**	28,177
Others		**105,657**	104,744
		2,643,360	3,053,270

18.1 The amount due to group undertakings included in creditors and royalty payable aggregated Rs 297.908 million (2015: Rs 288.232 million).

18.2 Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) has been promulgated under which industrial establishment having a total income exceeding Rs 0.5 million for the accounting period beginning on or after December 31, 2013 is required to pay WWF to the Sindh Revenue Board at the rate of two percent of taxable income.

The management is of the view that the Company is already subject to levy of Federal WWF at the rate of two percent on the income of the Company and as the authority to which the payment of WWF will be made is not yet decided, the management has on prudent basis recorded provision based on Federal WWF.

18.3 The movement of workers' profit participation fund is as follows:

	2016	2015
	(Rupees in thousand)	
Balance as at the beginning of the year	**-**	-
Provision for the year	**41,300**	-
Less: Payments made during the year	**(41,300)**	-
Balance at the end of the year	**-**	-

18.4 The movement of tobacco development cess is as follows:

	2016	2015
	(Rupees in thousand)	
Balance as at the beginning of the year	**27,976**	43,681
Provision for the year	**32,375**	55,731
Less: Payments made during the year	**(44,163)**	(71,436)
Balance at the end of the year	**16,188**	27,976

Effective July 1, 1999, the 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.

18.5 Derivative financial instruments - held for trading

	2016	2015
	(Rupees in thousand)	
Current Assets		
Foreign currency swap derivatives - held for trading	**-**	10,921
Current Liabilities		
Foreign currency swap derivatives - held for trading	**-**	12,489

19. CONTINGENCIES AND COMMITMENTS

19.1 Guarantees

Indemnities given to banks for guarantees issued by them in the normal course of business aggregated Rs 69.565 million (2015: Rs 133.193 million).

	2016	2015
	(Rupees in thousand)	
19.2 Commitments		
Capital expenditure contracted for but not incurred	**181,680**	581,294
Letters of credit	**-**	251,287

19.2.1 The Additional Collector of Customs, Sales Tax and Central Excise (Adjudication), Rawalpindi had issued two orders to the Company dated March 28, 2003 and June 14, 2003 on account of short payment of Central Excise Duty and Sales Tax aggregating Rs 7.466 million and Rs 4.021 million respectively 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 through an order dated July 14, 2007. The Company proceeded to file tax references Nos. 95/2008 and 96/2008 before Lahore High Court, Rawalpindi Bench, which were dismissed for non-prosecution through an order dated May 14, 2015.

On April 20, 2016, the Company filed Restoration Applications F.E.R.A No. 04/2008 and 05/2008 before Islamabad High Court for restoration of the tax references. The tax references were restored on May 24, 2016.

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.

19.2.2 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 (DCIR) had 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 had disallowed certain deductions aggregating Rs 256.444 million, and assessed incremental tax of Rs 100.525 million. However, during the year ended December 31, 2013 a rectification order dated September 23, 2013 was received for an amount of Rs 43.023 million thereby reducing the tax demand to Rs 57.502 million. For such Rs 57.502 million, the Company has filed an appeal before the Commissioner Inland Revenue (CIR) – Appeals II which is pending adjudication.

Out of the amount of Rs 43.023 million, an amount of Rs 4.183 million is to be received from the taxation authorities for which Management is of the view that the same shall 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.

19.2.3 While reviewing the income tax return of the Company for the tax year 2011 (accounting year ended December 31, 2010) the DCIR 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, and assessed incremental tax of Rs 100.927 million.

During the year, a rectification order dated April 14, 2016 for Rs 43.137 million has been received by the Company, thus reducing the tax demand to Rs 57.790 million. The rectification amount of Rs 43.137 million amount was adjusted against the tax liabilities of the Company. Further, in respect of the aggregate demand of Rs 57.790 million the Company's appeal is pending with CIR - Appeals and Management is confident that the ultimate decision of the appeal shall be in its favour.

19.2.4 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 had under section 122(5A) of the Tax Ordinance served the Company with an order dated April 28, 2014 amending its assessment for that tax year and had disallowed certain deductions aggregating Rs 455.747 million, and assessed incremental tax of Rs 77.829 million. The Company filed an appeal before the CIR – Appeals against the aforementioned order.

The CIR - Appeals passed an order dated September 29, 2015 through which disallowances of deductions amounting to Rs 210.620 million were deleted whereas disallowances of Rs 95.685 million were set aside for further consideration. The Company has filed an appeal before the next level i.e. Appellate Tribunal for the remaining matters.

Management is confident that the ultimate decision of the appeal filed shall be in the Company's favour, therefore, a provision has not been recognised against the aforementioned disallowed deductions in these financial statements.

19.2.5 During the year ended December 31, 2014, the DCIR under section 14(1) of Federal Excise Act, 2005 and section 11(2) of the Sales Tax Act, 1990 had issued an Order-in-Original 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. In addition, penalties amounting to Rs 116.038 million and Rs 48.229 million were imposed on account of short payment of FED and Sales Tax respectively (here-in after referred to as 'Demand'). The Company filed an appeal through the administrative appellate process before the CIR Appeals who upheld the said demands through order dated December 15, 2014.

Subsequently, the Company filed an appeal before the Appellate Tribunal Inland Revenue ('Tribunal') against the order of CIR Appeals on January 13, 2015. The Company on May 11, 2016, received a ruling in its favor from Tribunal, which has cancelled and set aside the tax authorities' demand ('Tribunal Order').

The taxation authorities filed two Reference Applications before the High Court in August 2016 ("Reference Applications") against the Tribunal Order. The Company's management believes that the order in relation to the aforementioned reference applications shall be in it's favour as the Demand of the tax authorities had been earlier set aside by the Tribunal Order.

19.2.6 While reviewing the tax return of the Company for the tax year 2014 (accounting year ended December 31, 2013), the DCIR passed an order dated June 28, 2016 under section 122(1) of the Income Tax Ordinance, 2001 amending it's assessment for that tax year and had disallowed certain deductions aggregating Rs 131.086 million having a tax impact of Rs 39.418 million. The company has filed an appeal before the CIR - Appeals against the order which is pending adjudication.

Management is confident that the ultimate decision shall be in its favour, therefore, a provision has not been recognised against the aforementioned disallowances in these financial statements.

20. TURNOVER - net

	Note	2016	2015
		(Rupees in thousand)	
Gross turnover		**40,343,161**	40,157,144
Less: Trade discount		**809,881**	243,756
Sales tax		**6,152,675**	6,128,595
Excise duty		**19,167,267**	19,367,888
		26,129,823	25,740,239
		14,213,338	14,416,905

21. COST OF SALES

	Note	2016	2015
Raw material consumed			
Opening stock		**7,934,418**	7,287,025
Purchases, redrying and related expenses	21.1	**4,762,979**	7,379,671
		12,697,397	14,666,696
Closing stock	9	**(6,992,580)**	(7,934,418)
		5,704,817	6,732,278
Government levies		**58,620**	86,810
Manufacturing expenses	21.2	**2,186,531**	2,341,109
		7,949,968	9,160,197
Work in process			
Opening stock		**74,011**	82,817
Closing stock	9	**(124,732)**	(74,011)
Sale of waste		**(10,995)**	(18,321)
		(61,716)	(9,515)
Cost of goods manufactured		**7,888,252**	9,150,682
Finished goods			
Opening stock		**503,983**	646,492
Finished goods purchased		**9,687**	268,656
Closing stock	9	**(209,516)**	(503,983)
		304,154	411,165
		8,192,406	9,561,847

21.1 Purchases, redrying and related expenses

	Note	2016	2015
		(Rupees in thousand)	
Raw and packing materials		**4,070,369**	6,405,948
Salaries, wages and other benefits	13, 16 & 24.2	**270,842**	380,695
Stores and spares consumed		**33,005**	63,398
Fuel and power		**38,726**	57,631
Rent, rates and taxes		**31,972**	63,462
Freight and stacking		**77,154**	115,311
Postage, telephone and stationery		**7,299**	8,885
Depreciation	3.1.1	**67,507**	64,520
Repair and maintenance		**27,751**	35,126
Travelling and vehicle expenses		**25,974**	34,745
Professional charges		**304**	5,992
Fumigation and pesticide expenses		**33,410**	23,554
Security charges		**69,298**	67,345
Other expenses		**9,368**	53,059
		692,610	973,723
		4,762,979	7,379,671

21.2 Manufacturing expenses

	Note	2016	2015
Salaries, wages and other benefits	13, 16 & 24.2	**670,146**	742,691
Stores and spares consumed		**403,225**	456,705
Fuel and power		**200,542**	239,600
Rent, rates and taxes		**2,417**	2,467
Cartage		**66,685**	55,467
Postage, telephone and stationery		**11,272**	8,484
Depreciation	3.1.1	**589,533**	550,423
Amortisation	4.1	**1,667**	1,262
Travelling and vehicle expenses		**91,051**	77,889
Security charges		**100,303**	97,661
Other expenses		**49,690**	108,460
		2,186,531	2,341,109

22. DISTRIBUTION AND MARKETING EXPENSES

	Note	2016	2015
Salaries, allowances and other benefits	13, 16 & 24.2	**630,193**	661,855
Selling expenses		**1,617,369**	2,094,437
Freight expense		**165,623**	191,861
Rent, rates and taxes		**61,466**	58,741
Postage, telephone and stationery		**22,974**	17,035
Depreciation	3.1.1	**114,958**	105,785
Amortisation	4.1	**1,407**	1,136
Travelling and vehicle expenses		**136,112**	132,363
Royalty		**46,988**	42,115
Repair and maintenance		**36,914**	32,251
Security charges		**50,286**	28,042
Other expenses		**57,568**	30,110
		2,941,858	3,395,731

		Note	2016	2015
			(Rupees in thousand)	
23.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other benefits	13, 16 & 24.2	**613,149**	669,864
	Rent, rates and taxes		**171,270**	155,566
	Postage, telephone and stationery		**27,354**	31,435
	Travelling and vehicle expenses		**104,141**	112,383
	Repairs and maintenance		**78,435**	80,767
	Legal and professional charges		**55,024**	53,562
	Utilities		**21,406**	26,120
	Fee and subscription		**8,167**	9,386
	Insurance		**50,062**	54,549
	Auditors' remuneration	23.1	**17,178**	16,487
	Depreciation	3.1.1	**124,746**	145,667
	Donation	23.2	**-**	750
	Amortisation	4.1	**8,227**	9,282
	Security charges		**53,426**	73,896
	Other expenses		**19,897**	7,964
			1,352,482	1,447,678

23.1	Auditors' remuneration			
	Audit fee		**2,760**	2,500
	Review of half yearly financial statements		**1,055**	825
	Taxation and other services		**12,599**	12,590
			16,414	15,915
	Out of pocket expenses		**764**	572
			17,178	16,487

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

24.	**OTHER EXPENSES**			
	Exchange loss - net	24.1	**7,337**	-
	Employee separation costs	24.2	**619,018**	847,689
	Impairment charge on items of property, plant and equipment	3.1.3	**60,644**	209,666
	Civil works written off	3.1.3	**-**	16,418
	Property, plant and equipment written off		**5,246**	164
	Loss on disposal of plant and machinery from capital work in progress		**-**	18,277
	Workers' welfare fund		**16,499**	-
	Workers' profit participation fund		**41,300**	-
	Miscellaneous expenses		**33,437**	26,769
			783,481	1,118,983

24.1 This includes net unrealised exchange loss amounting to Rs 42.508 million (2015: Rs 11.753 million) arising from 'trade and other payables'.

24.2 As part of a strategic review to optimise process efficiencies and operational effectiveness and to best position the Company for strong and viable future growth, the management of the Company reorganised its various functions / operations. This overall reorganisation has resulted in redundancies of permanent employees across different functions.

25. OTHER INCOME

	Note	2016	2015
		(Rupees in thousand)	
Income from financial assets:			
● Exchange gain - net		**-**	5,677
● Profit on deposit accounts		**6,147**	10,939
● Others	25.1	**132,790**	20,577
		138,937	37,193
Income from assets other than financial assets:			
● Profit on disposal of items of property, plant and equipment		**50,543**	176,323
		189,480	213,516

25.1 This mainly includes income arising on liabilities written back no longer considered payable and sale of scrap.

26. FINANCE COST AND BANK CHARGES

	Note	2016	2015
		(Rupees in thousand)	
Mark-up on short term borrowings	26.1	**219,831**	284,431
Exchange (gain) / loss on foreign currency loans	26.2	**(12,900)**	368,300
Loss on foreign currency swap derivatives	26.3	**122,025**	111,008
Bank commission and other charges		**33,747**	19,382
		362,703	783,121

26.1 The mark-up on short term borrowings includes mark-up aggregating Rs 24.605 million (2015: Rs 109.407 million) on the loans from an associated undertaking.

26.2 This represents realised exchange gain amounting to Rs 12.9 million (2015: Rs 362 million) on foreign currency short term borrowings from an associated undertaking.

26.3 This represents realised loss on foreign currency swap derivatives on foreign currency short term borrowings from an associated undertaking.

27. TAXATION

	Note	2016	2015
		(Rupees in thousand)	
Current - for the year	27.3	**70,930**	57,351
- for prior years		**(23,678)**	(12,508)
		47,252	44,843
Deferred	7.1	**147,479**	(406,774)
		194,731	(361,931)

27.1 Relationship between tax expense and accounting income / (loss)

	Note	2016	2015
		(Rupees in thousand)	
Accounting income / (loss) before tax		**769,888**	(1,676,939)
Effective tax rate	27.2	**30.07%**	31.20%
Tax on accounting profit / (loss)		**231,505**	(523,205)
Tax effect of:			
● expenses that are not allowed in determining taxable income		**4,238**	16,793
● income chargeable at lower rate / exempt income		**-**	(2,964)
● effect of change in tax rate		**16,867**	56,768
● income assessed under Final Tax Regime		**(9,401)**	114,628
● tax credit for investments u/s 65B of the Income Tax Ordinance, 2001		**(166,933)**	(143,770)
● minimum tax		**142,133**	139,445
● others		**-**	(7,118)
		218,409	(349,423)
Adjustments in respect of current tax of prior periods		**(23,678)**	(12,508)
Tax expense for the year		**194,731**	(361,931)

27.2 The applicable income tax rate was reduced from 32% to 31% during the year on account of the changes made to Income Tax Ordinance, 2001 via the Finance Act, 2016. Further, a credit of 3% (2015: 2.5%) has been applied on the aforementioned rates for the purpose of calculation of effective tax rates.

27.3 This represents current tax expense relating to profit and loss account. The break-up of tax expense recognised in these financial statements is as follows:

	Note	2016	2015
		(Rupees in thousand)	
Current tax charge / (reversal) recongnised in:			
Profit and loss account	27	**70,930**	57,351
Other comprehensive loss - remeasurement expense relating to staff retirement benefits		**(56,348)**	-
Statement of changes in equity - transaction cost on issuance of of preference shares		**(14,582)**	-

28. EARNINGS PER SHARE - BASIC AND DILUTED

28.1 Basic earnings / (loss) per share

	Note	2016	2015
		(Rupees in thousand)	
Profit / (loss) for the year after taxation		**575,157**	(1,315,008)
Less: transaction cost on issuance of preference shares - net of tax		**(33,911)**	-
		541,246	(1,315,008)
		(No. of shares)	
Weighted average number of ordinary shares	15.2	**61,580,341**	61,580,341
		Rupees	
Earning / (loss) per share - basic and diluted		**8.79**	(21.35)

28.2 The 1,046,400,000 preference shares issued during the year are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended December 31, 2016. These preference shares could potentially dilute basic earnings per share in the future.

29. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Executive Directors		Executives		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	(Rupees in thousand)							
Remuneration	**-**	-	**-**	-	**580,854**	513,700	**580,854**	513,700
House rent	**-**	-	**390**	4,068	**261,384**	231,165	**261,774**	235,233
Bonus	**-**	-	**-**	-	**87,888**	117,721	**87,888**	117,721
Retirement benefits	**-**	-	**-**	-	**89,428**	98,014	**89,428**	98,014
Utilities	**91**	689	**101**	1,144	**58,085**	51,370	**58,277**	53,203
Others	**2,218**	3,588	**1,682**	7,940	**119,092**	85,676	**122,992**	97,204
	2,309	4,277	**2,173**	13,152	**1,196,731**	1,097,646	**1,201,213**	1,115,075
Number of persons	**2**	1	**2**	1	**489**	434	**493**	436

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

Directors' fee aggregating Rs 3.217 million (2015: Rs 3.115 million) in respect of independent directors / non-executive directors of the Company have been charged during the year.

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

Further, the benefits available to certain executives recognised by the Company in the expenses during the year on account of share-based payment plan aggregate Rs 18.418 million (2015: Rs 9.820 million).

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

30. RELATED PARTIES DISCLOSURES

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

	Nature of transactions	Note	2016	2015
			(Rupees in thousand)	
Associated undertakings	Sale of goods		**314,908**	166,118
	Sale of plant and machinery	3.2.3	**-**	33,824
	Purchase of goods		**270,475**	233,848
	Purchase of plant and machinery		**37,596**	465,238
	Services procured		**413**	14,247
	Loans received		**11,532,400**	27,337,650
	Loans repaid / adjusted		**18,862,500**	28,922,450
	Loss on disposal of plant and machinery	3.2.3	**-**	18,277
	Mark-up on short term borrowings		**24,605**	109,407
	Provision for loss on goods destroyed		**-**	24,205
	Royalty charges		**46,988**	42,115
	Share based payment recharge	16.5	**18,312**	19,453
	Issuance of preference shares	15.2.2	**10,464,000**	-
Subsidiary	Expenses borne by the Company		**143**	110
Staff retirement plans	Expense in relation to gratuity fund		**101,917**	31,604
	Expense in relation to provident fund		**74,355**	77,888

The related party status of outstanding balances as at December 31, 2016 is included in notes 12.1, 13.1 and 18.1. These are to be settled in ordinary course of business.

31. CAPACITY AND PRODUCTION

Against an installed manufacturing capacity of 50,717 million (2015: 53,827 million) cigarette sticks, actual production was 12,274 million (2015: 15,861 million) cigarette sticks. Actual production was sufficient to meet the demand.

32. CASH GENERATED FROM OPERATIONS

	Note	2016	2015
		(Rupees in thousand)	
Profit / (loss) before taxation		**769,888**	(1,676,939)
Adjustments for:			
Depreciation	3.1.1	**896,744**	866,395
Property, plant and equipment written off		**5,246**	164
Impairment charge on items of property, plant and equipment		**60,644**	209,666
Civil works written off		**-**	16,418
Loss on disposal of plant and machinery		**-**	18,277
Amortisation		**11,301**	11,680
Provision for slow moving spares		**55,826**	272,975
Provision for obsolete stocks		**58,544**	50,145
Stock in trade - written down to net realisable value		**-**	4,654
Expenses arising from equity settled share-based payment plan		**18,418**	9,820
Gratuity expense		**9,478**	13,757
Liabilities written back		**(62,807)**	-
Unrealised exchange loss		**42,508**	11,753
Exchange (gain) / loss on foreign currency loans		**(12,900)**	368,300
Profit on deposit accounts		**(6,147)**	(10,939)
Profit on disposal of items of property, plant and equipment		**(50,543)**	(176,323)
Finance cost		**341,856**	395,439
Working capital changes	32.1	**1,287,800**	(277,896)
		3,425,856	107,346

32.1 Working capital changes

		2016	2015
Decrease / (increase) in current assets			
Stores and spares		**56,617**	(170,957)
Stock in trade		**1,136,764**	(563,193)
Trade debts		**94,405**	129,254
Advances		**19,682**	(3,680)
Prepayments		**122,929**	100,035
Other receivables		**(194,972)**	583,114
		1,235,425	74,573
(Decrease) / increase in current liabilities			
Trade and other payables		**(395,434)**	621,343
Sales tax and excise duty payable		**447,809**	(973,812)
		1,287,800	(277,896)

33. CASH AND CASH EQUIVALENTS

	Note	2016	2015
Cash and bank balances	14	**108,093**	74,610
Running finance under mark-up arrangements	17	**(1,338,557)**	(6,195,365)
		(1,230,464)	(6,120,755)

34. FINANCIAL RISK MANAGEMENT

34.1 The Company's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but 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, 2016, had there been increase / decrease in fixed interest rates by 50 basis points, with all other variables held constant, profit after taxation (2015: loss after taxation) for the year then ended would have been higher / lower by Rs 0.224 million (2015: lower / higher by Rs 25.070 million) mainly as a result of interest rate.

- Future cash flow risk - Presently, future cash flow risk to the Company arises from 'running finance under mark-up arrangements' which are based on floating interest rates (i.e. KIBOR based). As at December 31, 2016, had there been increase / decrease of 50 basis points in KIBOR with all other variables held constant, profit after taxation (2015: loss after taxation) for the year then ended would have been lower / higher by Rs 4.68 million (2015: higher / lower by Rs 21.312 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 debts (note 10), other receivables (note 12), bank balances (note 14), trade and other payables (note 18) and accrued markup on short term borrowings.

As at December 31, 2016, had the Company's functional currency strengthened / weakened by 5% against US Dollar, Euro and UK Pound, with all other variables held constant, profit after taxation (2015: loss after taxation) for the year then ended would have been higher / lower by Rs 20.121 million (2015: lower / higher by Rs 294.71 million) mainly as a result of foreign exchange gains / losses.

(c) Other price risk

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

(ii) Credit risk and its concentration

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. The Company enters into financial contracts in accordance with the internal risk management policies which include incurring of sales on an advance payment basis and holding of balances with reputable banks of the country. Out of the total financial assets as set out in note 34.3, those that are subject to credit risk aggregates Rs 356.326 million (2015: Rs 233.460 million). The analysis below summarises the credit quality of the Company's financial assets as at December 31, 2016:

- 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 203.407 million (2015: Rs 10.926 million) are 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 at least a credit rating of 'BBB+' which represents adequate credit quality.

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:

	Note	**2016**	**2015**
		(Maturity within one year) (Rupees in thousand)	
Short term borrowings	17	**1,338,557**	13,538,365
Trade and other payables	18	**2,585,284**	2,983,303
Accrued mark-up on short term borrowings		**7,249**	74,869
		3,931,090	16,596,537

34.2 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences may arise between the carrying value and the fair value estimates.

As at December 31, 2016, 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.

34.3 Financial instruments by category

	2016	2015
	(Rupees in thousand)	
FINANCIAL ASSETS		
Loans and receivables at amortised cost		
Long term deposits	**36,682**	37,094
Trade debts	**1,523**	95,928
Other receivables	**210,304**	15,332
Cash and bank balances	**108,093**	74,610
	356,602	222,964
Fair value through profit and loss		
Foreign currency swap derivatives - held for trading	**-**	10,921
	356,602	233,885
FINANCIAL LIABILITIES		
At amortised cost		
Short term borrowings	**1,338,557**	13,538,365
Trade and other payables	**2,585,284**	2,970,814
Accrued mark-up on short term borrowings	**7,249**	66,659
	3,931,090	16,575,838
Fair value through profit or loss		
Foreign currency swap derivatives - held for trading	**-**	12,489
	3,931,090	16,588,327

35. CAPITAL RISK MANAGEMENT

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

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as 'short term 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. The gearing ratio of the Company has significantly decreased from 84% to 8% due to issuance of 1,046.4 million irredeemable, non-voting, non-cumulative and convertible class A preference shares at the price of Rs 10 per share.

36. DETAILS OF PROPERTY, PLANT AND EQUIPMENT DISPOSED OFF

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

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	----------	(Rupees in thousand)		----------		
Vehicles	1,479	(1,183)	296	518	Company Policy	Mr. Amjad Iqbal
	1,010	(444)	566	808	----do----	Mr. Syed Uzair Hussain
	1,010	(485)	525	808	----do----	Mr. Numair Khan
	1,673	(940)	733	1,087	----do----	Mr. Umer Javed
	1,990	(1,679)	311	950	----do----	Mr. Mujtaba Hussain
	1,522	(338)	1,184	1,218	----do----	Mr. Asad Anees
	1,673	(820)	853	1,097	----do----	Mr. Muhammad Sheraz Ahmed
	1,039	(302)	737	831	----do----	Mr. Imran Ul Haq
	1,554	(1,450)	104	544	----do----	Mr. Zohaib Hussain
	1,990	(1,843)	147	697	----do----	Mr. Amir Khan Zada
	990	(515)	475	900	Insurance Claim	AIG Insurance
	1,325	(1,060)	265	1,400	Negotiated	TCS Logistics (Private) Limited
	1,325	(1,060)	265	1,400	----do----	----do----
	1,523	(1,218)	305	1,400	----do----	----do----
	2,000	(1,600)	400	1,500	----do----	----do----
	703	(563)	140	416	Negotiated	Mr. Saeed Mir
	649	(519)	130	383	----do----	----do----
	599	(479)	120	354	----do----	----do----
	599	(479)	120	354	----do----	----do----
	599	(479)	120	354	----do----	----do----
	599	(479)	120	354	----do----	----do----
	747	(598)	149	439	----do----	----do----
	620	(496)	124	365	----do----	----do----
	710	(568)	142	419	----do----	----do----
	513	(411)	102	304	----do----	----do----
	620	(496)	124	365	----do----	----do----
	620	(496)	124	365	----do----	----do----
	620	(496)	124	365	----do----	----do----
	679	(543)	136	401	----do----	----do----
	620	(496)	124	365	----do----	----do----
	469	(375)	94	277	----do----	----do----
	620	(496)	124	365	----do----	----do----
	620	(496)	124	365	----do----	----do----
	620	(496)	124	365	----do----	----do----
	620	(496)	124	365	----do----	----do----
	513	(411)	102	304	----do----	----do----
	776	(569)	207	610	----do----	----do----
	513	(411)	102	304	----do----	----do----
	679	(543)	136	401	----do----	----do----
	513	(411)	102	304	----do----	----do----
	620	(496)	124	365	----do----	----do----
	620	(496)	124	365	----do----	----do----
	620	(496)	124	365	----do----	----do----
	776	(569)	207	610	----do----	----do----
	513	(411)	102	304	----do----	----do----
	776	(569)	207	610	----do----	----do----
	513	(411)	102	304	----do----	----do----
	513	(411)	102	304	----do----	----do----
	586	(430)	156	460	----do----	----do----
	586	(430)	156	460	----do----	----do----
	586	(430)	156	460	----do----	----do----
	586	(430)	156	460	----do----	----do----
	312	(250)	62	183	----do----	----do----
	312	(250)	62	183	----do----	----do----
	459	(367)	92	271	----do----	----do----
	674	(350)	324	955	----do----	----do----
Balance c / f	46,595	(34,035)	12,560	31,080		

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	------------------ (Rupees in thousand) -----------------					
Balance b / f	46,595	(34,035)	12,560	31,080		
Vehicles	605	(484)	121	357	Negotiated	Mr. Saeed Mir
	404	(323)	81	239	----do----	----do----
	654	(384)	270	796	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	674	(324)	350	1,032	----do----	----do----
	695	(259)	436	1,285	----do----	----do----
	674	(324)	350	1,032	----do----	----do----
	674	(324)	350	1,032	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	1,087	(870)	217	640	----do----	----do----
	1,087	(870)	217	640	----do----	----do----
	1,087	(870)	217	640	----do----	----do----
	1,419	(1,135)	284	837	----do----	----do----
	1,319	(1,055)	264	778	----do----	----do----
	1,319	(1,055)	264	778	----do----	----do----
	1,319	(1,055)	264	778	----do----	----do----
	1,200	(960)	240	707	----do----	----do----
	1,319	(1,055)	264	778	----do----	----do----
	1,389	(1,111)	278	819	----do----	----do----
	969	(775)	194	572	----do----	----do----
	560	(448)	112	330	----do----	----do----
	1,040	(832)	208	613	----do----	----do----
	884	(707)	177	522	----do----	----do----
	755	(604)	151	445	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,613	(1,291)	322	952	----do----	----do----
	1,620	(1,296)	324	955	----do----	----do----
	1,620	(1,296)	324	955	----do----	----do----
	1,620	(1,296)	324	955	----do----	----do----
	1,620	(1,296)	324	955	----do----	----do----
	806	(645)	161	475	----do----	----do----
	1,870	(1,496)	374	1,102	----do----	----do----
	1,870	(1,496)	374	1,102	----do----	----do----
	2,073	(1,548)	525	1,547	----do----	----do----
	2,073	(1,548)	525	1,547	----do----	----do----
	2,073	(1,548)	525	1,547	----do----	----do----
	618	(494)	124	365	----do----	----do----
	618	(494)	124	365	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	399	(319)	80	236	----do----	----do----
	618	(494)	124	365	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
	367	(294)	73	215	----do----	----do----
Balance c / f	106,002	(80,157)	25,845	70,257		

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b / f	106,002	(80,157)	25,845	70,257		
Vehicles	599	(479)	120	354	Negotiated	Mr. Saeed Mir
	487	(390)	97	286	----do----	----do----
	634	(423)	211	622	----do----	----do----
	634	(423)	211	622	----do----	----do----
	654	(401)	253	746	----do----	----do----
	109,010	(82,273)	26,737	72,887		

37. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on the financial statements of the Fund as of December 31, 2016 and 2015:

	2016 (Un-audited)	2015 (Audited)
	(Rupees in thousand)	
Size of the fund - total assets	**703,797**	880,302
Cost of investments made	**353,291**	600,981
Percentage of investments made	**89.20%**	92.64%
Fair value of investments	**627,822**	815,502

The break-up of fair value of investments is:

	2016		2015	
	(Rs in '000)	(Percentage)	(Rs in '000)	(Percentage)
Shares in listed companies	**101,155**	**16%**	77,857	10%
Debt Securities	**282,804**	**45%**	533,751	65%
Bank balances	**243,863**	**39%**	203,894	25%
	627,822	**100%**	815,502	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.

38. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at December 31, 2016 and 2015 respectively are as follows:

	2016	2015
	Number of employees	
Number of employees as at December 31	**1,079**	1,512
Average number of employees during the year	**1,415**	1,706

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 10, 2017 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 10, 2017	**ALEXANDER REISCH** Chief Executive	**ANTON STANKOV** Director

Auditors' Report to the Members

We have audited the annexed balance sheet of Laksonpremier Tobacco Company (Private) Limited as at December 31, 2016 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, 2016 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).

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

Karachi: March 21, 2017

Balance Sheet

AS AT DECEMBER 31, 2016

	Note	2016	2015
		Rupees	
ASSETS		-	-
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
5,000,000 Ordinary Shares of Rs 10 each	3	50,000,000	50,000,000
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 21, 2017

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Profit & Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
	Rupees	
Turnover	-	-
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 21, 2017

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Statement Of Changes In Equity

FOR THE YEAR ENDED DECEMBER 31, 2016

	Issued, subscribed & paid-up capital	Accumulated loss	Total
	Rupees		
Balance as at January 1, 2015	1,030	(1,030)	-
Total comprehensive income / (loss) for the year ended December 31, 2015	-	-	-
Balance as at December 31, 2015	1,030	(1,030)	-
Total comprehensive income / (loss) for the year ended December 31, 2016	-	-	-
Balance as at December 31, 2016	1,030	(1,030)	-

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

Karachi: March 21, 2017

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
	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 period	-	-
Cash and cash equivalents at the end of the period	-	-

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

Karachi: March 21, 2017

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Notes To The Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2016

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 March 20, 2017, 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 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 prevail.

3. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2016	2015		2016	2015
Number of shares			Rupees	
		Authorised share capital		
5,000,000	5,000,000	Ordinary shares of Rs 10 each	**50,000,000**	50,000,000
		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:

	2016	2015
	Rupees	
Expenses borne by the Holding Company		
Filing fees for corporate forms	22,025	9,100
Audit fee	121,000	100,000

5. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 21, 2017 by the board of directors of the Company.

Karachi: March 21, 2017

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

ڈائریکٹرز رپورٹ

آڈیٹرز

موجودہ ایکسٹرنل آڈیٹرز اے ایف فرگوسن اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس سالانہ اجلاسِ عام کے بعد سبکدوش ہوجائیں گے اور اہل ہونے کے ناتے 31 دسمبر 2017ء کے ختم ہونے والے سال کیلئے بطور ایکسٹرنل آڈیٹرز اپنے آپ کو دوبارہ تقرّری کیلئے پیش کردیں گے۔ ارکان سے درخواست ہے کہ وہ انھیں بطور آڈیٹر مقرّر کرلیں اور اُن کے مشاہرے کی توثیق کردیں۔

اکاؤنٹنگ پالیسیز

کمپنی نئی اکاؤنٹنگ اسٹینڈرڈز کو اختیار یا بروئے کار لاچکی ہے، منظور شدہ اسٹینڈرڈز اور نئی تعبیرات جیسا کہ 2016ء کے دوران ترمیمات کیلئے لاگو ہیں۔ اُن کی تفصیلات مالیاتی گوشواروں کی شق 2.2.1 کے نوٹس میں فراہم کردی گئی ہے۔

مستقبل کی توقعات

کمپنی جامع طور پر فلپ موریس انٹرنیشنل انکارپوریشن کی منسلکہ ہے اور اسی طرح عالمی وسائل اور مہارت سے فائدہ اُٹھاتی رہے گی تاکہ وہ اس کی مؤثریت اور طویل المدّت پائیداری اور سُودمندی کو بہتر بنانے میں مدد کرتی رہے۔

کمپنی کے ڈائریکٹرز اور انتظامیہ تسلسل کے ساتھ کمپنی کی سرگرمیوں اور اُمور کے تمام پہلوؤں میں بہتری کے ذریعے ایسی طویل المدّت شیئر ہولڈر قدر و قیمت کی فراہمی پر توجّہ مرکوز رکھیں گے۔ اس میں جدّت طراز مصنوعات کا پیش کیے جانا، برانڈ پورٹفولیو میں استحکام لانا اور پروڈکٹ کے معیار میں مسلسل اِضافہ کرتے رہنا، اشیاسازی کے طور طریقوں اور سہولیات کو جدید سے جدید بنانا، انسانی وسائل کو فروغ دینا اور اساس لاگت کی مؤثر نظم کاری پر مسلسل زور دینا شامل ہیں لیکن یہ صرف ان ہی پہلوؤں تک محدود بھی نہیں ہیں۔

قرضہ جات کے حصول کی لاگتوں میں کمی، اشیاسازی سہولیات کی تجدید و ترقّی اور ساز و سامان کو جدید سے جدید تر بنانے کی غرض سے اور پیداوار اور مصنوعات کے معیار میں مجموعی بہتری حاصل کرنے کے مقصد سے، کمپنی نے -/10 روپے کے کلاس اے کی ترجیح کے ساتھ 1,046 ملین کے شیئر جاری کیے ہیں۔

تاہم، کمپنی کے مستقبل کے اُمور غیر قانونی و ناجائز تجارت کے بڑھتے ہوئے مارکیٹ شیئرز سے بُری طرح متاثر ہی رہیں گے اور جب تک حکومت بہت جلد اِسے چیک، روک تھام اور پکڑ دھکڑ کیلئے سنجیدہ اقدامات نہیں کرتی تب تک حالات جوں کے توں رہیں گے۔ غیر قانونی و ناجائز تجارت میں اضافے سے ممکن ہے حکومت قابل ذکر ٹیکس محصولات سے بھی محروم رہے گی۔

اعترافات

ڈائریکٹرز اس موقع سے فائدہ اُٹھاتے ہوئے کمپنی کے تمام ملازمین سے 2016ء میں ان کے عزم، کاوشات، لگن اور تعاون کیلئے اظہارِ تشکّر کرتے ہیں۔

بورڈ آف ڈائریکٹرز اپنے تمام کاروباری رفقاء جیسے ڈسٹری بیوٹرز، سپلائرز، شیئر ہولڈرز اور دیگر اداروں کو بھرپور خراج تحسین پیش کرتے ہیں کہ انھوں نے کمپنی کی انتظامیہ پر اپنے بھرپور اعتماد کا مظاہرہ کیا۔

بورڈ آف ڈائریکٹرز کی طرف سے

کامران یوسف مرزا

چیئرمین

کراچی، 10 مارچ 2017ء

ڈائریکٹرز رپورٹ

فی الوقت درج ذیل بطور ارکان اور سیکریٹری آڈٹ کمیٹی کام کر رہے ہیں:

1- لیفٹیننٹ جنرل (ریٹائرڈ) طارق خان

2- ہی کیونگ ین

3- ای وون چین

4- فائزہ کپاڈیا رافع (سیکریٹری)

دوران سال کل 4 اجلاس منعقد ہوئے۔ ان اجلاس میں ڈائریکٹرز کی حاضری کی دستاویز موجود ہے اور درج ذیل میں فراہم کی جارہی ہے:

ڈائریکٹرز کے نام	اجلاس میں حاضری
لیفٹیننٹ جنرل (ریٹائرڈ) طارق خان (2 مارچ 2019ء سے)	4
اینٹون اسٹینکوف (01 فروری 2016ء سے)	4
ڈینیل فارنی (01 جون 2016ء تک)	2
نکولس فلورس (27 اکتوبر 2016ء تک)	-
محترمہ ہی کیونگ ین (01 جون 2016ء سے)	2
محترمہ ای وون چین (27 اکتوبر 2016ء سے)	-

اُن ڈائریکٹرز کو جو آڈٹ کمیٹی اجلاس میں حاضر نہیں ہوسکتے تھے اُن کو غیر حاضری کی رخصت مرحمت کر دی گئی تھی۔

انسانی وسائل اور مشاہرہ کمیٹی میں تبدیلیاں

دوران سال الیجانڈرو پاسچالیڈیس، جناب ڈینیل فارنی اور جناب چارلس بینڈوتی نے استعفیٰ پیش کیا اور جناب الیگزینڈر رائش، جناب جوآؤ مینیول اور محترمہ ہی کیونگ ین کو بطور ارکان انسانی وسائل اور مشاہرہ کمیٹی مقرر کر دیا گیا۔

انسانی وسائل اور مشاہرہ کمیٹی (''HR&R'')

ایچ آر اینڈ آر کمیٹی میں 3 ارکان شامل ہیں جن میں 2 غیر انتظامی ڈائریکٹرز ہیں۔

فی الوقت درج ذیل ڈائریکٹرز بطور ممبران ایچ آر اینڈ آر کمیٹی کام کر رہے ہیں:

1- جوآؤ مینیول

2- ہی کیونگ ین

3- الیگزینڈر رائش

2016ء کے دوران ایچ آر اینڈ آر کمیٹی کا کوئی اجلاس منعقد نہیں ہوا۔

شیئر ہولڈنگ کا اُسلوب

31 دسمبر 2016ء کے مطابق کمپنی کے شیئر ہولڈنگ کا اُسلوب اس سالانہ رپورٹ میں جیسا کہ ضابطے کی شرائط کے مطابق ہے مزید برآں شامل کر دیا گیا ہے۔

ڈائریکٹرز رپورٹ

بورڈ آف ڈائریکٹرز میں تبدیلیاں

دوران سال لیفٹیننٹ جنرل (ریٹائرڈ) طارق خان بطور آزاد ڈائریکٹر بورڈ میں شامل ہوئے۔ مزید برآں، سال کے دوران، جناب الیجانڈرو پاسچالیڈیس، جناب جوزف زیومیک، جناب چارلس بینڈوٹی، جناب نکلس فلورس، جناب ڈینیل فارنی نے کمپنی کے ڈائریکٹرز کے طور پر اپنے استعفے پیش کردیے۔ غیر رسمی اسامیوں کو پُر کرنے کی غرض سے، جناب الیگزینڈر رائش، جناب اینٹون اسٹینکوف، محترمہ ای وون چین، جناب جوآؤ مینویل، محترمہ ہی کیونگ ین کی علی الترتیب بطور ڈائریکٹرز تقرری غیر رسمی اسامیوں کے 90 روز کے اندر اندر عمل میں لائی گئی۔

بورڈ آف ڈائریکٹرز کے اجلاس

بورڈ آف ڈائریکٹرز سات ڈائریکٹرز پر مشتمل ہے جس میں دو آزاد ڈائریکٹرز، لیکن غیر انتظامی ڈائریکٹرز اور دو انتظامی ڈائریکٹرز ہیں۔

سال 2016ء کے دوران، بورڈ آف ڈائریکٹرز ("بورڈ") کے 5 اجلاس منعقد ہوئے۔ ان اجلاس میں ڈائریکٹرز کی حاضری کی دستاویز موجود ہے اور درج ذیل ہے:

ڈائریکٹرز کے نام	اجلاس میں تعداد حاضری
کامران یوسف مرزا	5
الیگزینڈر رائش (19 اپریل 2016ء سے)	4
لیفٹیننٹ جنرل (ریٹائرڈ) طارق خان (02 مارچ 2016ء سے)	5
اینٹون اسٹینکوف (01 فروری 2016ء سے)	5
ڈینیل فارنی (01 جون 2016ء تک)	2
ہی کیونگ ین (01 جون 2016ء سے)	-
چارلس بینڈوتی (27 اکتوبر 2016ء تک)	-
نکلس فلورس (27 اکتوبر 2016ء)	-
جوآؤ مینول (27 اکتوبر 2016ء تک)	-
ای وون چین (27 اکتوبر 2016ء تک)	-
الیجانڈرو پاسچالیڈیس (19 اپریل 2016ء تک)	-

اُن ڈائریکٹرز کو جو بورڈ اجلاس میں حاضر نہیں ہوسکتے تھے ان کو غیر حاضری کی رخصت مرحمت کردی گئی تھی۔

بورڈ آڈٹ کمیٹی کی تشکیل میں تبدیلیاں

جناب ڈینیل فارنی اور جناب نکلس فلوروس کے استعفیٰ کے نتیجے میں محترمہ ہی کیونگ ین اور محترمہ ای وون چین کو بطور آڈٹ کمیٹی ممبران مقرر کردیا گیا۔

بورڈ آڈٹ کمیٹی

آڈٹ کمیٹی کمپنی کے بورڈ کی جانب سے طے کردہ اختصاصات (TOR) کے مطابق اپنا کردار ادا کرتی ہے اور جو ایس ای سی پی کے جاری کردہ شرائطِ ضابطہ کے عین مطابق ہیں۔

آڈٹ کمیٹی 3 ارکان پر مشتمل ہے جس میں ایک آزاد ڈائریکٹر اور دو غیر انتظامی ڈائریکٹرز ہوتے ہیں۔

ڈائریکٹرز رپورٹ

ادارہ جاتی نظم کا ضابطہ

کمپنی کے ڈائریکٹرز ادارہ جاتی نظم کے بلند ترین معیارات سے جڑے رہنے کا بھرپور عزم رکھتے ہیں۔ اسی لیے سال 2016ء میں کمپنی نے ادارہ جاتی نظم کے ضابطے (''کوڈ'') کی شرائط پر پورا اُترنے کیلئے مسلسل اقدامات جاری رکھے۔

ڈائریکٹرز جیسا کہ ضابطے کے تحت درکار ہے یہ گزارشات پیش کرتے ہوئے اظہارِ مسرّت کرتے ہیں کہ:

- کمپنی کی انتظامیہ کی جانب سے تیار کردہ مالیاتی گوشوارے، اُس کے امورِ کار، اُس کی سرگرمیوں اور افعال کے نتائج، نقدی بہاؤ اور اس کے حصص میں تبدیلیوں کی منصفانہ ترجمانی کرتے ہیں؛
- کمپنی کی مناسب کتابِ حسابات کو برقرار رکھا جا رہا ہے؛
- مالیاتی گوشواروں کی تیاری میں مناسب پالیسیز برائے حسابات کو مستقل طور پر بروئے کار لایا جاتا رہا ہے؛
- تمام مالیاتی گوشواروں کی تیاری میں منظورشدہ معیاراتِ حسابات جیسا کہ پاکستان میں لاگو ہیں کی پیروی کی جاتی رہی ہے؛
- کمپنی کا انٹرنل کنٹرولز کا نظام بالکل درست اور صحیح ہے اور مؤثر طور پر نافذ رہا ہے اور اُسے مسلسل زیرِنظر رکھا جاتا رہا ہے اور بہتر بھی بنایا جاتا رہا ہے؛
- بطور ایک جاری وساری کاروبار کمپنی کی صلاحیت پر کوئی شک وشبہ نہیں رہتا؛
- ادارہ جاتی نظم کے بہترین طور طریقوں سے کوئی قابلِ ذکر انحراف نہیں رہا ہے جیسا کہ ضابطوں کی فہرست میں تفصیل موجود ہے؛
- سال کیلئے بنیادی مالیاتی جھلکیوں اور اثاثوں کا اور بمطابق 31 دسمبر 2016ء کمپنی کے واجبات اور پچھلے 6 مالی سالوں کیلئے اس کا ایک خلاصہ صفحہ نمبر 17 ترتیب دیا گیا ہے، اور
- ٹیکسز اور لیویز کے متعلق معلومات مالیاتی گوشواروں میں متعلقہ نوٹس میں دی گئی ہیں۔

انٹرنل کنٹرولز کا گوشوارہ

کمپنی کی انتظامیہ انٹرنل کنٹرولز اور پروسیجرز (اندرونی اختیار وطریقہ کار) کے ایک نظام کے قیام اور اسے برقرار رکھنے کیلئے ذمے دار ہے۔ انتظامیہ کا انٹرنل کنٹرولز کا گوشوارہ اس سالانہ رپورٹ کے ایک حصے کی تشکیل کرتا ہے۔

ہم آہنگی کا گوشوارہ

کمپنی ہم آہنگی کا گوشوارہ شائع کرنے کی بھی ذمے دار ہے۔ ہم آہنگی کا گوشوارہ اس سالانہ رپورٹ کے ایک حصے کی تشکیل کرتا ہے۔

ریٹائرمنٹ فنڈز میں سرمایہ کاری

ملازمین کے ریٹائرمنٹ فنڈز کی طرف سے جو کمپنی کی جانب سے چلایا جاتا ہے میں کی گئی سرمایہ کاری کی مالیت کہ جیسا کہ آڈٹ شدہ مالیاتی گوشواروں میں ہے درج ذیل ہے:

	ملین روپے
پروویڈنٹ فنڈ	816 (31 دسمبر 2015ء کے آڈٹ شدہ مالیاتی گوشواروں کے مطابق)
گریجویٹی فنڈ	549 (31 دسمبر 2015ء کے آڈٹ شدہ مالیاتی گوشواروں کے مطابق)

ہولڈنگ کمپنی

نیدرلینڈ یعنی ہالینڈ میں انکارپوریٹ کی گئی، فلپ موریس انویسٹمنٹس بی-وی ایک ہولڈنگ کمپنی ہے جس کے پاس کمپنی میں 77.65% کے آرڈنری شیئرز (عام حصص) ہیں۔

فلپ موریس برانڈز ایس اے آر ایل (SARL) ایک منسلک کمپنی ہے جس کے پاس کمپنی میں 20% کے آرڈنری شیئرز (عام حصص) ہیں۔

ڈائریکٹرز رپورٹ

- پینے کے صاف پانی کیلئے 30 ہینڈ پمپس کی تنصیب، حفظانِ صحت کٹس کی تقسیم اور پختونخوا کی تین تحصیلوں، ساہیوال، گوجرانوالہ، حافظ آباد (پنجاب) اور کوٹری (سندھ) میں حفظانِ صحت آگہی نشست برائے معاشرہ سے 3,000 سے زائد افراد کی خدمت کی جارہی ہے۔
- 220 مستحق افرادِ خانہ کیلئے پائیدار معاشی مواقع کی تشکیل، یہ منصوبہ مختلف معاشروں و آبادیوں میں پائیدار آمدن کے مواقع و امکان کی تشکیل کیلئے مدون کیا گیا ہے ساتھ ہی مستفید ہونے والوں کیلئے ہنر سیکھنے کے موقع بھی فراہم ہیں تا کہ غربت کے خاتمے کیلئے مزید آمدنی پیدا کرسکیں۔ یہ روزگار کی تربیت، نوکری کی فراہمی اور مفید و پیداواری اثاثوں کی فراہمی سے کیا جارہا ہے۔ یہ پروگرام اکتوبر 2016ء میں مردان اور صوابی تحصیل میں شروع کیے گئے جنھیں مارچ 2017ء میں مکمل کرلیا جائے گا۔ اس پروگرام کے ذریعے 220 افراد مع 1540 خاندان متوقع طور پر مستفید ہوں گے۔
- پاکستان میں بھر میں تعمیر نو جراحتوں کیلئے رقم کی فراہمی کے ذریعے گھریلو تشدد کا شکار ہونے والی 50 خواتین، 40 کیلئے نفسیاتی سماجی امداد اور 12 خواتین کیلئے پیشہ ورانہ تربیت کی گئی۔
- پشاور، کے پی میں ایس او ایس یوتھ ہوم کی تعمیر کیلئے رقم فراہم کی گئی جس سے 50 بچّوں کو گھر فراہم کیا جائے گا۔

نویں (9ویں) سالانہ سی ایس آر ایوارڈز جو اسلام آباد میں منعقد ہوئے کہ موقع پر نیشنل فورم برائے صحت و ماحول کی جانب سے کمپنی کی کوششوں کا اعتراف کیا گیا اور درج ذیل تین شعبوں میں ایوارڈ سے نوازا گیا:

- پائیداری اقدامات
- کمیونٹی ترقّی اور بہبود
- ویمن امپاورمنٹ

کمپنی فلپ موریس انٹرنیشنل انکارپوریشن کے اشتراک سے سماجی خدمات پر اپنی توجّہ جاری رکھے گی اور پائیدار مخیرانہ پروگرامز کا سلسلہ بھی جاری رکھے گی تا کہ مقامی آبادیاں اُس سے مستفید ہوں اور آئندہ برسوں میں اپنے مختلف اقدامات میں ملازمین کی شمولیت میں بھی اضافہ کرے گی۔

ماحول صحت حفاظت اور امن و اطمینان (EHS&S)

بین الاقوامی سطح پر تسلیم شدہ اور مسلّمہ معیار، ماحول، صحت، امن و اطمینان کے طریقۂ کار اور معیارات سے جڑے رہنے کے ساتھ اعلیٰ معیار کی تمباکو مصنوعات کی تیاری اور فراہمی کمپنی کا عزم و عہد ہے۔ کمپنی ان طریقۂ کار کے ذریعے اپنے بالغ سگریٹ نوش افراد کی توقعات پر پورا اترنا اور اپنی مصنوعات میں مسلسل بہتری اور کمال کے ذریعے اُن کی وفاداری کو برقرار رکھنا چاہتی ہے۔

کمپنی ماحول کیلئے زیادہ سے زیادہ دیکھ بھال اور خیال کے ساتھ کاروبار کرتی ہے اور تسلیم کرتی ہے کہ اس کے ملازمین کی صحت اور حفاظت کاروبار کا بنیادی اصول اور قدر ہے۔ پالیسیز اور طور طریقے پوری طرح رائج ہیں تا کہ پیشہ ورانہ چوٹوں، بیماریوں اور متوقع خطرات کی روک تھام ہو۔ سال 2016ء میں کمپنی نے اس کی تمباکو کی پسائی کی جگہ کی کامیابی سے ایک بار پھر تصدیق و توثیق کروالی ہے اور دونوں تیارسازی کی سہولیات کو ISO14001 (ماحول) اور OHSAS 18001 (صحت و حفاظت) آڈٹ سے بھی تصدیق کروالی ہے۔ تیارسازی کی سہولیات نے 50 لاکھ سیف مین ہاورز سنگِ میل بھی عبور کرلیا ہے، اس کے باوجود کے کمپنی مکینکل، الیکٹریکل اور سِول انفرااسٹرکچر اَپ گریڈ کے تحت اچھی خاصی غیر معمولی سرگرمیوں سے بھی گزری ہے۔

انسانی وسائل میں سرمایہ کاری

کمپنی ملازمین کی شمولیت اور فروغ میں یقین رکھتی ہے تا کہ اُن کی چھپی صلاحیتوں کو زیادہ سے زیادہ آشکار کیا جائے۔ ملازمین کی شمولیت کو بڑھانے کے لحاظ سے کمپنی کئی اقدامات کے آغاز کا ارادہ رکھتی ہے تا کہ کام کی جگہ پر اُن کی رنگارنگی، شمولیت اور کام - زندگی توازن کو بہتر سے بہتر بنایا جائے۔ جامع تربیتی پروگرام/کورسز کے انعقاد کے ساتھ فروغِ استعداد پر بھی خاص نظر رکھی جائے گی اور مراکزِ فروغ و نشو و نما متعارف کروائے جائیں گے تا کہ اس بات کو یقینی بنایا جائے کہ ملازمین کمپنی کے اغراض و مقاصد اور طویل المدّتی اہداف کے حصول میں مدد کی غرض سے مطلوب مجموعۂ ہنر و لیاقت سے آراستہ ہیں۔

ڈائریکٹرز رپورٹ

منافع مقسوم

سال 2016ء کے دوران جبکہ کمپنی نے ایک معقول منافع کا اندراج کیا ہے اور اپنے نقدی بہاؤ (Cash Flow) کو بہتر بنایا ہے، تاہم ہم اب بھی ایک خالص قرض خواہی صورتحال میں کام کر رہے ہیں۔ چنانچہ کمپنی کے ڈائریکٹرز نے سال 2016ء کیلئے کوئی بھی منافع مقسوم نہ کرنے کی سفارش کی ہے۔

اہم تبدیلیاں اور وعدے

سال کے دوران کمپنی نے ہولڈنگ کمپنی اور ایسوسی ایٹیڈ انڈر ٹیکنگ (Holding Company and Associated Undertaking) کو -/10 روپے کے ترجیحی حصص کلاس اے (Class A) جن کی تعداد 1,046,400,000 تھی جاری کیے جیسا کہ 28 اکتوبر 2015ء کو منعقدہ غیر معمولی اجلاس میں کمپنی کے شیئر ہولڈرز کی جانب سے منظور کیے گئے۔ اس رقم نے کمپنی کو مالی لاگت میں کمی، اشیا سازی کی سہولیات میں بہتری اور پیداوار میں اضافے اور معیارِ مصنوعات (Product Quality) کو بڑھانے میں ممد و معاون ثابت ہوا ہے۔

ایک منظم ازسرِنو جائزے کے حصّے کے طور پر تاکہ اُمورکار کی استعداد اور عمل مؤثریت کو تسلسل سے بڑھانے اور آنے والے وقت میں مستحکم اور قابل عمل ترقی کیلئے کمپنی نے اپنی ساہیوال اور کوٹری کی فیکٹریز پر ری-اسٹرکچرنگ (re-structuring) کے عمل کو اپنایا۔

قومی خزانے میں حصّہ

کمپنی تسلسل کے ساتھ وفاقی حکومت کے محصولات میں قابل ذکر حصّہ ڈال رہی ہے۔ سال 2016ء میں کمپنی نے وفاقی ایکسائز ڈیوٹیز، کسٹم ڈیوٹیز، سیلز ٹیکس اور انکم ٹیکس کی صورت میں 25.3 ارب روپے جمع کروائے جو کہ 2015ء کے مقابلے میں 2.31% کی کمی کو ظاہر کرتا ہے۔

ادارہ جاتی سماجی ذمہ داری (CSR)

ترقی پذیر ممالک میں اداروں، ملازمین، برادریوں اور سرکاری افسران کیلئے پہلے سے کہیں زیادہ مل کر کام کرنے کی ضرورت ہے تاکہ وہ سماجی مسائل کو جتنے مؤثر اور مستعدی سے ممکن ہو حل کریں۔

کمپنی اپنے ملازمین کے ساتھ اور دیگر حصّے داروں کے ساتھ تعلیم، خواتین کے اختیار، اقتصادی موقع و امکان، اور آفت سے نجات اور تیاری کے خاص میدانوں میں مل کر کام کرنے کی اہمیت کی قدر افزائی کرتی ہے۔ فلپ مورس انٹرنیشنل انکارپوریشن سے اس کے اشتراک کی وجہ سے 2016ء میں کئی اہم سنگ ہائے میل عبور کیے گئے، کچھ سی ایس آر منصوبوں کو 2017ء کی پہلی سہ ماہی تک آگے لے جایا گیا۔ ان منصوبوں کی مختصر تفصیلات درج ذیل ہیں:

- کمپنی تمام فارمز جہاں سے تمباکو حاصل کیا جاتا ہے پر منصفانہ اور محفوظ مزدور طرزِ عمل کو فروغ دینے کا عزم رکھتی ہے۔ زرعی مزدور طرزِ عمل (Agricultural Labor Practice) کمپنی کے وسیع تر گڈ ایگریکلچرل پریکٹسز پروگرام (GAP) کا کلیدی جز ہے۔ جی اے پی کے تحت کمپنی نے سات اہم مقامات کی نشاندہی کی، جس میں سے ایک بچّہ مزدوری کی روک تھام ہے۔ گرمیوں کی چھٹیوں کے دوران جو کہ تمباکو کی کاشتکاری کا وقت ہوتا ہے، ادارۂ تعلیم و آگہی (آئی ٹی اے - مقامی غیر حکومتی ادارہ) نے مقامی حکومتوں کے اسکولز میں سمر کیمپس کا اہتمام کیا۔ سمر کیمپس کا اہم مقصد کاشتکاروں کے بچّوں کو ان کی گرمیوں کی چھٹیوں کے دوران تمباکو کے کھیتوں میں کام کرنے سے روکنا ہے۔ سال 2016ء میں خیبر پختونخوا صوبے کی تین تحصیلوں میں 21 اسکولوں کے اندر سمر اسکول پروگرام کا انعقاد کیا گیا، جن میں 1507 طلباء نے حصّہ لیا۔ مکمل طور پر ڈیسک ٹاپ کمپیوٹرز کی فراہمی کے علاوہ، خیبر پختونخوا کی تین تحصیلوں، ساہیوال، پنجاب، اور کوٹری، سندھ میں 10 سیکنڈری اسکولز میں کمپیوٹر لیبز کے قیام کیلئے رقوم بھی فراہم کی گئیں جس سے ایک سے دو ہزار بچّوں کو فائدہ ہوگا۔
- 2,300 سے زائد خاندانوں کو لیڈی ہیلتھ ورکرز، میڈیکل کیمپس اور کوٹری، ساہیوال اور خیبر پختونخوا کی 3 تحصیلوں میں صحت آگاہی نشستوں کے ذریعے بنیادی طبی نگہداشت اور صحت سے متعلق آگاہی فراہم کی جارہی ہے۔
- ساہیوال، کوٹری اور گوجرانوالہ اضلاع میں 300 خاندانوں سے زیادہ کو بااختیار خواتین کیلئے پائیدار اقدامات کے ذریعے، پیشہ ورانہ تربیت، چھوٹے کاروبار کے قیام میں مدد کیلئے اثاثوں کی تقسیم کے ذریعے مستفید کیا جارہا ہے۔

ڈائریکٹرز رپورٹ

31دسمبر 2016ءکوختم ہونے والے سال کیلئے

فلپ مورس (پاکستان) لمیٹڈ (''کمپنی'') کے بورڈ آف ڈائریکٹرز کی طرف سے مجھے(31دسمبر 2016ءکوختم ہونے والے سال کی) ڈائریکٹرز رپورٹ مع کمپنی کے آڈٹ شدہ مالیاتی گوشوارے پیش کرتے ہوئے خوشی ہے۔

کارکردگی کاجائزہ

31دسمبر 2016ءکوختم ہونے والے سال کیلئے گزشتہ سال کے موازنے میں کلیدی عملی نتائج کا تجزیہ درج ذیل ہے:

	31دسمبر 2016ءکواختتام پذیر سال ملین روپے	فیصد(%)	31دسمبر 2015ءکواختتام پذیر سال ملین روپے	فیصد(%)
مجموعی کاروبار	40,343	100.00	40,157	100.00
مجموعی منافع	6.021	14.92	4,855	12.09
عملی منافع/ (نقصان)	1,133	2.81	(894)	(2.23)
منافع/ (نقصان) قبل از ٹیکس	770	1.91	(1,677)	(4.18)
منافع/ (نقصان) بعد از ٹیکس	575	1.43	(1,315)	(3.27)

سال 2016ءمیں کمپنی کا مجموعی کاروبار ہموار رہا جبکہ سال 2015ء کے موازنے کے مطابق مجموعی منافع %24.01 کے اضافے کے ساتھ بڑھ گیا۔جاری سال کیلئے دیگر اخراجات میں کمی آئی ،جس کی بڑی وجہ 2015ءمیں اعلیٰ ری اسٹرکچرنگ لاگتوں کا زائد کرنا ہے ساتھ ہی عملی استعداد ہائے کار اور اخراجات کی بہتر نظم کاری نے کمپنی کو لگاتار نقصانات کے 5سال کے بعد 575 ملین روپے کا ایک معقول بعد از ٹیکس منافع درج کرنے کے قابل بنایا۔تاہم کم قیمت بنا ٹیکس ادا کردہ تمباکو مصنوعات میں غیر معمولی اضافے کی وجہ سے کمپنی کا کاروباری حجم دباؤ میں رہا جس کی وجہ صارفین کا بنا ٹیکس ادا کردہ تمباکو مصنوعات کا استعمال ہے۔

ایکسائز ٹیکس سے قیمتوں میں مزید اضافہ ہوا ہے جس سے ٹیکس ادا کردہ اور کم قیمت والے بنا ٹیکس ادا کردہ تمباکو مصنوعات میں قیمتوں کا فرق بہت زیادہ ہوجاتا ہے۔ چنانچہ ٹیکس ادا کرنے والی تمباکو صنعت کیلئے ایک غیر منصفانہ ماحول پیدا ہوگیا ہے۔کمپنی اسمگل شدہ اور بنا ٹیکس ادا کردہ سگریٹ (''غیر قانونی تجارت'') کے تنازع سے نمٹنے کیلئے حکومت کے تمام اقدامات اور پالیسیز کی بھرپور حمایت واعانت کرتی ہے۔

کمپنی کی فی حصص آمدن 2016ءمیں 8.79 روپے رہی ہے جوکہ مقابلتاً 2015ءمیں 21.35 روپے فی حصص نقصان رہا ہے۔

انضباط

جولائی 2015ءمیں بین الوزارتی کمیٹی کی سفارشات کے باوجود، گرافکل انتباہِ صحت کو %50 تک کم کرنے کی غرض سے، وزارت صحت نے اب تک %85 گرافکل انتباہِ صحت (''SRO'') میں ترمیم نہیں کی ہے جس سے کمیٹی کی سفارشات کی عکاسی ہو۔اس کی بجائے، وزارتِ صحت کے ماہانہ کی بنیاد پر SRO کے نفاذ کے تسلسل کو جاری رکھا گیا ہے جس سے کاروبار کیلئے غیر یقینی صورتحال پیدا ہوتی ہے۔

عملی صلاحیت

کمپنی تسلسل کے ساتھ اپنی عملی صلاحیتوں کا جائزہ لیتی رہتی ہے اور اس کیلئے سال 2016ءمیں املاک، پلانٹ اور سازوسامان میں 1,452 ملین روپے کی سرمایہ کاری کی گئی ہے۔کمپنی نے یہ سرمایہ کاریاں اشیا سازی کی سہولتوں کو جدید تر بنانے کے ایک جامع منصوبے کے تحت کی ہیں تاکہ مصنوعات کے معیار اور پیداوار میں مجموعی بہتری کا حصول ممکن ہو۔ان سرمایہ کاریوں سے کمپنی کے کاروبار کی طرف عزم اور اس کے مستقبل کی نشوونما میں اعتماد کی پیش بینی کی اس اُمید کے ساتھ عکاسی ہوتی ہے کہ حکومت کی جانب سے ہنگامی بنیادوں پر غیر قانونی تجارت کے غلبے کا تدارک کیا جائے گا۔

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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 21, 2017 and at any adjournment thereof

Signed this____________________ day of ________________ 2017

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.

PHILIP MORRIS (PAKISTAN) LIMITED

فلپ مورس پاکستان لمیٹڈ

فارم برائے نمائندگی

میں/ہم ____

تعلق ____

بطور ممبر فلپ مورس (پاکستان) لمیٹڈ ("مذکورہ کمپنی") تقرری کرتا ہوں/ کرتے ہیں ______________________

تعلق ____

یا بصورت دیگر ____

تعلق ____

جو کمپنی کا/کے ممبر بھی ہے/ہیں اور میری/ہماری جانب سے کمپنی کے شراکت داروں کی 21 اپریل 2017 کو منعقد ہونے والی سالانہ جنرل میٹنگ اور اس کے التوا کی صورت میں (بعد میں) میری/ہماری جانب سے ووٹ ڈال سکیں گے۔

دستخط ______________ دن: ______________ تاریخ: ______________ 2017

فولیو نمبر	سی ڈی سی شریک کا شناختی نمبر	سی ڈی سی اکاؤنٹ/ سب اکاؤنٹ نمبر	حصص کی تعداد

ریونیو مہر پر دستخط

گواہ نمبر 1	گواہ نمبر 2
دستخط: -------------------------	دستخط: -------------------------
نام: -------------------------	نام: -------------------------
قومی شناختی کارڈ نمبر:-------------------------	قومی شناختی کارڈ نمبر:-------------------------
پتہ: -------------------------	پتہ: -------------------------

ہدایات:

1۔ نمائندے کیلئے کمپنی کا ممبر ہونا لازمی ہے۔

2۔ یہاں کیے جانے والے دستخط کا کمپنی کے ریکارڈ میں موجود دستخط سے مماثلت رکھنا ضروری ہے۔

3۔ اگر کسی ایسے ممبر کی جانب سے نمائندگی کی اجازت دی گئی ہے جس نے اپنے شیئرز سنٹرل ڈیپازٹری کمپنی آپ پاکستان میں جمع کروائے ہوں، تو اس صورت میں نمائندے کو شراکت دار کا شناختی نمبر اور سی ڈی سی اکاؤنٹ/سب اکاؤنٹ نمبر کے ساتھ کمپیوٹرائزڈ قومی شناختی کارڈ یا پاسپورٹ کی تصدیق شدہ فوٹو کا پیاں ہمراہ لانا ضروری ہے۔

4۔ نمائندے کو یہ فارم مکمل پُر کر کے ہمراہ تمام ضروری دستاویزات، اجلاس سے کم از کم 48 گھنٹے قبل کمپنی کے شیئر رجسٹرار کے دفتر میں جمع کرانا ہوں گے۔