PHILIP MORRIS (PAKISTAN) LIMITED

2017 Annual Report

PHILIP MORRIS (PAKISTAN) LIMITED

Annual Report December 31, 2017

CONTENTS	PAGES

Corporate Information

BOARD OF DIRECTORS

KAMRAN Y. MIRZA	(Chairman)
ALEXANDER REISCH	(Chief Executive)
HANNAH HEEKYUNG YUN	(until January 15, 2018)
SHARMEN KARTHIGASU	(from January 22, 2018)
JOAO MANUEL	
ANTON STANKOV	
EE WON CHEN	
LT. GEN. (R) TARIQ KHAN	

COMPANY SECRETARY

MUSTAFA KAMAL ZUBERI

AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN	(Chairman)
HANNAH HEEKYUNG YUN	(until January 15, 2018)
SHARMEN KARTHIGASU	(from January 22, 2018)
EE WON CHEN	

HUMAN RESOURCE & REMUNERATION COMMITTEE

JOAO MANUEL	(Chairman)
ALEXANDER REISCH	
HANNAH HEEKYUNG YUN	(until January 15, 2018)
KAMRAN Y. MIRZA	(from March 15, 2018)
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 SWABI 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 49th Annual General Meeting of **PHILIP MORRIS (PAKISTAN) LIMITED** will be held on Thursday, April 26, 2018 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, 2017 together with the Directors' and Auditor's Report thereon.

2. To approve final cash dividend @ 50% i.e. Rs.5 per ordinary share of Rs.10/- each as recommended by the Board of Directors.

3. 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, 2018.

By Order of the Board

MUSTAFA KAMAL ZUBERI
Company Secretary

Karachi: April 4, 2018

NOTES:

1. The share transfer books of the Company will remain closed from April 17, 2018 to April 26, 2018 (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 16, 2018 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, 2017 (the "Company")

This statement is being presented to comply with the Code of Corporate Governance ("CCG") contained in Rule 5.19 of the Listing 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	Sharmen Kartigasu 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. No Casual vacancy has been occurred during the year ended December 31, 2017.

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 Chief Executive Officer (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.

10. The board has approved appointment of Chief Executive Officer (CEO) and Head of Internal Audit, including their remuneration and terms and conditions of appointment.

Statement of Compliance with the Code of Corporate Governance

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

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

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

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

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

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

17. The board has formed a Human Resource and Remuneration Committee. It comprises of three members, of whom two are non-executive directors, including the chairman of the committee.

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

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

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing 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 15, 2018

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, 2017 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, 2017.

A.F. FERGUSON & CO.
Chartered Accountants

Karachi: March 28, 2018

Review Report by the Chairman on Board's Overall Performance U/S 192 of the Companies Act, 2017 for yhe Year Ended December 31, 2017:

As required under the Code of Corporate Governance, an annual evaluation of the Board of Directors of (the "Board") Philip Morris (Pakistan) Limited (the "Company") has been carried out in consort with an independent third party - A.F. Ferguson & Co. The purpose of this evaluation is to assess the Board's overall performance and effectiveness which is measured and benchmarked against expectations in the context of objectives set for the Company. Areas of improvement are duly considered and action plans accordingly framed. The Board has recently completed its annual self-evaluation for the year ended December 31, 2017 and I report that: The overall performance of the Board measured on the basis of approved criteria for the year was satisfactory. The overall assessment as Satisfactory is based on an evaluation of the following integral components, which have a direct bearing on Board's role in achievement of the Company's objectives:

1. Vision, mission and values:

Board members are familiar with the current vision, mission and values. The Board revisits the mission and vision statement from time to time.

2. Engagement in strategic planning:

The Board has a clear understanding of the stakeholders (shareholders, customers, employees, vendors, Society at large, etc.) whom the Company serves. The Board has a strategic vision of how the organization should be evolving.

3. Diligence:

The Board members diligently performed their duties, having reviewed, discussed and approved Business Strategies, Corporate Objectives, plans, budgets, financial statements and other reports. It received clear / concise agendas and supporting written material in sufficient time prior to board and committee meetings. The board met at least once per Quarter to adequately discharge its responsibilities.

4. Monitoring of organization's business activities:

The Board was periodically updated with respect to the status of the Company's objectives, goals, strategies and financial performance through regular presentations by the management, internal / external auditors and other independent consultants (when engaged). The Board provided appropriate direction and oversight on a timely basis.

5. Diversity and Mix:

The Board members are sufficiently diverse and each member brings a plethora of experience in various fields. The constitution is a mix of independent and non-executive directors. The non-executive and independent directors are equally involved in important board decisions.

6. Governance and Control Environment:

The Board has effectively put in place a transparent, proactive and robust system of governance. Further, the Board has seen to the implementation of an effective control environment, compliance with local as well as global best practices and promoting ethical / fair behavior across the company.

KAMRAN Y. MIRZA
Chairman

Karachi: March 15, 2018

Directors' Report

FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2017 in comparison with the previous year is as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Rs. million	%	Rs. million	%
Gross Turnover	30,144	100.00	40,343	100.00
Gross Profit	5,078	16.85	6,021	14.92
Operating Profit	565	1.87	1,133	2.81
Profit before tax	476	1.58	770	1.91
Profit after tax	191	0.63	575	1.43

During 2017, the Company's gross turnover decreased significantly by 25.28% compared to 2016, attributable to the decline in sales volumes in the first half of the year as a result of exponential increase of the non-tax paid cigarettes segment ("Illicit Trade") which continues to impact the underlying demand for our products. At the same time, management contained inflationary pressures with operational efficiencies and effective cost management. Other expenses for the current year decreased, mainly due to one-off restructuring costs in 2016. Overall, the Company recorded a Profit after tax of PKR 191 million for the year ended 2017, compared to a Profit after tax of PKR 575 million in 2016.

After the change in the structure of excise in the 2017/18 federal budget and following improved enforcement efforts to curb illicit trade, the Company saw a recovery of volumes, evident in its results for the second half of the year. The Company is actively supporting all government policies and actions to address the issue of smuggled and non-tax paid cigarettes.

The Company posted a profit of Rs. 191 million for the year and paid dividends in excess to the profit, which have been set-off against reserves and earnings brought forward. The Company is reporting a loss per share of Rs.1.89 in 2017 due to payment of Interim Cash Dividend of Rs.307 million paid to the Preference Shareholders of the Company (see note 28 of the financial statements). Had there been no payment of dividend to the Preference Shareholders, the Company's earnings per share would have been Rs. 3.10. Notably, the Company also paid Interim Cash Dividend to Ordinary Shareholders of Rs. 615.80 million.

REGULATORY

After 35 months of continuous engagements, the Prime Minister of Pakistan approved the decision to implement the recommendation of the Inter-Ministerial Committee (IMC, which was formed in July 2015 to deliberate on the size of new Graphical Health Warning - GHW) during the Cabinet meeting held on November 24, 2017. Subsequently, the Ministry of Health issued a Statutory Regulatory Order (SRO) on December 19, 2017 to increase the Graphical Health Warning from current 40% to at least 50% of the pack (front and back) effective from June 1, 2018, and another 10% increase to 60% GHW on both front and back of the cigarette pack effective from June 1, 2019.

OPERATIONAL CAPACITY

In 2017, the Company invested in property, plant and equipment amounted to Rs.662 million mainly on account of maintenance projects and continued to streamline its footprints for the future by eliminating non-productive and obsolete assets. These investments and initiatives reflect the Company's commitment towards the business and confidence in its future growth.

DIVIDEND

The Board approved and paid interim cash dividend of 100% (i.e. PKR 10 per Ordinary Share) during the year to the shareholders of the Company and at close of the current financial year the Directors are pleased to propose a final cash dividend of 50% (i.e. PKR 5 per ordinary share) subject to the approval by the members at the Annual General Meeting.

The dividend payout ratio is 874% approximately of the net profit after tax for the year.

The Board of Directors also approved and paid interim cash dividend of 2.94% (i.e. PKR 0.294 per Preference Share) during the year to the Preference Shareholders of the Company and at close of the current financial year the Directors are pleased to propose a final cash dividend of 4.20 % (i.e. PKR 0.42 per Preference Share).

It is of note that the 2017 interim cash dividend is the highest ever in the history of the company and after 6 challenging years where the company conserved cash by foregoing dividends to its shareholders. The final dividend also indicates the commitment of the board and the management to continue provide value to shareholders.

APPROPRIATION OF PROFIT

Profit for the year has been appropriated as follows:

	(Rupees in 000's)
Profit available for appropriation including profit for the Year 2017	2,972,054
Appropriation:	
Interim Cash Dividends:	
Interim cash dividend @ PKR 10 per Ordinary Share	(615,803)
Interim cash dividend @ PKR 0.294 per Preference Share	(307,197)
Final Dividends:	
Final cash dividend @ PKR 5 per Ordinary Share	(307,902)
Final cash dividend @ PKR 0.420 per Preference Share	(439,488)
Revenue Reserves (post dividend payment)	1,301,664

CONTRIBUTION TO THE NATIONAL EXCHEQUER

The Company continues to make substantial contribution to the Federal Government's revenues. In 2017, the Company contributed Rs.15.6 billion to the national Exchequer in the form of Federal Excise Duties, Custom Duties, Sales Tax and Income Tax, which represents a decrease of 38.33% compared to 2016.

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. In 2017, the Company continued its collaboration with Philip Morris International Inc. and partner NGOs to achieve significant milestones, with some CSR projects being carried forward to the first quarter of 2018. 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, including the need to curb child labor on tobacco farms. During summer vacations, 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 farmers' children from working in the tobacco farms during their summer holidays. In 2017, the Summer School Program was conducted in 21 schools in two districts of Khyber Pakhtunkhwa province (KPK), catering to more than 1700 students. Under this program, fun-based learning activities and Literature Festivals were also held to promote the reading habit among children. Further, school upgradation projects are being undertaken in Kotri, Sahiwal and KPK to uplift their infrastructure and install solar panels.

- Providing basic medical care and health awareness to more than 1800 families through community mobilization by Lady Health Workers, medical camps and health awareness sessions in Kotri, Sahiwal and 2 districts of KPK.

- Installation of 32 hand pumps and filtration plants for clean drinking water, dissemination of hygiene kits and hygiene awareness community sessions in 2 districts of KPK, Sahiwal and Hafizabad in Punjab, and Kotri in Sindh, serving more than 3000 community members.

- Reaching out to domestic violence affected female victims by funding reconstructive surgeries for 48, along with psycho-social support and vocational trainings for them across Pakistan.

- Enhance the socio-economic inclusion of 300 women with disabilities by forming community-based groups, building capacity of stakeholder groups for advocacy of their rights and sensitizing general community on issues faced by these women.

The Company in committed to continuing with its sustainable charitable programs to benefit local communities and increase employees' engagement in 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. Both manufacturing sites at Kotri and Sahiwal received an "Excellent" rating (6/6) from Bureau Veritas and a "Very Good" rating (4/6) for the threshing site in Mardan after being audited on the ISO 14001 (environment) and OHSAS 18001 (health & safety) standards. 2017 was the year when the company started focusing on health and safety concerns beyond operations as well, this means all our sales offices, external warehouses, head offices and fleet were formally made part of the Environment Health and Safety scope. The Company exceeded its targets for minimizing injuries and accidents both in the operations and in the fleet and is committed to bring in continuous improvement throughout the organization.

INVESTMENT IN HUMAN RESOURCE

To engage employees and enable them to deliver their best through an inclusive environment, the company continually invests in talent through development platforms, comprehensive learning programs, cross-functional exposure and international experiences. The company strives to foster a culture that places people at the core of everything it does, celebrates diversity, is forward looking, and provides equal opportunity to all to help the company achieve its objectives and long-term goals.

CODE OF CORPORATE GOVERNANCE

Directors of the Company are aware of their responsibilities under the Listed Companies (Code of Corporate Governance) Regulations 2017 (Code) issued by the Securities & Exchange Commission of Pakistan. Your Company has taken all necessary steps to ensure Good Corporate Governance and full compliance of 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;
- 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, 2017 and for the last six financial years are set out on pages 19; 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	628	(Financial statements audited as of December 31, 2016)
Gratuity Fund	500	(Financial statements audited as of December 31, 2016)

HOLDING COMPANY

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

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

CHANGES IN THE BOARD OF DIRECTORS

The term of the Board ended on September 26, 2017 and the Election of Directors was held on the same date, re-electing all previous members of the Board. However in February, 2018, Ms. Hannah Heekyung Yun resigned and Mr. Sharmen Karthigasu joined the Board as non-executive director.

Furthermore, during March 2018, Ms. Faiza Kapadia Raffay resigned and Mr. Mustafa Kamal Zuberi joined as a Company Secretary.

ELECTION OF DIRECTORS

The Election of Directors was held during the year on September 26, 2017. Subsequently, Company's Audit Committee and Human Resource & Remuneration Committee were formed.

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). The Board consists of 6 Male Directors and 1 Female Director.

During 2017, 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	4
Lt. Gen. (R) Tariq Khan	5
Anton Stankov	5
Ee Won Chen	4
Hannah Heekyung Yun	-
Joao Manuel	-

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

BOARD AUDIT COMMITTEE

The Audit Committee performs according to the terms of reference determined by the Board of 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.

As at year end 2017 the following Directors were acting as members of the Audit Committee;

1. Lt. Gen. (R) Tariq Khan
2. Hannah Heekyung Yun
3. Ee Won Chen

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	4
Ee Won Chen	3
Hannah Heekyung Yun	4

Leave of absence was granted to the Director who could not attend the Audit Committee meeting.

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

Current HR&R Committee consists of three members, comprising of a non-executive, Independent and executive director.

As at year end 2017 the following Directors were acting as members of the HR&R Committee.

1. Joao Manuel
2. Hannah Heekyung Yun
3. Alexander Reisch

During 2017, no meeting has been held by the HR&R Committee.

EVALUATION OF BOARD'S PERFORMANCE

The Company has appointed A. F. Ferguson & Co., Chartered Accountants as the consultant to compile and present a written report on the results of Board's Performance Evaluation Exercise.

TRAINING OF DIRECTORS

During the year, the board arranged a training program offered by the Pakistan Institute of Corporate Governance, for one of its director.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2017 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, 2018. 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 2017. 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 capitalizing the level playing field that introduction of the 2017 Finance Act fiscal structure has offered to deliver 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 enhanced product quality, optimization of manufacturing practices and facilities, development of human resources and continued emphasis on effectively managing the cost base.

The company launched L&M in Q4'17 as a value offering to adult smokers and a better alternate to low-price illicit cigarettes. While still early days, we see promising results in the cities where we have expanded the distribution of this brand.

The Company aims to remain keenly focused on conserving cash to give reasonable dividends to its shareholders. However, the future remains challenging and highly dependent on the continuation of the excise tax reforms that were implemented in June 2017.

ACKNOWLEDGEMENTS

The Directors wish to take this opportunity to thank all the Company's employees for their efforts, dedication, commitment and support in 2017.

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	**Alexander Reisch**
Chairman	Chief Executive

Karachi, March 15, 2018

Pattern of Holding of Shares

AS AT DECEMBER 31, 2017
INCORPORATION NUMBER - 0002832

NUMBER OF SHAREHOLDERS (Ordinary Shareholders)	SHAREHOLDING		SHARES HELD
	From	- To	
889	1	100	18,930
330	101	500	85,260
119	501	1000	84,602
179	1001	5000	348,328
20	5001	10000	137,560
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	600001	605000	603,079
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	76	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	3,940	0.01%
Insurance Companies	21,206	0.03%
Shareholders holding 5% and above	60,135,410	97.65%
General Public (Local)	755,545	1.23%
Others	664,106	1.08%

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

Karachi: March 15, 2018

KAMRAN Y. MIRZA
Chairman

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

CATEGORIES OF SHAREHOLDERS (Ordinary Shareholders)	NO. OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES	
PHILIP MORRIS INVESTMENTS B.V.	47,819,350
PHILIP MORRIS BRANDS SARL	12,316,060
	60,135,410
DIRECTORS AND THEIR SPOUSE(S) AND MINOR CHILDREN	
MR. KAMRAN Y. MIRZA	50
LT.GEN.(R).TARIQ KHAN	20
MR. ANTON STANKOV	2
MR. ALEXANDER REISCH	1
MR. JOAO MANUEL	1
MS. HEE KYUNG YUN	1
MS. EE WON CHEN	1
	76
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	580
PAKISTAN REINSURANCE COMPANY LIMITED	21,206
	25,204
SHAREHOLDERS HOLDING 5% OR MORE VOTING RIGHTS IN THE LISTED COMPANY	
PHILIP MORRIS INVESTMENTS B.V.	47,819,350
PHILIP MORRIS BRANDS SARL	12,316,060
	60,135,410

Pattern of Shareholding - (Preference Shareholder)

DETAILS AS AT DECEMBER 31, 2017

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, 2017

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

	2017	2016	2015	2014	2013	2012 (Restated)
	Year ended December 31					
	(Rupees in thousand)					
Share Capital						
- Ordinary shares	615,803	615,803	615,803	615,803	615,803	615,803
- Preference shares	10,464,000	10,464,000	-	-	-	-
Transaction cost on issuance of Preference						
- net of tax	(33,911)	(33,911)	-	-	-	-
Reserves	1,855,384	2,544,144	2,033,524	3,373,047	4,877,776	5,337,282
Share Holders' Equity	**12,901,276**	**13,590,036**	**2,649,327**	**3,988,850**	**5,493,579**	**5,953,085**
TOTAL CAPITAL EMPLOYED	**12,901,276**	**13,590,036**	**2,649,327**	**3,988,850**	**5,493,579**	**5,953,085**
Fixed assets	7,818,958	8,517,170	8,048,391	7,416,512	6,902,926	5,389,680
Investment in a subsidiary company	1	1	1	1	1	1
Long-term loans, deposits & prepayments	45,825	39,762	37,452	36,760	41,101	41,347
Deferred taxation	678,585	761,323	937,354	527,615	379,978	6,887
Working capital	4,357,907	4,271,780	(6,373,871)	(3,992,038)	(1,830,427)	515,170
TOTAL ASSETS	**12,901,276**	**13,590,036**	**2,649,327**	**3,988,850**	**5,493,579**	**5,953,085**
Turnover	30,143,938	40,343,161	40,157,144	38,045,693	35,984,891	35,552,536
Profit / (Loss) before tax	476,315	769,888	(1,676,939)	(1,513,269)	(708,860)	(622,042)
Profit / (Loss) after tax	191,008	575,157	(1,315,008)	(1,482,455)	(441,458)	(574,384)
Dividends declared (Cash)	(923,000)	-	-	-	-	-
	(Rupees)					
Break-up value of shares	209.50	220.69	43.02	64.77	89.21	96.67
Net Earning / (Loss) per Share	(1.89)	8.79	(21.35)	(24.07)	(7.17)	(9.33)

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Philip Morris (Pakistan) Limited as at December 31, 2017 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, 2017 and of the profit, its changes in equity and cash flows for the year then ended; and

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

A.F. FERGUSON & CO.
Chartered Accountants
Audit Engagement Partner: Khurshid Hasan

Karachi: March 28, 2018

Balance Sheet

AS AT DECEMBER 31, 2017

	Note	2017	2016
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
Fixed assets			
- Property, plant and equipment	3	7,798,935	8,487,261
- Intangibles	4	20,023	29,909
		7,818,958	8,517,170
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments	6	45,825	39,762
Deferred taxation	7	678,585	761,323
		8,543,369	9,318,256
CURRENT ASSETS			
Stores and spares - net	8	238,690	379,229
Stock in trade - net	9	6,204,581	7,273,187
Trade debts - net	10	36,458	1,523
Advances	11	35,160	33,278
Prepayments		63,715	92,828
Other receivables	12	312,729	210,304
Income tax - net		614,001	578,775
Staff retirement benefits	13	97,048	31,538
Cash and bank balances	14	256,100	108,093
		7,858,482	8,708,755
TOTAL ASSETS		16,401,851	18,027,011
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital	15	12,000,000	12,000,000
Issued, subscribed and paid-up capital			
- Ordinary shares	15	615,803	615,803
- Preference shares	15	10,464,000	10,464,000
		11,079,803	11,079,803
Transaction cost on issuance of preference shares - net of tax		(33,911)	(33,911)
		11,045,892	11,045,892
Reserves		5,230,330	6,137,315
Unappropriated loss		(3,374,946)	(3,593,171)
TOTAL EQUITY		12,901,276	13,590,036
CURRENT LIABILITIES			
Short term borrowings	17	-	1,338,557
Trade and other payables	18	3,155,873	2,643,360
Accrued mark-up on short term borrowings		33	7,249
Sales tax and excise duty payable		344,669	447,809
TOTAL LIABILITIES		3,500,575	4,436,975
TOTAL EQUITY AND LIABILITIES		16,401,851	18,027,011
CONTINGENCIES AND COMMITMENTS	19		

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

Karachi: March 15, 2018

KAMRAN Y. MIRZA
Chairman

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Chief Financial Officer

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		(Rupees in thousand)	
Turnover - net	20	13,966,525	14,213,338
Cost of sales	21	8,888,275	8,192,406
Gross profit		5,078,250	6,020,932
Distribution and marketing expenses	22	2,926,658	2,941,858
Administrative expenses	23	1,355,237	1,352,482
Other expenses	24	396,448	783,481
Other income	25	(165,210)	(189,480)
		4,513,133	4,888,341
Operating profit		565,117	1,132,591
Finance cost and bank charges	26	88,802	362,703
Profit before taxation		476,315	769,888
Taxation	27	285,307	194,731
Profit after taxation		191,008	575,157
Other comprehensive income for the year - net of tax			
Item that will not be reclassified to profit or loss			
Remeasurement income / (expense) relating to staff retirement benefits	13	25,084	(92,439)
- Current tax		(7,525)	56,348
- Deferred tax		-	(28,552)
		(7,525)	27,796
Total items that will not be reclassified to profit and loss		17,559	(64,643)
Total comprehensive income for the year		208,567	510,514
		(Rupees)	
(Loss) / Earnings per share - basic and diluted (after adjustment of preference dividend)	28	(1.89)	8.79

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

Karachi: March 15, 2018

KAMRAN Y. MIRZA
Chairman

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Chief Financial Officer

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2017

	Issued, subscribed and paid-up capital		Transaction cost on issuance of preference shares - net of tax	General reserve	Reserve for share based payments	Remeasurement of staff retirement gratuity plan - net of tax	Subtotal Reserves	Unappropriated loss	Total
	Ordinary shares	Preference shares							
	------- (Rupees in thousand) -------								
Balance as at January 1, 2016	615,803	-	-	6,347,000	6,392	(151,540)	6,201,852	(4,168,328)	2,649,327
Transactions with owners									
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)
(note 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
Transaction with owners									
- Interim cash dividend for the year ended December 31, 2017 (note 15.8)	-	-	-	(923,000)	-	-	(923,000)	-	(923,000)
- Reversal of unclaimed dividend (note 18.5)	-	-	-	-	-	-	-	27,217	27,217
Share-based payment									
- expense	-	-	-	-	21,008	-	21,008	-	21,008
- recharge	-	-	-	-	(22,552)	-	(22,552)	-	(22,552)
(note 2.4.17)	-	-	-	(923,000)	(1,544)	-	(924,544)	27,217	(897,327)
Total comprehensive income									
Profit after taxation for the year ended December 31, 2017	-	-	-	-	-	-	-	191,008	191,008
Other comprehensive income for the year	-	-	-	-	-	17,559	17,559	-	17,559
	-	-	-	-	-	17,559	17,559	191,008	208,567
Balance as at December 31, 2017	615,803	10,464,000	(33,911)	5,424,000	4,964	(198,624)	5,230,330	(3,374,946)	12,901,276

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

Karachi: March 15, 2018

KAMRAN Y. MIRZA
Chairman

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Chief Financial Officer

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	32	**3,320,143**	3,425,856
Staff retirement gratuity paid		**(73,491)**	(73,300)
Finance cost paid		**(75,492)**	(402,834)
Profit received on deposit accounts		**15,220**	6,147
Income taxes (paid) / refund received		**(245,320)**	243,496
Long term deposits and prepayments		**(6,063)**	(2,310)
Amount deposited with a commercial bank as security		**-**	(18,861)
Net cash generated from operating activities		**2,934,997**	3,178,194
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		**(662,156)**	(1,451,653)
Acquisition of intangibles		**(4,660)**	(18,502)
Proceeds from disposal of items of property, plant and equipment		**129,453**	77,984
Net cash used in investing activities		**(537,363)**	(1,392,171)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		**(911,420)**	-
Preference shares issued		**-**	10,464,000
Transaction cost on issuance of preference shares paid		**-**	(48,493)
Short term loans obtained		**27,097,000**	13,582,400
Repayment of short term loans		**(27,096,650)**	(20,912,500)
Net cash generated (used in) / from financing activities		**(911,070)**	3,085,407
Net increase in cash and cash equivalents during the year		**1,486,564**	4,871,430
Cash and cash equivalents at the beginning of the year		**(1,249,325)**	(6,120,755)
Cash and cash equivalents at the end of the year	33	**237,239**	(1,249,325)

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

Karachi: March 15, 2018

KAMRAN Y. MIRZA
Chairman

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Chief Financial Officer

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 the Companies Act, 2017). 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/233/619/2002/658 dated February 10, 2017 from the requirement of section 237(8) of the repealed 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. As per the requirements of circular No. CLD/CCD/PR(11)/2017 dated July 20, 2017 and circular No. 23 of 2017 dated October 4, 2017 issued by the SECP, companies where the financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Accordingly, 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, amendments to approved accounting standards and interpretations.

2.2.1 Amendments to approved accounting standards effective during the year ended December 31, 2017:

Amendment to IAS 7 'Statement of cash flows': This amendment requires disclosure to explain changes in liabilities for which cash flows have been, classified as financing activities in the cash flow statement. The amendment only covers balance sheet items for which cash flows are classified as financing activities. In case other items are included within the reconciliation, the changes in liabilities arising from financing activities are identified separately. A reconciliation of the opening to closing balance is not specifically required but instead the information can be provided in other ways. In the first year of adoption, comparative information need not be provided. This amendment has resulted an additional disclosure (i.e. note 17.2) in these financial statements.

The other amendments to the approved accounting standards which became effective during the year ended December 31, 2017 are considered not to be relevant or to have any significant impact on the Company's financial reporting and operations and are therefore not disclosed in these financial statements.

2.2.2 Standards, amendments to approved accounting standards and interpretations that are effective for the Company's accounting periods beginning on or after January 1, 2018:

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, 2018. However, the amendments will not have a significant impact on the financial reporting of the Company and, therefore, have not been disclosed in these financial statements. During the current year, the SECP has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Customers', the impacts of which on the Company's future financial statements are being assessed to be minimal. Further, certain new standards are yet to be adopted by the SECP.

In addition to the foregoing, the Companies Act, 2017 which is not effective on these financial statements has added certain disclosure requirements which will be applicable to future accounting periods.

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 affect 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 the management are capitalised. All other assets are charged to income in the year when acquired.

Depreciation is charged to income applying the straight-line method so as to write off the historical cost of the assets over their estimated useful lives at the rates stated in note 3.1 below. Depreciation on additions is charged from the month in which the asset is put to use and on disposals up to 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 Intangible

Intangible assets are recognised when it is probable that the expected future economic benefits will flow to the Company and the cost of the asset can be measured reliably. Cost of the intangible asset (i.e. computer 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. Impairment losses are charged to income for the amount by which the asset's carrying amount exceeds its recoverable amount. Reversal of impairment losses are 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 its financial instruments in the following categories:

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

- Financial instruments 'held-for-trading'

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

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

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

(b) Held to maturity

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

(c) Loans and receivables originated by the enterprise

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

(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.

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 liability is disclosed when:

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or
- there is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.4.11 Taxation

(i) Current

Provision for current taxation is the amount computed on taxable income at the current rates of taxation 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 is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply 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 valuation and 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 (i.e. 'remeasurements') 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 comprise the manufacture, distribution and sale of cigarettes and other tobacco products.

	Note	2017	2016
		(Rupees in thousand)	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	**7,260,775**	7,657,261
Capital work-in-progress (CWIP)	3.2	**538,160**	822,576
Major capital spares and stand-by equipment		**-**	7,424
		7,798,935	8,487,261

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, 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
Year ended December 31, 2016												
Transfers from CWIP see note 3.2.1	-	-	233,162	-	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 - 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)	(17,564)	(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
Year ended December 31, 2017												
Transfers from CWIP see note 3.2.1	-	-	124,551	-	50,632	287,913	46,328	1,734	9,904	135,377	280,740	937,179
Disposals												
Cost	(13,754)	-	(27,455)	-	-	(558)	(6,909)	(2,378)	(38,830)	-	(12,573)	(102,457)
Accumulated depreciation	-	-	7,794	-	-	558	6,815	2,378	28,345	-	12,573	58,463
	(13,754)	-	(19,661)	-	-	-	(94)	-	(10,485)	-	-	(43,994)
Write-offs - note 24												
Cost	-	-	(28,874)	-	(2,037)	(99,983)	(222,195)	(6,833)	(599)	(20,033)	(36,712)	(417,266)
Accumulated depreciation	-	-	6,605	-	461	73,177	182,518	4,297	471	12,751	31,110	311,390
	-	-	(22,269)	-	(1,576)	(26,806)	(39,677)	(2,536)	(128)	(7,282)	(5,602)	(105,876)
Impairment - note 3.1.3 & 24												
Cost	-	-	(989)	-	-	(212,438)	-	-	-	(42,076)	-	(255,503)
Accumulated depreciation	-	-	528	-	-	155,009	-	-	-	16,201	-	171,738
	-	-	(461)	-	-	(57,429)	-	-	-	(25,875)	-	(83,765)
Depreciation charge - note 3.1.1	-	(90)	(37,512)	(1,505)	(61,348)	(560,985)	(53,044)	(22,227)	(128,889)	(71,354)	(163,076)	(1,100,030)
Net book value as at December 31, 2017	99,396	1,289	1,308,130	26,603	14,253	4,386,135	60,753	24,519	245,527	732,600	361,570	7,260,775
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
At December 31, 2017												
Cost	99,396	2,441	1,718,352	60,190	269,681	8,087,336	144,108	120,174	879,918	1,219,422	819,359	13,421,377
Accumulated depreciation	-	(1,123)	(408,760)	(33,587)	(255,428)	(3,426,274)	(82,597)	(94,955)	(634,391)	(436,639)	(457,281)	(5,831,035)
Accumulated impairment	-	(29)	(2,462)	-	-	(274,927)	(758)	(700)	-	(50,183)	(508)	(329,567)
Net book value	99,396	1,289	1,308,130	26,603	14,253	4,386,135	60,753	24,519	245,527	732,600	361,570	7,260,775
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%	

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

	Note	2017	2016
		(Rupees in thousand)	
Purchases, redrying and related expenses	21.1	**66,026**	67,507
Manufacturing expenses	21.2	**774,021**	589,533
Distribution and marketing expenses	22	**179,811**	114,958
Administrative expenses	23	**80,172**	124,746
		1,100,030	896,744

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 255.503 million (2016: Rs 162.753 million) and Rs 83.765 million (2016: Rs 60.644 million) respectively have been written down to Rs Nil in these financial statements as at December 31, 2017.

3.2 Capital work-in-progress

	2017	2016
Civil works	**14,190**	22,886
Plant and machinery	**163,683**	324,384
Power and other installations	**202,285**	295,340
Furniture and fixtures	**73,385**	96,727
Computer equipment's pending installations	**7,137**	51,965
Advance to suppliers and contractors	**77,480**	31,274
	538,160	822,576

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

	2017	2016
Balance as at beginning of the year	**822,576**	1,650,223
Additions during the year		
- Civil works	**166,487**	177,293
- Plant and machinery	**127,212**	892,575
- Power and other installations	**48,079**	109,984
- Furniture and fixtures	**26,622**	61,008
- Computer equipment pending installations	**235,912**	184,649
- Advance to suppliers and contractors	**57,844**	25,451
	662,156	1,450,960
Transfers to operating property, plant and equipment		
- Buildings on freehold land	**124,551**	233,182
- Leasehold improvements	**50,632**	31,302
- Plant and machinery	**287,913**	1,669,324
- Furniture and fixtures	**46,328**	18,320
- Office equipment	**1,734**	12,901
- Vehicles	**9,904**	18,272
- Power and other installations	**135,377**	101,301
- Computer equipment	**280,740**	194,005
	937,179	2,278,607
Balance Carried forward	**547,553**	822,576

	Note	2017	2016
		(Rupees in thousand)	
Balance brought forward		**547,553**	822,576
Items written off during the year			
- Power and other installations		**5,757**	-
- Furniture and fixtures		**3,636**	-
		9,393	-
Balance at the end of the year		**538,160**	822,576

4. INTANGIBLES

Computer software

	Note	2017	2016
At January 1			
Cost		**71,741**	53,239
Accumulated amortisation		**(41,832)**	(30,531)
Net book value		**29,909**	22,708
Year ended December 31			
Additions		**4,660**	18,502
Write offs			
Cost		**(2,847)**	-
Accumulated amortisation		**1,584**	-
		(1,263)	-
Amortisation for the year	4.1	**(13,283)**	(11,301)
Net book value as at December 31		**20,023**	29,909
At December 31			
Cost		**73,554**	71,741
Accumulated amortisation		**(53,531)**	(41,832)
Net book value		**20,023**	29,909

4.1 Amortisation for the year relates to purchases, redrying and related expenses (note 21.1), 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, 2017 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, 2017 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, 2017.

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.

6. LONG TERM DEPOSITS AND PREPAYMENTS

	2017	2016
	(Rupees in thousand)	
Deposits	**45,825**	36,682
Prepayments	**-**	3,080
	45,825	39,762

7. DEFERRED TAXATION

	2017	2016
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	**2,472**	2,131
Unutilised tax losses and credit	**1,336,497**	1,448,262
Provision for spares	**25,149**	20,513
Provision for obsolete stocks	**11,400**	15,609
Provision for doubtful debts	**834**	809
Worker's welfare fund	**8,276**	-
	1,384,628	1,487,324
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	**(706,043)**	(726,001)
Deferred tax asset	**678,585**	761,323

7.1 The movement in temporary differences is as follows:

	Balance as at January 1, 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at December 31, 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at December 31, 2017
	Rupees in '000						
Deferred tax debits:							
Accrual for employees compensated absences	2,696	(565)	-	2,131	341	-	2,472
Amortisation of intangibles	99	(99)	-	-	-	-	-
Unutilized tax losses and credit	1,457,432	19,382	(28,552)	1,448,262	(111,765)	-	1,336,497
Provision for spares	49,283	(28,770)	-	20,513	4,636	-	25,149
Provision for obsolete stocks	12,845	2,764	-	15,609	(4,209)	-	11,400
Provision for doubtful debts	813	(4)	-	809	25	-	834
Worker's welfare fund	-	-	-	-	8,276	-	8,276
	1,523,168	(7,292)	(28,552)	1,487,324	(102,696)	-	1,384,628
Deferred tax Credits:							
Tax depreciation allowance	(585,814)	(140,187)	-	(726,001)	19,958	-	(706,043)
	937,354	(147,479)	(28,552)	761,323	(82,738)	-	678,585

7.2 The applicable income tax rate for the current year was reduced from 31% to 30% through the Finance Act, 2017. Further, income tax rate for future years have been enacted for the years ending on December 31, 2018 and thereafter at 30%.

7.3 The accumulated tax losses and credits of the Company as at December 31, 2017 aggregated Rs 4,454.990 million (2016: Rs 4,909.884 million) and Rs Nil (2016: Rs 19.485) respectively, in respect of which the Company has recognised deferred tax asset amounting to Rs 1,336.497 million (2016: Rs 1,448.262 million). The existing unutilised tax losses represent tax depreciation and amortisation, which can be utilised for an indefinite period against future profits. The Company carries out periodic assessments to determine if the Company would be able to set off these charges 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.

8. STORES AND SPARES - net

	Note	**2017**	**2016**
		(Rupees in thousand)	
Stores		**4,520**	4,761
Spares	8.4	**318,003**	444,961
		322,523	449,722
Less: Provision for slow moving spares	8.1	**(83,833)**	(70,493)
		238,690	379,229

8.1 Provision for slow moving spares

Opening balance		**70,493**	168,489
Provision made during the year		**15,540**	55,826
Write off against provision	8.2	**(2,200)**	(153,822)
Closing balance		**83,833**	70,493

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 Items written off directly during the year amounted to Rs 104.860 million.

8.4 This includes spares in transit amounting to Rs 5.187 million (2016: Rs 1.999 million).

9. STOCK IN TRADE - net

	Note	2017	2016
		(Rupees in thousand)	
Raw and packing materials	9.2	**5,747,841**	6,992,580
Work-in-process		**107,962**	124,732
Finished goods		**386,779**	209,516
		6,242,582	7,326,828
Less: Provision for obsolete stocks	9.1	**(38,001)**	(53,641)
		6,204,581	7,273,187

9.1 Provision for obsolete stocks

Opening balance	**53,641**	43,917
Provision made during the year	**18,256**	58,544
Write off against provision	**(33,896)**	(48,820)
Closing balance	**38,001**	53,641

9.2 These include raw and packing material in transit aggregating Rs 181.608 million (2016: Rs 160.723 million).

10. TRADE DEBTS - net

	Note	2017	2016
		(Rupees in thousand)	
Considered good - unsecured		**36,458**	1,523
Considered doubtful		**2,780**	2,780
		39,238	4,303
Less: Provision for doubtful debts		**(2,780)**	(2,780)
		36,458	1,523

11. ADVANCES

Considered good - unsecured			
Advances to:			
- Employees and executives	11.1 & 11.2	**18,547**	13,189
- Suppliers and contractors		**16,613**	20,089
		35,160	33,278

11.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 14.094 million (2016: Rs 16.304 million). Further, amounts due from executives as at December 31, 2017 aggregated Rs 8.854 million (2016: Rs 10.575 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	2017	2016
		(Rupees in thousand)	
Receivable from 'associated undertakings'	12.1	**302,576**	203,407
Others		**10,153**	6,897
		312,729	210,304

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

	Note	2017	2016
		(Rupees in thousand)	
Philip Morris Products S.A.		**510**	-
Philip Morris Services S.A.	12.2	**301,329**	199,420
PMFTC Inc.		**-**	550
Philip Morris Asia Limited		**-**	335
Philip Morris Services India S.à.r.l.		**737**	705
Philip Morris Limited		**-**	868
PT Hanjaya Mandala Sampoerna TBK		**-**	1,529
		302,576	203,407

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, 2017.

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 are as follows:

	Note	2017	2016
		(Rupees in thousand)	
13.1.1 Net Asset			
Fair value of plan assets	13.1.5	**540,363**	487,536
Present value of defined benefit obligation	13.1.6	**(443,315)**	(455,998)
		97,048	31,538

	Note	2017	2016
		(Rupees in thousand)	
13.1.2 Amounts charged to profit and loss account:			
Current service cost		**64,870**	58,261
Net interest income		**(5,395)**	(9,632)
Plan curtailments / settlements		**(26,410)**	(39,151)
	13.1.3	**33,065**	9,478
13.1.3 The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	21.1	**4,665**	1,664
Manufacturing expenses	21.2	**14,005**	3,865
Distribution and marketing expenses	22	**6,271**	2,015
Administrative expenses	23	**8,124**	1,934
		33,065	9,478
13.1.4 Movement in the asset recognised in the balance sheet:			
Balance as at the beginning of the year		**31,538**	60,155
Net charge for the year	13.1.3	**(33,065)**	(9,478)
Contributions		**73,491**	73,300
Net remeasurements for the year		**25,084**	(92,439)
Balance as at the end of the year		**97,048**	31,538
13.1.5 Movement in the fair value of plan assets:			
Opening balance		**487,536**	596,507
Interest income		**44,205**	57,168
Contributions		**73,491**	73,300
Benefits paid		**(48,785)**	(236,532)
Remeasurement loss on plan assets		**(16,084)**	(2,907)
Closing balance		**540,363**	487,536
13.1.6 Movement in the present value of defined benefit obligation:			
Opening balance		**455,998**	536,352
Current service cost		**64,870**	58,261
Interest cost		**38,810**	47,536
Benefits paid		**(48,785)**	(236,532)
Plan curtailments / settlements		**(26,410)**	(39,151)
Remeasurement (gain) / loss on obligation		**(41,168)**	89,532
Closing balance		**443,315**	455,998
13.1.7 Principal actuarial assumptions used are as follows:			
Expected rate of increase in salary level		**10.30%**	7.90%
Valuation discount rate		**11.00%**	7.90%
13.1.8 Major categories / composition of plan assets are as follows:			
Debt instruments		**439,988**	315,711
Equity		**45,596**	60,534
Balances with banks		**54,779**	111,291
		540,363	487,536

13.1.9 Actual gain on plan assets during the year ended December 31, 2017 was Rs 28.121 million (2016: Rs 54.261 million).

13.1.10 Expected contribution to defined benefit plan for the year ending December 31, 2018 is Rs 72.347 million (2017: Rs 59.487 million).

13.1.11 Weighted average duration of the defined benefit obligation is 15 years.

13.1.12 Mortality rates assumed were based on State Life Insurance Corporation 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%	(384,666)	519,176
Expected rate of increase / decrease in salary level	1%	519,387	(383,452)

13.1.14 The above sensitivity analyses 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 the 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.

13.2 Defined contribution plan

	Note	2017	2016
		(Rupees in thousand)	
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	21.1	**8,764**	9,286
Manufacturing expenses	21.2	**20,860**	25,137
Distribution and marketing expenses	22	**23,437**	20,903
Administrative expenses	23	**20,287**	19,029
		73,348	74,355

14. CASH AND BANK BALANCES

	Note	2017	2016
With banks in current accounts			
- Foreign currency		**92,676**	18,625
- Local currency			
- Current accounts		**37,392**	25,158
- Deposit accounts	14.1 & 14.2	**125,870**	64,034
		163,262	89,192
		255,938	107,817
Cash in hand		**162**	276
		256,100	108,093

14.1 Deposit accounts carry markup at fixed rate of 3.75% (2016: 3.75%) per annum, and fixed term deposits carry an average markup rate of 5.35% per annum.

14.2 These include amount of Rs 18.861 million (2016: Rs 18.861 million) held by a commercial bank as security against the guarantees (note 19.1) and funded facilities obtained from the bank in the normal course of business.

15. SHARE CAPITAL

15.1 Authorised capital

2017	2016		2017	2016
(Number of shares)			(Rupees in thousand)	
1,200,000,000	1,200,000,000	Shares of Rs 10 each	**12,000,000**	12,000,000

15.2 Issued, subscribed and paid-up capital

15.2.1 Ordinary shares

2017	2016		2017	2016
(Number of shares)			(Rupees in thousand)	
5,541,429	5,541,429	Ordinary shares of Rs 10 each fully paid in cash	**55,414**	55,414
47,722,912	47,722,912	Ordinary shares of Rs 10 each issued as fully paid bonus shares	**477,229**	477,229
8,316,000	8,316,000	Ordinary shares of Rs 10 each issued for consideration other than cash	**83,160**	83,160
61,580,341	61,580,341		**615,803**	615,803

15.2.2 Preference shares

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

15.3 As at December 31, 2017, 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 As at December 31, 2017, the preference shares of Rs 10 were held by the parent company 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 preference shares will mandatorily be converted into ordinary shares of the Company. The preference shares shall be converted fully 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 or the Company 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 was 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.

15.8 The Board of Directors of the Company, in its meeting held on December 8, 2017, declared an interim dividend on preference shares aggregating Rs 307.197 million and on ordinary shares at Rs 10 per share i.e. aggregating Rs 615.803 million.

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 6, 2014, February 5, 2015 & February 4, 2016 & February 2, 2017
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 $ 89.10 / share)
Share price at grant date (February 2, 2017)	Rs 10,319 / share (US $ 98.84 / share)
Number of shares outstanding at the end of the year	7,649

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

	Note	2017	2016
		(Rupees in thousand)	
Outstanding as at the beginning of the year		**6,969**	6,329
Granted during the year		**2,770**	2,840
Vested / exercised during the year	16.4	**(1,810)**	(1,760)
Forfeited during the year		**(280)**	(440)
Outstanding as at the end of the year		**7,649**	6,969

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

	Note	2017	2016
Purchase, redrying and related expenses	21.1	**1,744**	1,744
Manufacturing expenses	21.2	**3,217**	2,256
Distribution and marketing expenses	22	**3,372**	3,074
Administrative expenses	23	**12,675**	11,344
		21,008	18,418

16.4 During the year ended December 31, 2017 shares granted on February 6, 2014 were fully vested along with early vesting for certain employees from the respective grant dates.

16.5 An amount of Rs 22.552 million (US$ 214,782) was recharged by Philip Morris International Inc. New York during the year, which was payable as at December 31, 2017 [2016: Rs 18.312 million (US$ 174,756)].

17. SHORT TERM BORROWINGS

	Note	2017	2016
		(Rupees in thousand)	
Secured			
Running finance under mark-up arrangements	17.1 & 33	**-**	1,338,557

17.1 The Company has arranged for running finance and other short term loan facilities to the extent of Rs 7,100 million (2016: Rs 7,350 million) from commercial banks. These facilities are available for various periods expiring between April 30, 2018 and July 22, 2019 (2016: January 31, 2017 and July 22, 2017). The facilities are secured by way of hypothecation of stock in trade of the Company and are carrying markup rates ranging from 6.37% to 6.8% (2016: 6.5% to 6.6%) per annum.

The facilities for opening of letters of credits and letters of guarantees included in the aforementioned facilities of Rs 7,100 million as at December 31, 2017 aggregated Rs 1,200 million and Rs 1,619.06 million respectively of which the cumulative unutilised amount as at December 31, 2017 was Rs 2,749.495 million.

17.2 Following are the changes in the short term borrowings (i.e. for which cashflows have been classified as financing activities in the cashflow statement):

	Note	2017
		(Rupees in thousand)
Balance as at January 1, 2017		1,338,557
Less: cash and cash equivalents	33	(1,338,557)
		-
Loan received		27,097,000
Loan repaid		(27,096,650)
Exchange gain on foreign currency loan	26	(350)
Balance as at December 31, 2017		-

18. TRADE AND OTHER PAYABLES

	Note	2017	2016
		(Rupees in thousand)	
Creditors		**1,601,482**	1,179,281
Bills payable	18.1	**376,912**	468,363
Royalty payable to a related party	18.1	**39,080**	12,603
Accrued expenses		**761,089**	778,316
Tobacco development cess	18.4	**36,050**	16,188
Contractors' retention money		**5,979**	21,169
Advance from customers		**36,366**	18,065
Workers' welfare fund	18.2	**27,586**	16,499
Unpaid and unclaimed dividends	18.5	**11,582**	27,219
Others		**259,747**	105,657
		3,155,873	2,643,360

18.1 The amount due to group undertakings included in bills payable and royalty payable aggregated Rs 140.424 million (2016: Rs 297.908 million).

18.2 Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) has been promulgated under which industrial establishments having a total income exceeding Rs 0.5 million for the accounting period which began on or after December 31, 2013 are 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:

	2017	2016
	(Rupees in thousand)	
Balance as at the beginning of the year	**-**	-
Provision for the year	**27,718**	41,300
Less: Payments made during the year	**(27,718)**	(41,300)
Balance at the end of the year	**-**	-

18.4 The movement of tobacco development cess is as follows:

	2017	2016
Balance as at the beginning of the year	**16,188**	27,976
Provision for the year	**70,517**	32,375
Less: Payments made during the year	**(50,655)**	(44,163)
Balance at the end of the year	**36,050**	16,188

18.4.1 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.

18.4.2 During the year, the Office of Excise, Taxation & Narcotics, Control Office Mardan (here-in after referred to as 'the Department'), issued an order dated September 21, 2017 demanding the recovery of alleged short paid Tobacco Development Cess (TDC) amounting to Rs 13.875 million in respect of the year ended December 31, 2016 along with a penalty amounting to Rs 3.468 million, because of an amendment in TDC rate introduced during the year 2014.

The management is of the view that the Company has been paying TDC in accordance with the correspondence of the Department, accordingly the TDC liability had been discharged in full and any incremental demand and related penalty are not justified. However, as a matter of prudence, the aforementioned amount of Rs 13.875 million has been recorded in these financial statements.

18.5 The Board of Directors of the Company in its meeting held on March 10, 2017 resolved that under article 124 of the Articles of Association of the Company, the unclaimed dividend liability amounting to Rs 27.217 million be forfeited and therefore, the liability has been reversed in these financial statements.

19. CONTINGENCIES AND COMMITMENTS

19.1 Guarantees

Indemnities given to banks for guarantees issued by them in the normal course of business totalling Rs 69.565 million (2016: Rs 69.565 million).

19.2 Commitments

	2017	2016
	(Rupees in thousand)	
Capital expenditure contracted for but not incurred	**547**	181,680

19.3 Income tax related matters

(i) While reviewing the income tax return of the Company for the tax year 2009, the Deputy Commissioner Inland Revenue (DCIR) through an order dated May 30, 2012 had disallowed certain deductions aggregating Rs 256.444 million having an incremental tax impact of Rs 100.525 million. After rectification and appeal orders, aggregate disallowances amounting to Rs 48.405 million are pending before the Federal Board of Revenue (FBR) for further consideration.

(ii) While reviewing the income tax return of the Company for the tax year 2011, the DCIR through an order dated May 28, 2013 had disallowed certain deductions aggregating Rs 235.705 million having an incremental tax impact of Rs 100.927 million. After rectification and appeal orders, aggregate disallowances amounting to Rs 105.280 million are pending before the FBR for further consideration.

(iii) While reviewing the income tax return of the Company for the tax year 2013, the Additional Commissioner Inland Revenue through an order dated April 28, 2014 had disallowed certain deductions aggregating Rs 455.747 million having an incremental tax impact of Rs 77.829 million. At present, disallowances aggregating Rs 95.685 million are pending FBR for further consideration, while disallowances amounting to Rs 149.442 million are pending before Appellate Tribunal.

(iv) While reviewing the income tax return of the Company for the tax year 2014, the DCIR through an order dated June 28, 2016 had disallowed certain deductions aggregating Rs 131.086 million having an incremental tax impact of Rs 39.326 million. At present, the Company's appeal before CIR – Appeals is pending adjudication.

The management is confident that the ultimate decision of the aforementioned matters will be decided in the Company's favour and accordingly no provision on account of these matters has been made in these financial statements.

19.4 The Additional Collector of Customs, Sales Tax and Central Excise (Adjudication), Rawalpindi had issued two orders to the Company during calendar year 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 and penalty. After the rejection of the Company's appeals before the Federal Excise & Taxation Appellate Tribunal, Islamabad during July 2007, the Company proceeded to file tax references before Lahore High Court, Rawalpindi Bench, the adjudication of which is pending to date.

19.5 During the year ended December 31, 2014, the DCIR had issued an order dated September 29, 2014 and raised demand on account of short paid Federal Excise Duty 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 (referred to as 'Demand'). The Company filed an appeal before the CIR Appeals who upheld the said Demand through an order dated December 15, 2014.

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

The FBR filed two reference applications before the High Court of Sindh during August 2016 (i.e. referred to as 'Reference Applications') against the Tribunal Order, which are pending adjudications. The Company's management believes that the ultimate order in relation to the Reference Applications shall be in the Company's favour as the Demand had also been earlier set aside by the Tribunal Order.

19.6 The FBR issued two orders to the Company dated July 13, 2017 and one order dated October 16, 2017 and demanded an amount of Rs 1,765.008 million for alleged evasion of FED and sales tax along with penalties thereon which the Company believes to be unfounded. In this respect, the Company has filed appeals before CIR – appeals, the order of which is awaiting.

The management believes that the Company has sufficient documentary evidence to prove that it has discharged payment of all due duties and taxes in a timely manner and as such, ultimate decision in the appeal process will be in its favour. Accordingly, a provision has not been recognised in these financial statements.

19.7 The FBR issued three orders to the Company dated December 8, 2017 alleging non-payment of duty on sale of cigarettes by over declaring closing stock reported in the sales tax returns for the months of June 2016, December 2016 and June 2017. Through these orders, demand of Rs 1,698.154 million was raised for alleged evasion of excise duty. These orders were rectified on December 29, 2017 and the aggregate demand was revised to Rs 19.205 million. On January 12, 2018, the Company has filed appeals against the orders before CIR – Appeals and has also obtained stay thereagainst by making payment equal to 15% of the aforementioned demand amounting to Rs 2.881 million.

The management believes that the Company has sufficient documentary evidence to prove that it has discharged payment of all due duties and taxes in a timely manner and as such, ultimate decision in the appeal process will be in its favour. Accordingly, a provision has not been recognised in these financial statements.

20 TURNOVER - net

	Note	2017	2016
		(Rupees in thousand)	
Gross turnover		**30,143,938**	40,343,161
Less: Trade discount		**933,478**	809,881
Sales tax		**4,278,774**	6,152,675
Excise duty		**10,965,161**	19,167,267
		16,177,413	26,129,823
		13,966,525	14,213,338

21. COST OF SALES

	Note	2017	2016
Raw material consumed			
Opening stock		**6,992,580**	7,934,418
Purchases, redrying and related expenses	21.1	**5,562,926**	4,762,979
		12,555,506	12,697,397
Closing stock	9	**(5,747,841)**	(6,992,580)
		6,807,665	5,704,817
Government levies		**109,768**	58,620
Manufacturing expenses	21.2	**2,135,314**	2,186,531
Balance Carried forward		**9,052,747**	7,949,968

		Note	2017	2016
			(Rupees in thousand)	
	Balance brought forward		**9,052,747**	7,949,968
	Work in process			
	Opening stock		**124,732**	74,011
	Closing stock	9	**(107,962)**	(124,732)
	Sale of waste		**(3,979)**	(10,995)
			12,791	(61,716)
	Cost of goods manufactured		**9,065,538**	7,888,252
	Finished goods			
	Opening stock		**209,516**	503,983
	Finished goods purchased		**-**	9,687
	Closing stock	9	**(386,779)**	(209,516)
			(177,263)	304,154
			8,888,275	8,192,406
21.1	Purchases, redrying and related expenses			
	Raw and packing material		**4,878,678**	4,070,369
	Salaries, wages and other benefits	13, 16 & 24.2	**265,337**	270,842
	Stores and spares consumed		**30,083**	33,005
	Fuel and power		**45,893**	38,726
	Rent, rates and taxes		**8,428**	31,972
	Freight and stacking		**89,765**	77,154
	Postage, telephone and stationery		**8,218**	7,299
	Depreciation	3.1.1	**66,026**	67,507
	Amortisation	4.1	**49**	-
	Repair and maintenance		**23,379**	27,751
	Travelling and vehicle expenses		**20,575**	25,974
	Professional charges		**180**	304
	Fumigation and pesticide expenses		**32,006**	33,410
	Security charges		**83,384**	69,298
	Other expenses		**10,925**	9,368
			684,248	692,610
			5,562,926	4,762,979
21.2	Manufacturing expenses			
	Salaries, wages and other benefits	13, 16 & 24.2	**579,443**	670,146
	Stores and spares consumed		**378,698**	403,225
	Fuel and power		**185,961**	200,542
	Rent, rates and taxes		**2,640**	2,417
	Cartage		**35,216**	66,685
	Postage, telephone and stationery		**10,262**	11,272
	Depreciation	3.1.1	**774,021**	589,533
	Amortisation	4.1	**1,615**	1,667
	Travelling and vehicle expenses		**88,936**	91,051
	Security charges		**66,621**	100,303
	Other expenses		**11,901**	49,690
			2,135,314	2,186,531

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

	Note	2017	2016
		(Rupees in thousand)	

22. DISTRIBUTION AND MARKETING EXPENSES

	Note	2017	2016
Salaries, allowances and other benefits	13, 16 & 24.2	**1,013,621**	630,193
Selling expenses		**1,167,250**	1,617,369
Freight expense		**151,423**	165,623
Rent, rates and taxes		**54,546**	61,466
Postage, telephone and stationery		**22,069**	22,974
Depreciation	3.1.1	**179,811**	114,958
Amortisation	4.1	**4,777**	1,407
Travelling and vehicle expenses		**145,291**	136,112
Royalty		**61,380**	46,988
Repair and maintenance		**37,465**	36,914
Security charges		**43,504**	50,286
Other expenses		**45,521**	57,568
		2,926,658	2,941,858

23. ADMINISTRATIVE EXPENSES

	Note	2017	2016
Salaries, allowances and other benefits	13, 16 & 24.2	**661,036**	613,149
Rent, rates and taxes		**186,855**	171,270
Postage, telephone and stationery		**21,272**	27,354
Travelling and vehicle expenses		**110,372**	104,141
Repairs and maintenance		**57,963**	78,435
Legal and professional charges		**93,019**	55,024
Utilities		**20,911**	21,406
Fee and subscription		**10,705**	8,167
Insurance		**50,095**	50,062
Auditors' remuneration	23.1	**6,254**	17,178
Depreciation	3.1.1	**80,172**	124,746
Amortisation	4.1	**6,842**	8,227
Security charges		**47,786**	53,426
Other expenses		**1,955**	19,897
		1,355,237	1,352,482

23.1 Auditors' remuneration

	Note	2017	2016
Audit fee		**2,450**	2,760
Review of half yearly financial statements		**1,055**	1,055
Taxation and other services		**2,328**	12,599
		5,833	16,414
Out of pocket expenses		**421**	764
		6,254	17,178

24. OTHER EXPENSES

	Note	2017	2016
		(Rupees in thousand)	
Exchange loss - net	24.1	**30,996**	7,337
Employee separation costs	24.2	**79,152**	619,018
Property, plant and equipment written off		**105,876**	5,246
Impairment charge on items of property, plant and equipment	3.1.3	**83,765**	60,644
Capital work-in-progress written off	3.2.1	**9,393**	-
Workers' welfare fund		**11,087**	16,499
Workers' profit participation fund		**27,718**	41,300
Intangibles written off		**1,263**	-
Miscellaneous expenses		**47,198**	33,437
		396,448	783,481

24.1 This includes net unrealised exchange loss amounting to Rs 41.551 million (2016: Rs 42.508 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 continues to reorganise its various functions / operations. This overall reorganisation has resulted in redundancies of permanent employees across different functions.

25. OTHER INCOME

	Note	2017	2016
		(Rupees in thousand)	
Income from financial assets:			
● Profit on deposit accounts		**15,220**	6,147
● Others	25.1	**64,531**	132,790
		79,751	138,937
Income from assets other than financial assets:			
● Profit on disposal of items of property, plant and equipment		**85,459**	50,543
		165,210	189,480

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

26. FINANCE COST AND BANK CHARGES

	Note	2017	2016
		(Rupees in thousand)	
Mark-up on short term borrowings	26.1	**63,076**	219,831
Exchange gain on foreign currency loan	26.2	**(350)**	(12,900)
Loss on foreign currency swap derivatives	26.3	**5,200**	122,025
Bank commission and other charges		**20,876**	33,747
		88,802	362,703

26.1 The mark-up on short term borrowings includes mark-up aggregating Rs 3.197 million (2016: Rs 24.605 million) on the loans from an associated undertaking.

26.2 This represents realised exchange gain amounting to Rs 0.35 million (2016: Rs 12.9 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.

	Note	2017	2016
		(Rupees in thousand)	
27. TAXATION			
Current - for the year	27.3	**130,061**	70,930
- for prior years		**72,508**	(23,678)
		202,569	47,252
Deferred	7.1	**82,738**	147,479
		285,307	194,731

27.1 Relationship between tax expense and accounting profit

	Note	2017	2016
Accounting profit before tax		**476,315**	769,888
Effective tax rate	27.2	**30%**	30.07%
Tax on accounting profit		**142,895**	231,505
Tax effect of:			
● gain not subject to tax		**(4,843)**	-
● expense that are not allowed in determining taxable income		**-**	4,238
● effect of change in tax rate		**(23,546)**	16,867
● income assessed under Final Tax Regime		**(41,395)**	(9,401)
● tax credit for investments u/s 65B of the Income Tax Ordinance, 2001		**(8,702)**	(166,933)
● minimum tax		**144,942**	142,133
● worker's welfare fund		**(4,950)**	-
● others		**8,398**	-
		212,799	218,409
Adjustments in respect of current tax of prior periods		**72,508**	(23,678)
Tax expense for the year		**285,307**	194,731

27.2 The applicable income tax rate was reduced from 31% to 30% during the year on account of the changes made to Income Tax Ordinance, 2001 via the Finance Act, 2017. Further, a credit of Nil (2016: 3%) 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	2017	2016
		(Rupees in thousand)	
Current tax charge / (reversal) recognised in:			
Profit and loss account	27	**130,061**	70,930
Other comprehensive income - remeasurement expense relating to staff retirement benefits		**7,525**	(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 (loss) / earnings per share

	Note	2017	2016
Profit for the year after taxation		**191,008**	575,157
Less: transaction cost on issuance of preference shares - net of tax		**-**	(33,911)
Less: dividend on non-cumulative preference shares paid during the year		**(307,197)**	-
(Loss) / Profit attributable to ordinary shareholders		**(116,189)**	541,246
		(No. of shares)	
Weighted average number of ordinary shares	15.2	**61,580,341**	61,580,341
		(Rupees)	
(Loss) / Earnings per share - basic		**(1.89)**	8.79

28.2 The 1,046,400,000 preference shares (note 15) are not included in the calculation of diluted earnings per share because they are antidilutive for both the years ended December 31, 2017 and 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

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

	Chief Executive		Executives Directors		Executives		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	(Rupees in thousand)							
Remuneration	**-**	-	**-**	-	**642,829**	580,854	**642,829**	580,854
House rent	**-**	-	**-**	390	**289,251**	261,384	**289,251**	261,774
Bonus	**-**	-	**-**	-	**152,339**	87,888	**152,339**	87,888
Retirement benefits	**-**	-	**-**	-	**106,798**	89,428	**106,798**	89,428
Utilities	**-**	91	**-**	101	**64,305**	58,085	**64,305**	58,277
Others	**2,034**	2,218	**1,293**	1,682	**192,296**	119,092	**195,623**	122,992
	2,034	2,309	**1,293**	2,173	**1,447,818**	1,196,731	**1,451,145**	1,201,213
Number of persons	**1**	2	**1**	2	**499**	489	**501**	493

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

29.2 Directors' fee aggregating Rs 3.319 million (2016: Rs 3.217 million) in respect of independent directors and non-executive directors of the Company have been charged during the year.

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

29.4 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 21.008 million (2016: Rs 18.418 million).

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

29.6 In accordance with the requirements of the Ordinance, employees whose salary for the year exceed Rs 0.5 million have been considered 'Executives' for the purpose of these financial statements.

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	**2017**	**2016**
		(Rupees in thousand)	
Associated undertakings	Sale of goods	**2,365,158**	314,908
	Sale of plant and machinery	**5,855**	-
	Purchase of goods	**226,140**	270,475
	Purchase of plant and machinery	**2,290**	37,596
	Services procured	**35,967**	413
	Loans received	**2,097,000**	11,532,400
	Loans repaid / adjusted	**2,096,650**	18,862,500
	Mark-up on short term borrowings	**3,197**	24,605
	Royalty charges	**61,380**	46,988
	Share based payment recharge	**22,552**	18,312
Subsidiary	Expenses borne by the Company	**186**	143
Staff retirement plans	Expense in relation to gratuity fund	**7,981**	101,917
	Expense in relation to provident fund	**73,348**	74,355

The related party status of outstanding balances as at December 31, 2017 is included in notes 12.1, 13.1, 16.5 and 18.1. These are to be settled in the ordinary course of business.

31. CAPACITY AND PRODUCTION

Against the installed manufacturing capacity of 40,262 million (2016: 50,717 million) cigarette sticks, the manned manufacturing capacity is 17,963 million cigarette sticks (2016: 26,286 million sticks). Actual production was 10,634 million (2016: 12,274 million) cigarette sticks, sufficient to meet the demand.

32. CASH GENERATED FROM OPERATIONS

	Note	2017	2016
		(Rupees in thousand)	
Profit before taxation		**476,315**	769,888
Adjustments for:			
Depreciation	3.1.1	**1,100,030**	896,744
Property, plant and equipment written off		**105,876**	5,246
Impairment charge on items of property, plant and equipment		**83,765**	60,644
Capital work-in-progress written off		**9,393**	-
Intangibles written off		**1,263**	-
Amortisation		**13,283**	11,301
Provision for slow moving spares		**15,540**	55,826
Provision for obsolete stocks		**18,256**	58,544
Expenses arising from equity-settled share-based payment plan		**21,008**	18,418
Gratuity expense		**33,065**	9,478
Liabilities written back		**(46,421)**	(62,807)
Unrealised exchange loss		**41,551**	42,508
Exchange (gain) on foreign currency loans		**(350)**	(12,900)
Profit on deposit accounts		**(15,220)**	(6,147)
Profit on disposal of items of property, plant and equipment		**(85,459)**	(50,543)
Consumption of capital spares		**7,424**	-
Finance cost		**68,276**	341,856
Working capital changes	32.1	**1,472,548**	1,287,800
		3,320,143	3,425,856

32.1 Working capital changes

	2017	2016
(Increase) / decrease in current assets		
Stores and spares	**124,999**	56,617
Stock in trade	**1,050,350**	1,136,764
Trade debts	**(34,935)**	94,405
Advances	**(1,882)**	19,682
Prepayments	**29,113**	122,929
Other receivables	**(102,425)**	(194,972)
	1,065,220	1,235,425
Increase / (decrease) in current liabilities		
Trade and other payables	**510,468**	(395,434)
Sales tax and excise duty payable	**(103,140)**	447,809
	1,472,548	1,287,800

33. CASH AND CASH EQUIVALENTS

	Note	2017	2016
Cash and bank balances	14	**256,100**	108,093
Less: Amount held as security	14.2	**(18,861)**	(18,861)
Short term borrowings	17	**-**	(1,338,557)
		237,239	(1,249,325)

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 instruments which are based on fixed interest rates. As at December 31, 2017, the Company did not have any fixed rate instrument.

- 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, 2017, had there been increase / decrease of 50 basis points in KIBOR with all other variables held constant, profit after taxation for the year then ended would have been lower / higher by Rs Nil (2016: Rs 4.605 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 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, 2017, 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 for the year then ended would have been higher / lower by Rs 7.213 million (2016: Rs 10.356 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 mainly 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 aggregated Rs 650.950 million as at December 31, 2017 (2016: Rs 356.326 million). The analysis below summarises the credit quality of the Company's financial assets as at December 31, 2017:

- 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 customers on a case to case basis and such limits are regularly monitored, accordingly the credit risk is minimal.

- Amounts aggregating Rs 302.576 million (2016: Rs 203.407 million) are receivable from group companies whereby credit exposure and the corresponding risk associated with recoverability is considered minimal.

- Amounts aggregating Rs 36.458 million (2016: Rs 1.523 million) is receivable from a customer 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 'A-' which represents high 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	2017	2016
		(Maturity within one year) (Rupees in thousand)	
Short term borrowings	17	**-**	1,338,557
Trade and other payables	18	**3,055,871**	2,585,284
Accrued mark-up on short term borrowings		**33**	7,249
		3,055,904	3,931,090

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, 2017, 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

	2017	2016
	(Rupees in thousand)	
FINANCIAL ASSETS		
Loans and receivables at amortised cost		
Long term deposits	**45,825**	36,682
Trade debts	**36,458**	1,523
Other receivables	**312,729**	210,304
Cash and bank balances	**256,100**	108,093
	651,112	356,602
FINANCIAL LIABILITIES		
At amortised cost		
Short term borrowings	**-**	1,338,557
Trade and other payables	**3,055,871**	2,585,284
Accrued mark-up on short term borrowings	**33**	7,249
	3,055,904	3,931,090

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.

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)			-----------------		
Freehold land	127	-	127	8,918	Negotiated	Ishfaq Ahmad
	5,149	-	5,149	8,336	----do----	Ishfaq Ahmad
	5,276	-	5,276	9,500	----do----	Ishfaq Ahmad
	3,168	-	3,168	30,500	----do----	Gohar Rahman
Building on freehold land	4,703	(634)	4,069	1,300	Negotiated	Ameer-ul-Mulk
	131	(3)	128	141	----do----	Faqir Muhammad
	1,577	(360)	1,217	1,349	----do----	Faqir Muhammad
	1,030	(326)	704	781	----do----	Faqir Muhammad
	401	(186)	215	238	----do----	Faqir Muhammad
	251	(72)	179	199	----do----	Faqir Muhammad
	288	(134)	154	171	----do----	Faqir Muhammad
	139	(48)	91	390	----do----	Ishfaq Ahmad
	1,652	(557)	1,095	4,651	----do----	Ishfaq Ahmad
	547	(82)	465	1,541	----do----	Ishfaq Ahmad
	101	(24)	77	164	----do----	Ishfaq Ahmad
	4,477	(813)	3,664	11,509	----do----	Abdul Qudoos
	12,020	(4,525)	7,495	30,900	----do----	Abdul Qudoos
Vehicles	1,673	(1,338)	335	585	Negotiated	M Younus Ismail
	1,010	(619)	391	750	Insurance claim	Century Insurance Co
	513	(411)	102	430	----do----	Century Insurance Co
	1,538	(1,148)	390	1,100	----do----	Century Insurance Co
	1,538	(923)	615	1,300	----do----	Century Insurance Co
	574	(459)	115	474	----do----	New Hampshire Insurance Co
	990	(700)	290	495	Company Policy	Hammad Latif
	1,507	(1,025)	482	754	----do----	Naeem Yousaf
	990	(713)	277	495	----do----	Mohsin Sardar
	1,673	(1,204)	469	836	----do----	Talha Tahir
	1,673	(1,204)	469	836	----do----	Adnan Khalid
	1,039	(355)	684	831	----do----	Syed Muhammad Raza Abbas
	2,058	(1,646)	412	720	----do----	Muhammad Sajjad Muzaffar
	2,058	(1,646)	412	720	----do----	Khanzada Temur Khan
	2,058	(1,646)	412	720	----do----	Abdul Rasheed
	930	(744)	186	326	----do----	Farhad Siddique
	990	(752)	238	495	----do----	Hamza Sajid Malik
	2,392	(1,722)	670	1,196	----do----	Muhammad Zeeshan
	2,392	(1,658)	734	1,196	----do----	Muhammad Asad
	2,028	(1,622)	406	686	----do----	Zaid Bin Zikria
	990	(726)	264	495	----do----	Zia Ahmed Karim
	1,039	(471)	568	823	----do----	Arham Ahmed Aswat
	1,990	(1,592)	398	673	----do----	Farhan Ahmed
	990	(739)	251	347	----do----	Malick Muhammad Jahangir Masood
	990	(792)	198	347	----do----	Khan Khaqan Ahmed
	990	(792)	198	347	----do----	Saad Khaleel
	990	(792)	198	347	----do----	Rehma Shahab
	990	(792)	198	347	----do----	Rashid Rahim
	79,630	(35,995)	43,635	129,259		

37. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on the financial statements of the Fund as of December 31, 2017 and 2016:

	2017 (Un-audited)	2016 (Audited)
	(Rupees in thousand)	
Size of the Fund - Total Assets	**672,189**	703,797
Cost of investments made	**515,255**	353,291
Percentage of investments made	**88.39%**	89.20%
Fair value of investments	**594,145**	627,822

The break-up of fair value of investments is:

	2017		2016	
	(Rs in '000)	(Percentage)	(Rs in '000)	(Percentage)
Shares in listed companies	**72,265**	**12%**	101,155	16%
Debt securities	**448,343**	**76%**	282,804	45%
Bank balances	**73,537**	**12%**	243,863	39%
	594,145	**100%**	627,822	100%

The investments out of provident fund have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

38. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at December 31, 2017 and 2016 respectively are as follows:

	2017	2016
	Number of employees	
Number of employees as at December 31	**936**	1,079
Average number of employees during the year	**1,020**	1,415

39. SUBSEQUENT EVENT

Subsequent to December 31, 2017, the Board of Directors in its meeting held on March 15, 2018 proposed final dividend of Rs. 5 per ordinary share amounting to Rs. 307.902 and Rs. 0.42 per preference share amounting to Rs. 439.488, for the year ended December 31, 2017 for approval of the members at the Annual General Meeting to be held on April 26, 2018. The ordinary and preference dividends will be accounted for in the financial statements for the year ending December 31, 2018.

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 15, 2018 by the Board of Directors of the Company.

41. GENERAL

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

Karachi: March 15, 2018	**KAMRAN Y. MIRZA** Chairman	**ALEXANDER REISCH** Chief Executive	**ANTON STANKOV** Chief Financial Officer

Auditors' Report to the Members

We have audited the annexed balance sheet of Laksonpremier Tobacco Company (Private) Limited as at December 31, 2017 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, 2017 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: Khurshid Hasan

Karachi: March 28, 2018

Balance Sheet

AS AT DECEMBER 31, 2017

	Note	2017	2016
		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 9, 2018

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Profit & Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	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 9, 2018

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Statement Of Changes In Equity

FOR THE YEAR ENDED DECEMBER 31, 2017

	Issued, subscribed & paid-up capital	Accumulated (loss)	Total
	Rupees		
Balance as at January 1, 2016	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)	-
Total comprehensive income / (loss) for the year ended December 31, 2017	-	-	-
Balance as at December 31, 2017	1,030	(1,030)	-

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

Karachi: March 9, 2018

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	Rupees	
Cash flow from operating activities	-	-
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Net increase / (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

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

Karachi: March 9, 2018

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

Notes To The Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2017

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 the Companies Act, 2017). 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). Philip Morris International Inc. is the ultimate parent 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 January 12, 2017, that the Holding Company intends to continue to provide financial support to the company to enable it to continue as a 'going concern' in the foreseeable future. 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. As per the requirements of circular No. CLD/CCD/PR(11)/2017 dated July 20, 2017 and circular No. 23 of 2017 dated October 4, 2017 issued by the SECP, companies the financial year of which closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984 (the Ordinance). Accordingly, 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.

3. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2017	2016		2017	2016
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		
103	103	Ordinary shares of Rs 10 each fully paid in cash	1,030	1,030

Notes To The Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2017

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:

	2017	2016
	Rupees	
Expenses borne by the Holding Company		
- Filing fees for corporate forms	85,525	22,025
- Audit fee	100,000	121,000

5. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 9, 2018 by the board of directors of the Company.

Karachi: March 9, 2018

ANTON STANKOV
Chief Executive Officer

FAIZA KAPADIA RAFFAY
Director

ڈائریکٹرز رپورٹ

کمپنی کے ڈائریکٹرز اور انتظامیہ مساوی مواقع کے ماحول سے استفادہ کرنے پر توجہ مرکوز رکھیں گے جو کہ 2017 فائنانس ایکٹ کے متعارف کرانے سے حاصل ہوا ہے اس مالی ڈھانچہ سے کمپنی کے افعال/آپریشنز کے تمام پہلوؤں میں بہتری کے ذریعے حصص داران کو طویل مدتی فائدہ حاصل ہوگا۔ اس میں جدید مصنوعات کی پیشکش، برانڈ کے پورٹفولیو کی مضبوطی اور مصنوعات کا زیادہ بہتر معیار، تیاری کے طریقوں اور سہولیات کی اصلاح، انسانی وسائی کی ترقی اور لاگت کی موثر انتظام کاری پر مسلسل زور شامل ہیں تاہم یہ اسی تک محدود نہیں۔

کمپنی نے سال 2017 کی آخری سہ ماہی میں بالغ صارفین کیلئے زیادہ قدر اور کم قیمت غیر قانونی سگریٹوں کے ایک بہتر متبادل کے طور پر **L&M** متعارف کرایا۔ اس برانڈ کی شہروں میں تقسیم کے ابتدائی دنوں میں ہی ہمیں توقع کے مطابق نتائج حاصل ہوئے ہیں۔

کمپنی کا مصمم ارادہ ہے کہ وہ اپنے حصص داران کو معقول منافع منقسمہ دینے کیلئے رقوم کی بچت اور تحفظ پر اپنی توجہ مرکوز رکھے گی۔ تاہم مستقبل میں کئی چیلنج درپیش ہیں اور اس کا زیادہ تر انحصار ایکسائز ٹیکس کی اصلاحات، جو جون 2017 میں نافذ کی گئی تھیں، کے جاری رہنے میں ہے۔

اعتـرافات

کمپنی ڈائریکٹرز اس موقع سے فائدہ اٹھاتے ہوئے سال 2017 میں کمپنی کے تمام ملازمین کی بھرپور محنت، جدوجہد، لگن، جذبے اور تعاون پر اُن کا شکریہ ادا کرتے ہیں۔

بورڈ آف ڈائریکٹرز اپنے تمام کاروباری شراکت داروں بشمول تقسیم کنندگان، فراہم کنندگان، حصص داران اور دیگر فریق اداروں کو بھی خراج تحسین پیش کرتے ہیں جنہوں نے کمپنی انتظامیہ کو اپنا بھرپور اعتماد فراہم کیا۔

بورڈ آف ڈائریکٹرز کی طرف سے

کامـران یوسف مـرزا
چیئرمین

الیگزینڈر رائیش
چیف ایگزیکٹیو

کراچی، 15 مارچ 2018ء

ڈائریکٹرز رپورٹ

انسانی وسائل اور مشاہدہ کمیٹی (HR&R)

ہیومن ریسورس اینڈ ریمونیریشن کمیٹی تین اراکین پر مشتمل ہوتی ہے جن میں ایک نان ایگزیکٹو، ایک انڈیپنڈنٹ اور ایک ایگزیکٹو ڈائریکٹر ہوتا ہے۔

سال 2017 کے اختتام پر درج ذیل ڈائریکٹرز HR&R کمیٹی کے اراکین کے طور پر کام کر رہے تھے:

1. مسٹر جواؤ مینوئل
2. مس حنا ہی کیونگ ین
3. مسٹر الیگزینڈر رائیش

سال 2017 کے دوران HR&R کمیٹی کی جانب سے کوئی اجلاس منعقد نہیں کیا گیا۔

بورڈ کی کارکردگی کی جانچ / قدرپیمائی

کمپنی نے بورڈ کی کارکردگی جانچنے کی مشق کے نتائج پر ایک تحریری رپورٹ تیار کرنے اور پیش کرنے کیلئے میسرز اے ایف فرگوسن اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، کو کنسلٹنٹ مقرر کیا ہے۔

ڈائریکٹرز کی ٹریننگ

اس سال بورڈ نے اپنے ایک ڈائریکٹر کیلئے پاکستان انسٹی ٹیوٹ آف کارپوریٹ گورننس کی جانب سے متعارف کیے گئے تربیتی پروگرام کا اہتمام کیا۔

شیئر ہولڈنگ کا اسلوب

مورخہ 31 دسمبر 2017 کے مطابق کمپنی کی حصص داری (شیئر ہولڈنگ) کا نمونہ ضابطہ کے تقاضوں کے مطابق اس سالانہ رپورٹ میں شامل ہے۔

آڈیٹرز

موجودہ ایکسٹرنل آڈیٹرز، میسرز اے ایف فرگوسن اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، سالانہ اجلاس عام کے اختتام پر سبکدوش ہو جائینگے، اور مورخہ 31 دسمبر 2018 کو ختم ہونے والے سال کیلئے بطور ایکسٹرنل آڈیٹرز دوبارہ تقرری کیلئے اہل ہونے کی بنا پر اراکین سے درخواست ہے کہ اُن کی بطور آڈیٹرز تقرری کی منظوری دے دیں اور اُن کے معاوضہ کی توثیق کر دیں۔

اکاؤنٹنگ پالیسیز

کمپنی نے سال 2017 کے دوران اکاؤنٹنگ کے نئے معیارات، منظور شدہ معیارات میں ترامیم اور نئی تشریحات کا اطلاق کیا جن کی تفصیلات مالیاتی گوشواروں کی سیکشن 2.2.1 میں دستیاب ہیں۔

مستقبل کی توقعات

کمپنی، فلپ مورس انٹرنیشنل اِن کارپوریشن کیساتھ مکمل الحاق رکھتی ہے، اور اس طرح اپنی اثر انگیزی کو مزید بہتر اور طویل مدتی پائیداری اور منافع کو یقینی بنانے کیلئے عالمی وسائل اور مہارتوں کو بروئے کار لاتی رہے گی۔

ڈائریکٹرز رپورٹ

سال 2017 کے دوران بورڈ آف ڈائریکٹرز (''بورڈ'') کے پانچ اجلاس منعقد ہوئے۔ ان اجلاسوں میں ڈائریکٹروں کی حاضری کا باقاعدہ اندراج کیا گیا جس کی تفصیل بمطابق ذیل ہے:

ڈائریکٹرز کا نام	اجلاس میں تعداد حاضری
مسٹر کامران یوسف مرزا	5
مسٹر الیگزینڈر ررائیش	4
لیفٹیننٹ جنرل (ر) طارق خان	5
مسٹر اینٹون اسٹینکوف	5
مس ای وون چین	4
مس ہی کیونگ ین	0
مسٹر جوآؤ مینوئل	0

بورڈ کے اجلاسوں میں غیر حاضر رہنے والے ڈائریکٹرز کی چھٹیوں کی منظوری دے دی گئی۔

بورڈ آڈٹ کمیٹی

آڈٹ کمیٹی کمپنی کے بورڈ کی جانب سے طے شدہ حوالہ کی شرائط، جو کہ ایس ای سی پی کے جاری شدہ ضابطہ کے تقاضوں سے ہم آہنگ ہیں، کے مطابق اپنی ذمہ داریاں انجام دیتی ہے۔
آڈٹ کمیٹی تین ارا کین پر مشتمل ہوتی ہے جن میں ایک انڈیپینڈنٹ ڈائریکٹر اور دو غیر انتظامی ڈائریکٹر ہوتے ہیں۔

سال 2017 کے اختتام پر درج ذیل ڈائریکٹرز آڈٹ کمیٹی کے ارا کین کے طور پر کام کر رہے تھے:

1. لیفٹیننٹ جنرل (ر) طارق خان
2. مس حنا ہی کیونگ ین
3. مس ای وون ین

سال کے دوران آڈٹ کمیٹی کے کل چار اجلاس منعقد ہوئے۔ ان اجلاسوں میں ڈائریکٹروں کی حاضری کا باقاعدہ اندراج کیا گیا جس کی تفصیل بمطابق ذیل ہے:

ڈائریکٹرز کا نام	اجلاس میں تعداد حاضری
لیفٹیننٹ جنرل (ر) طارق خان	4
مس ای وون چین	3
مس حنا ہی کیونگ ین	4

آڈٹ کمیٹی کے اجلاسوں میں غیر حاضر رہنے والے ڈائریکٹرز کی چھٹیوں کی منظوری دے دی گئی۔

ڈائریکٹرز رپورٹ

انٹرنل کنٹرول کا گوشوارہ
کمپنی کی انتظامیہ انٹرنل کنٹرولز اور پروسیجرز (اندرونی اختیار وطریقہ کار) کے ایک نظام کے قیام اور اسے برقرار رکھنے کی ذمہ 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 ذمہ دار ہے۔ ہم آہنگی کا گوشوارہ اس سالانہ رپورٹ کے ایک حصہ 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:

پراویڈنٹ فنڈ	676 ملین روپے	(31 دسمبر 2016 کے آڈٹ شدہ مالیاتی گوشواروں کے مطابق)
گریجویٹی فنڈ	500 ملین روپے	(31 دسمبر 2016 کے آڈٹ شدہ مالیاتی گوشواروں کے مطابق)

ہولڈنگ کمپنی
نیدرلینڈز یعنی ہالینڈ میں اِن کارپوریٹ کی گئی کمپنی 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۔

بورڈ آف ڈائریکٹرز میں تبدیلیاں
بورڈ کی مدت مورخہ 26 ستمبر 2017 کو ختم ہوئی اور اسی روز ڈائریکٹرز کے چناؤ کیلئے الیکشن کا انعقاد ہوا جس میں بورڈ کے تمام سابقہ ممبران کو دوبارہ منتخب کر لیا گیا۔ تاہم فروری 2018 میں مس حنا ہیک یِنگ یِن مستعفی ہوگئیں اور اُن کی جگہ مسٹر شارمین کارتھی گاسو non-executive ڈائریکٹر کی حیثیت سے بورڈ میں شامل ہوگئے۔

ڈائریکٹرز کا انتخاب
ڈائریکٹرز کے انتخاب کیلئے سال کے دوران مورخہ 26 ستمبر 2017 کو الیکشن کا انعقاد ہوا۔ بعدازاں کمپنی کی آڈٹ کمیٹی اور ہیومن ریسورس اور ریمونیریشن کمیٹی تشکیل دی گئیں۔

بورڈ آف ڈائریکٹرز کے اجلاس
بورڈ آف ڈائریکٹرز سات ڈائریکٹروں پر مشتمل ہے جن میں سے دو انڈیپنڈنٹ ڈائریکٹر ہیں، تین نان ایگزیکٹو ڈائریکٹر جبکہ دو ایگزیکٹو ڈائریکٹر ہیں۔ بورڈ کے ڈائریکٹرز میں چھ مرد ڈائریکٹر ہیں جبکہ ایک ڈائریکٹر خاتون ہیں۔

ڈائریکٹرز رپورٹ

کمپنی ماحولیاتی تحفظ کے حوالے سے ہر ممکن احتیاط کیساتھ اپنا کاروبار کرتی ہے اور اس امر سے آگاہ ہے کہ اس کے ملازمین کی صحت وسلامتی اور تحفظ کاروبار کا بنیادی اصول اور روایت ہے۔ پیشہ ورانہ حادثات کے سبب زخموں، بیماری اور قابل قیاس خطرات سے بچاؤ کیلئے پالیسیاں موجود ہیں۔ISO14001 (انوائرنمنٹ) اور OHSAS18001 (ہیلتھ اینڈ سیفٹی) معیارات پر آڈٹ کیے جانے کے بعد کوٹری اور ساہیوال کی دونوں مینوفیکچرنگ سائٹس کو 'بیورو ویریٹاس' کی جانب سے "Excellent" ریٹنگ (6/6) اور مردان میں تھریشنگ سائٹ کیلئے "Very Good" ریٹنگ (4/6) حاصل ہوئی ہے۔ 2017 وہ سال تھا جس میں کمپنی نے آپریشنز سے آگے صحت وسلامتی کے خدشات پر توجہ مرکوز کرنا بھی شروع کی اس کا مطلب یہ ہے کہ ہمارے سیلز کے تمام دفاتر، بیرونی ویئر ہاؤسز، ہیڈ آفسز اور فلیٹ کو باقاعدہ طور پر ماحولیات اور پیشہ ورانہ صحت وسلامتی کے عمل کا حصہ بنا دیا گیا۔ کمپنی نے اپنے آپریشنز اور اپنے fleet میں زخمی ہونے کے واقعات اور حادثات کم سے کم کرنے کیلئے اپنے اہداف میں اضافہ کیا اور اس حوالے سے پوری کمپنی میں بہتری لانے کیلئے کوشاں ہے۔

انسانی وسائل میں سرمایہ کاری

ایک شمولیتی ماحول کے ذریعے ملازمین کو مصروف رکھنا اور انہیں اپنی بہترین صلاحیتیں استعمال کرنے اور کارکردگی دکھانے کے قابل بنانے کیلئے کمپنی استعداد کار بڑھانے کے پلیٹ فارمز، جامع تعلیمی وتربیتی پروگراموں، کراس فنکشنل ایکسپوئیر اور بین الاقوامی تجربات کے ذریعے ٹیلنٹ میں مسلسل سرمایہ کاری کرتی ہے۔ کمپنی ایک ایسے کلچر کی تشکیل کیلئے مصروف کار ہے جہاں اس کی تمام سرگرمیوں کا محور لوگ ہوں، جہاں تنوع اور گوناگوئی سے تفریح حاصل کی جائے، جہاں ترقی کی لگن ہو اور جہاں کمپنی کو اس کے مقاصد اور طویل مدتی اہداف کے حصول میں مدد دینے کیلئے سب کو برابر مواقع حاصل ہوں۔

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 2017ء میں کمپنی نے ادارہ جاتی نظم کے ضابطے ("کوڈ") کی شرائط پر پورا اترنے کیلئے مسلسل اقدامات جاری رکھے۔

ڈائریکٹرز جیسا کہ ضابطے کے تحت درکار ہے، یہ گزارشات پیش کرتے ہوئے اظہار مسرت کرتے ہیں کہ:

- کمپنی کی انتظامیہ کی جانب سے تیار کردہ مالیاتی گوشوارے، اس کے امور کار، اس 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 منظور شدہ 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 موثر طور پر نافذ رہا ہے۔ اسے مسلسل زیرِ نظر 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 قابل 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 2017ء کمپنی کے واجبات اور پچھلے 6 مالی سالوں کیلئے اس کا ایک خلاصہ صفحہ نمبر 19 ترتیب دیا گیا ہے،
- ٹیکسز اور لیویز کے متعلق معلومات مالیاتی گوشواروں میں متعلقہ نوٹس میں دی گئی ہیں؛

ڈائریکٹرز رپورٹ

- اُن تمام فارمز پر جہاں سے تمباکو حاصل کیا جاتا ہے کارکنوں کیلئے منصفانہ اور محفوظ ماحول کی فراہمی کمپنی کا نصب العین ہے۔ ایگریکلچرل لیبر پریکٹس کمپنی کے وسیع البنیاد 'گڈ یگریکلچرل پریکٹسز پروگرام (GAP)' کا ایک اہم جزو ہے۔ GAP کے تحت کمپنی تمباکو کے کھیتوں میں بچوں سے مشقت کے خاتمے کی ضرورت سمیت سات شعبوں پر توجہ مرکوز کیے ہوئے ہے۔گرمیوں کی چھٹیوں کے دوران، جو کہ تمباکو کی کاشت کا وقت بھی ہوتا ہے، ایک مقامی غیرسرکاری تنظیم ''ادارۂ تعلیم و آگاہی (ITA)'' کی جانب سے مقامی سرکاری اسکولوں میں سمر کیمپوں کا انعقاد کیا جاتا ہے۔سمر کیمپوں کے انعقاد کا ایک بڑا مقصد گرمیوں کی چھٹیوں کے دوران کسانوں کے بچوں کو تمباکو کے کھیتوں میں کام کرنے سے روکنا ہے۔ سال 2017 میں صوبہ خیبر پختونخوا (KPK) کے دو اضلاع کے اکیس اسکولوں میں 'سمر سکول پروگرام' کا اہتمام کیا گیا تھا جس سے 1700 سے زائد طلباء مستفید ہوئے۔ اس پروگرام کے تحت بچوں میں مطالعہ اور کتاب بینی کی عادت کو فروغ دینے کیلئے تفریحی تعلیمی سرگرمیوں اور ادبی میلوں کا بھی انعقاد کیا گیا۔مزید برآں کوٹری، ساہیوال اور خیبر پختونخوا کے اسکولوں کے بنیادی ڈھانچہ کی ترقی اور سولر پینلوں کی تنصیب کیلئے سکول اپ گریڈیشن پراجیکٹس پر عمل درآمد جاری ہے۔

- کوٹری، ساہیوال اور خیبر پختونخوا کے دو اضلاع میں لیڈی ہیلتھ ورکرز، میڈیکل کیمپوں اور صحت سے متعلق آگہی کے پروگراموں سے علاقہ کے عوام کو متحرک کر کے 800 سے زائد گھرانوں کو بنیادی طبی احتیاط اور صحت کے حوالے سے واقفیت فراہم کی گئی۔

- خیبر پختونخوا کے دو اضلاع، پنجاب میں ساہیوال اور حافظ آباد اور سندھ میں کوٹری کے علاقوں میں پینے کے صاف پانی کی فراہمی کیلئے 32 ہینڈ پمپس اور فلٹریشن پلانٹس کی تنصیب، اور حفظان صحت کی کٹس کی تقسیم اور صحت وصفائی کے حوالے سے عوام کی آگاہی کے سیشنز کا انعقاد کیا گیا جس سے 3,000 سے زائد لوگ مستفید ہوئے۔

- گھریلو تشدد سے متاثرہ خواتین کی امداد اور 48 متاثرہ خواتین کو تجدیدی سرجری کیلئے مالی معاونت کیساتھ انہیں Psycho-social وسماجی حوالے سے راہنمائی وحمایت فراہم کی گئی اور پاکستان بھر میں اُن کیلئے پیشہ ورانہ تربیت کا اہتمام کیا گیا۔

- عوامی سطح پر گروپوں کی تشکیل، خواتین کے حقوق کی وکالت کیلئے متعلقہ فریق گروپوں کی استعداد کار بڑھانے اور خواتین کو درپیش مسائل و مشکلات کے حوالے سے عوام الناس میں حساسیت کے فروغ کے ذریعے معذوری کی شکار 300 خواتین کی سماجی ومعاشی شمولیت اور بہبود میں اضافہ کیا گیا۔

کمپنی ہذا مقامی طبقات کی فلاح و بہبود کیلئے کردار ادا کرنے اور آنے والے برسوں میں مختلف سرگرمیوں میں ملازمین کی دلچسپی وشمولیت بڑھانے کیلئے اپنے پائیدار امدادی وخیراتی پروگراموں کو جاری رکھنے کے عزم پر قائم ہے۔

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

کمپنی اپنے معروف اور عالمی سطح پر تسلیم شدہ کوالٹی، ماحول، صحت وسلامتی اور تحفظ کے طریقہ ہائے کار اور معیارات کو بروئے کار لاتے ہوئے اعلیٰ معیار کی تمباکو مصنوعات کی تیاری اور تقسیم کے اپنے پختہ عزم کا اعادہ کرتی ہے۔ ان طریقوں کے ذریعے کمپنی اپنے بالغ صارفین کی توقعات پر پورا اترنے اور اپنی مصنوعات میں مسلسل بہتری اور مزید عمدگی لاتے ہوئے اُن کے اعتماد کو برقرار رکھنے کیلئے کوشاں ہے۔

منافع کا تصرف

مذکورہ سال کیلئے منافع بمطابق ذیل تصرف میں لایا گیا:

	(روپے 000's میں)
تصرف کیلئے دستیاب منافع بشمول منافع برائے سال 2017	**2,972,054**
تصرف:	
عبوری نقد منافع منقسمہ:	
عبوری منافع منقسمہ بحساب 10 روپے فی عمومی حصص	**(615,803)**
عبوری منافع منقسمہ بحساب 0.294 روپے فی ترجیجی حصص	**(307,197)**
حتمی نقد منافع منقسمہ:	
حتمی منافع منقسمہ بحساب 5 روپے فی عمومی حصص	**(307,902)**
حتمی منافع منقسمہ بحساب 0.42 روپے فی ترجیجی حصص	**(439,488)**
محفوظ آمدنی (منافع منقسمہ کی ادائیگی کے بعد)	**1,301,664**

قومی خزانے میں حصّہ

کمپنی وفاقی حکومت کی آمدنی میں اضافے میں بھی کافی اعانت کررہی ہے۔ سال 2017 میں کمپنی نے فیڈرل ایکسائز ڈیوٹیز، کسٹم ڈیوٹیز، سیلز ٹیکس اور انکم ٹیکس کی صورت میں قومی خزانے میں 15.6 ارب روپے جمع کرائے جو 2016 کے مقابلے میں 38.33 فیصد کی کمی کو ظاہر کرتے ہیں۔

ادارہ جاتی سماجی ذمہ داری (CSR)

ترقی پذیر ممالک میں اداروں، تنظیموں، ملازمین، آبادیوں اور سرکاری حکام کیلئے اس بات کی بہت زیادہ ضرورت رہی ہے کہ وہ سماجی مسائل کو موثر اور عمدہ طریقے سے حل کرنے کیلئے باہمی تعاون کیساتھ مل جل کر کام کریں۔

کمپنی بذا تعلیم کے فروغ، خواتین کو بااختیار بنانے، معاشی مواقع کی فراہمی، قدرتی وناگہانی آفات میں بحالی کے کاموں اور ان کیلئے تیار رہنے کے قابل توجہ امور میں اپنے ملازمین اور دیگر تمام فریقین کیساتھ مل کر کام کرنے کی اہمیت سے پوری طرح آگاہ ہے اور اس اقدام کی قدر کرتی ہے۔ سال 2017 میں کمپنی نے 2018 کے پہلے تین مہینوں میں انجام پذیر کیے جانے والے کارپوریٹ سماجی ذمہ داری کے کچھ منصوبوں کیساتھ اہم سنگ میل کے حصول کیلئے فلپ موریس انٹرنیشنل ان کارپوریشن اور شراکت دار غیر سرکاری تنظیموں (NGOs) کیساتھ اشتراک عمل جاری رکھا۔ ان منصوبوں کی مختصر تفصلات درج ذیل ہیں؛

ڈائریکٹرز رپورٹ

خسارہ ظاہر کر رہی ہے (دیکھئے مالیاتی گوشوارے کا نوٹ نمبر 28)۔ اگر ترجیحی حصص داران کو کوئی ادائیگی نہ کی جاتی تو کمپنی کی فی حصص آمدنی 3.10 روپے ہوتی۔ قابل ذکر بات یہ ہے کہ کمپنی نے عام حصص داران کو 615.80 ملین روپے کا عبوری منافع منقسمہ بھی ادا کیا۔

انضباط

پینتیس مہینوں کی مسلسل کاوشوں کے بعد وزیر اعظم پاکستان نے 24 نومبر، 2017 کو منعقدہ کابینہ کے اجلاس میں بین الوزارتی کمیٹی (IMC) کی سفارشات پر عملدرآمد کے فیصلے کی منظوری دی (یہ کمیٹی نئے تصویری انتباہ۔ GHW کے سائز پر غور وخوض کیلئے جولائی 2015 میں تشکیل دی گئی تھی)۔

بعد ازاں وزارت صحت نے 19 دسمبر، 2017 کو ایک قانونی انضباطی حکمنامہ (SRO) جاری کیا جس کے تحت یکم جون 2018 سے تصویری ہیلتھ وارننگ کو سگریٹ کے پیکٹ کی اگلی اور پچھلی دونوں جانب کے موجودہ 40% سائز سے بڑھا کر کم از کم 50% اور یکم جون 2019 سے پیکٹ کی اگلی اور پچھلی دونوں جانب تصویری ہیلتھ وارننگ کے سائز کو مزید 10% بڑھاتے ہوئے 60% تک کرنا ہے۔

عملی صلاحیت

سال 2017 میں کمپنی نے پراپرٹی، پلانٹ اور ساز وسامان میں 662 ملین روپے کی سرمایہ کاری کی جن میں زیادہ تر مینٹی نینس کے منصوبوں کی مد میں تھی۔ اس کے علاوہ غیر پیداواری اور ناکارہ اثاثہ جات سے جان چھڑاتے ہوئے مستقبل میں اس کی بہتری اور ترقی کی راہ ہموار کرنے کیلئے کاوشیں جاری رکھیں۔ یہ سرمایہ کاری اور اقدامات مستقبل میں کمپنی کی ترقی پر اعتماد اور کاروبار میں اضافے کیلئے کمپنی کے غیر متزلزل عزم کی عکاسی کرتے ہیں۔

منافع مقسوم

بورڈ نے کمپنی کے حصص داران کیلئے سال کے دوران 100 فیصد (یعنی 10 روپے فی عمومی حصص) کے عبوری منافع منقسمہ کی منظوری اور ادائیگی کی، اور رواں مالی سال کے اختتام پر ڈائریکٹر صاحبان نے 50 فیصد (یعنی 5 روپے فی عمومی حصص) کے حتمی منافع منقسمہ کی تجویز دی ہے جس کی ادائیگی سالانہ اجلاس عام میں ممبران کی جانب سے منظوری سے مشروط ہوگی۔

ادا شدہ منافع منقسمہ کا تناسب سال کیلئے بعد از ٹیکس خالص منافع کا تقریباً 874 فیصد ہے۔

بورڈ آف ڈائریکٹرز نے کمپنی کے ترجیحی حصص داران کیلئے سال کے دوران 2.94% (یعنی 0.294 روپے فی ترجیحی حصص) کے عبوری منافع منقسمہ کی منظوری اور ادائیگی کی، اور رواں مالی سال کے اختتام پر ڈائریکٹر صاحبان نے 4.20% فیصد (یعنی 0.42 روپے فی ترجیحی حصص) کے حتمی منافع منقسمہ کی تجویز دی ہے۔

یہ امر قابل ذکر ہے کہ 2017 کا عبوری منافع منقسمہ کمپنی کی تاریخ کا اور چھ مشکل ترین سالوں کے بعد بلند ترین منافع منقسمہ ہے جہاں کمپنی نے اپنے حصص داران کو منافع منقسمہ کی پہلے ادائیگی کر کے رقوم کو تحفظ فراہم کیا۔ حتمی منافع منقسمہ حصص داران کیلئے زیادہ فائدے کی فراہمی جاری رکھنے کے بورڈ اور انتظامیہ کے عزم مصمم کو بھی ظاہر کرتا ہے۔

ڈائریکٹرز رپورٹ

31 دسمبر2017ء کوختم ہونے والے سال کیلئے

فلپ موریس (پاکستان) لمیٹڈ (''کمپنی'') کے بورڈ آف ڈائریکٹرز کی طرف سے مجھے (31 دسمبر 2017 کوختم ہونے والے سال کی) ڈائریکٹرز رپورٹ بمع کمپنی کے آڈٹ شدہ مالیاتی گوشوارے پیش کرتے ہوئے خوشی محسوس ہورہی ہے۔

کارکردگی کا جائزہ

31 دسمبر 2017 کوختم ہونے والے سال کیلئے گزشتہ سال کے موازنے میں کلیدی عملی نتائج کا تجزیہ درج ذیل ہے:

	برائے سال مختتمہ 31 دسمبر 2017		برائے سال مختتمہ 31 دسمبر 2016	
	ملین روپے	%	ملین روپے	%
مجموعی کاروبار	30,144	100.00	40,343	100.00
مجموعی منافع	5,078	16.85	6,021	14.92
آپریٹنگ منافع	565	1.87	1,133	2.81
منافع قبل از ٹیکس	476	1.58	770	1.91
منافع بعد از ٹیکس	191	0.63	575	1.43

سال2017ء کے دوران کمپنی کا مجموعی کاروبار سال2016 کے مقابلے میں 25.28% کی قابل ذکر حدتک گرگیا جس کا سبب بناٹیکس اداشدہ تمبا کومصنوعات کی خرید وفروخت (''غیرقانونی تجارت'') میں اضافے کے نتیجے میں سال کی پہلی نصف مدت میں کمپنی کی اشیاءفروخت کے حجم میں کمی ہے۔ بناٹیکس اداشدہ تمبا کومصنوعات کی دستیابی نے ہماری مصنوعات کی طلب پرمنفی اثرات مرتب کیے۔ عین اسی وقت پر، انتظامیہ نےعملیاتی کارکردگی اوراخراجات کی موثرانتظام کاری کو بروئے کارلاتے ہوئے افراط زر کے دباؤ کوروک لیا۔ سال2016 میں تنظیم نو کے اخراجات کی وجہ سے رواں سال کیلئے دیگراخراجات کم ہوگئے۔ مجموعی طور پرکمپنی نے سال 2016 میں 575 ملین روپے کے بعدازٹیکس منافع کے مقابلے میں سال2017 میں 191 ملین روپے کابعدازٹیکس منافع ظاہرکیا۔

وفاقی میزان2017-18 میں ایکسائز کے ڈھانچے میں تبدیلی اورناجائزتجارت کے خاتمے کیلئے پہلے سے بہترقوانین کے نفاذ کیلئے کیے گئے اقدامات پرعملدرآمد کے بعد کمپنی کے کاروباری حجم میں اضافہ دیکھنے میں آیا جوکہ سال کی دوسری نصف مدت کے نتائج سے ظاہرہے۔ کمپنی اسمگل شدہ اورغیرٹیکس اداشدہ تمبا کومصنوعات کے مسئلہ سے نمٹنے کیلئے تمام حکومتی پالیسیوں اوراقدامات کی فعال طریقے سے حمایت کرتی ہے۔

کمپنی نے مذکورہ سال کیلئے191 ملین روپے کے منافع کااندراج کیااورحصص داران کومنافع سے زیادہ ڈیویڈنڈز (منافع منقسمہ) کی ادائیگی کمپنی کے ذخائر (Reserves) اورپچھلے سالوں کی آمدنی سے ممکن ہوئی ہے۔ سال2017 میں کمپنی کے ترجیحی حصص داران کواداشدہ 307 ملین روپے کے عبوری منافع منقسمہ کی ادائیگی کی وجہ سے 1.89 روپے فی حصص کا

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 26, 2018 and at any adjournment thereof

Signed this____________________ day of _________________ 2018

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 26 اپریل 2018 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: ____________________ 2018

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

ریوینیو 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 کاپی اں 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۔

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