



Annual Report 2020



At PTC, we have been delivering shareholder value and creating valued employment for over 70 years. Today, we find ourselves in one of the most dynamic periods of change our industry has ever encountered. Our environmental, social and governance agenda is at the heart of our way forward. Rapid product innovation, along with advances in societal attitudes and public health awareness, have given us the opportunity to make a substantial leap forward in our long-held ambition to positively impact the lives of millions of our consumers by providing them reduced risk products*. Through this strategy, we will build A Better TomorrowTM for consumers, society, employees and shareholders.

*Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.



CONTINUING OUR WINNING LEGACY



Asia Money Award

Top Employer 2020

GDIB Award

35th MAP Award

TABLE OF CONTENTS

| | | | | | |
|---------------------------------|---|--|------------------------------------|---|---|
| 04 | 04 | 04 | 05 | 06 | 08 |
| Our Vision | Our Mission | Our Purpose | Our Ethos | British American Tobacco (BAT) | BAT's Geographical Spread |
| 10 | 12 | 14 | 15 | 16 | 18 |
| Our Evolved Business Model | Our Evolved ESG Agenda | Pakistan Tobacco Company Limited | Our Footprint | Corporate Information | Our Logo Evolution |
| 20 | 22 | 24 | 28 | 30 | 32 |
| Our Response to COVID-19 | Awards and Accolades | Risk & Opportunity Report | Organisational Structure | Position of Reporting Organisation Within Value Chain | Board of Directors |
| 36 | 40 | 43 | 48 | 50 | 52 |
| Committees of Board | Report of Audit Committee | Standards of Business Conduct and Ethical Principles | Chairman's Review | MD/CEO's Message | Director's Report |
| 63 | 64 | 65 | 66 | 68 | 69 |
| Product Portfolio | Illicit Trade | DIGIMARC | Operational Excellence | Our ESG Achievements | Calendar of Notable Events 2020 |
| 70 | 72 | 74 | 75 | 76 | 77 |
| Leaf Sustainability Initiatives | Marketing Performance Review | Becoming the Exports Hub For Modern Oral | VELO Sound Station | Security that Means Business | Simplify |
| 78 | 80 | 82 | 86 | 88 | 90 |
| 2020 Performance | Critical Performance Indicators | Quarterly Analysis 2020 | Horizontal & Vertical Analysis | Analysis of Statement of Profit or Loss & Statement of Financial Position | Summary of Statement of Profit or Loss, Financial Position & Cash Flows |
| 91 | 92 | 94 | 95 | 96 | 97 |
| Dupont Analysis 2020 | Liquidity, Cash Flows and Capital Structure | Performance Indicators Ratios for 6 Years | Analysis of Performance Indicators | Significant Plans and Decisions | Business Rationale of Projects Undertaken During the Year |

| | | | | | |
|--------------------------------------|---|-------------------------------------|---------------------------|--------------------|--|
| 98 | 100 | 101 | 102 | 104 | 105 |
| Strategy and Resource Allocation | Statement of Value Generated and its Distribution | Share Price Sensitivity Analysis | Forward Looking Statement | Financial Calendar | Statement of Adherence with Integrated Reporting Framework |
| 106 | 110 | 112 | | | |
| Notice of the Annual General Meeting | Statement of Compliance | Independent Auditors' Review Report | | | |

Financial Statements

| | | | | | |
|-----------------------------------|-----------------------------|-----------------------------------|---------------------------------|--------------------------------|-------------------------|
| 114 | 118 | 119 | 120 | 121 | 122 |
| Independent Auditors' Report | Statement of Profit or Loss | Statement of Comprehensive Income | Statement of Financial Position | Statement of Changes in Equity | Statement of Cash Flows |
| 123 | | | | | |
| Notes to the Financial Statements | | | | | |

Consolidated Financial Statements

| | | | | | |
|---|---|---|--|--|--|
| 168 | 169 | 180 | 184 | 185 | 186 |
| Chairman's Review (Consolidated Accounts) | Director's Report (Consolidated Accounts) | Independent Auditors Report (Consolidated Accounts) | Consolidated Statement of Profit or Loss | Consolidated Statement of Comprehensive Income | Consolidated Statement of Financial Position |
| 187 | 188 | 189 | 232 | 241 | 244 |
| Consolidated Statement of Changes in Equity | Consolidated Statement of Cash Flows | Notes to the Consolidated Financial Statements | Pattern of Shareholding | Director's Report (Urdu) | Notice of Annual General Meeting (Urdu) |
| 245 | 247 | 248 | | | |
| Glossary and Definitions | Form of Proxy | Form of Proxy (Urdu) | | | |

OUR VISION

Reducing the health impact through offering a greater choice of enjoyable and less risky products for our consumers

The BAT Group set out an inspiring purpose for the whole Company when it introduced its evolved strategy in March 2020. The Group's renewed purpose is to build A Better Tomorrow™ by reducing the health impact of its business through offering a greater choice of enjoyable and reduced risk products* for our consumers. It will evolve its growth model through the development of a portfolio in tobacco, nicotine and beyond, meeting consumers' evolving needs for enjoyment and satisfaction. The Group now aims to generate an increasingly greater proportion of revenue from products other than cigarettes and so, reduce the health impact of its business. This will deliver A Better Tomorrow™ for consumers who will have a range of enjoyable and reduced risk choices for every mood and moment; for society through reducing the overall health and environmental impacts of our business; for employees by creating a dynamic and purposeful place to work; and for shareholders by delivering sustainable superior returns.

OUR MISSION

Stimulating the senses of new adult generations

Today, BAT sees opportunities to capture consumer moments which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences. Our mission is to anticipate and satisfy this ever-evolving consumer: provide pleasure, reduce risk, increase choice and stimulate the senses of adult consumers worldwide.

OUR PURPOSE

To create A Better Tomorrow™ for all our stakeholders



CONSUMERS

By responsibly offering enjoyable and stimulating choices for every mood and every moment, today and tomorrow.



SOCIETY

By reducing the health impact of our business by offering a range of alternative products, as well as by reducing our environmental and social impacts.



EMPLOYEES

By creating a dynamic, inspiring and purposeful place to work.



SHAREHOLDERS

By delivering sustainable and superior returns.

OUR ETHOS



BOLD

Dream big – with innovative ideas.

Make tough decisions quickly and proudly stand accountable for them.

Resilient & fearless to beat the competition.



FAST

Speed Matters. Set clear direction and move fast.

Keep it simple. Focus on outcomes.

Learn quickly and share learnings.



EMPOWERED

Set the context for our teams and trust their expertise.

Challenge each other. Once in agreement, we commit collectively.

Collaborate and hold each other accountable to deliver.



DIVERSE

Value different perspectives.

Build on each others' ideas, knowledge and experiences.

Challenge ourselves to be open-minded and recognising unconscious bias.



RESPONSIBLE

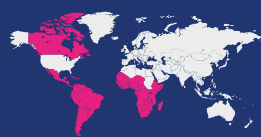
Take action to reduce the health impact of our business.

Ensure the best quality products for our consumers, the best place to work for our people and the best results for our shareholders.

Act with integrity, never compromising our standards and ethics.

BRITISH AMERICAN TOBACCO (BAT)

BAT by Region



America and Sub-Saharan Africa

Employees
15,000+

Manufacturing Sites
27



Asia Pacific and Middle East

Employees
10,000+

Manufacturing Sites
24



Europe and North Africa

Employees
22,000+

Manufacturing Sites
21



United States of America

Employees
4,900+

Manufacturing Sites
7



For the fourth year running, we received the prestigious Global Top Employer accreditation in January 2021, acknowledging our commitment to creating an inclusive and innovative working environment. We've also been certified as a Top Employer in more than 40 markets

BAT is a leading, multi-category consumer goods business. Founded in 1902, today the Group is a truly global company –it employs more than 55,000 people worldwide, operates in over 180 markets and has factories in more than 40 countries.

The Group's global business is divided into four regions and covers over 150 million consumers and 11 million retail points of sale, with a balanced presence in both high-growth emerging markets and developed markets. BAT's portfolio comprises combustible tobacco products, such as cigarettes, alongside a range of non-combustible products. These include New Categories of reduced risk products* – vapour and tobacco heating products and modern oral products, including tobacco-free nicotine pouches – as well as traditional oral products, such as snus and moist snuff.

The Group's headquarters are in London and the company is listed on the London Stock Exchange. In 2020, the Group generated revenue of £26.7 billion and profit from operations of more than £9 billion.

Today BAT is transitioning from being a business where sustainability has always been important to one where it is front and centre in everything that it does. The Group has made significant progress on its

sustainability journey, as reflected by its presence in the Dow Jones Sustainability Indices for many years and the other notable independent recognitions it has received.

BAT's strategy has evolved with the purpose of delivering A Better Tomorrow™ for all our stakeholders. At its heart, the strategy is about anticipating and satisfying the ever-evolving consumer: providing pleasure, reducing risk and offering increasing choice.

Central to the strategy is the Group's updated sustainability agenda which reflects our changing external environment. Specifically, we are clear that reducing the health impact of our businesses is our principal focus area, as well as placing a greater emphasis on the importance of addressing climate change and excellence in environmental management. At the same time, we remain committed to delivering a positive social impact and ensuring robust corporate governance across the Group.



>180

markets in which we operate



>150m

daily consumer interaction



>11m

points of sale across
over 180 markets

Our wide range of capabilities make us exceptionally well-placed for future growth:

- our unique global marketing and distribution reach;
- our track record of R&D strength and innovation;
- our decades' worth of consumer insights, and brand building expertise; and
- our New Categories business aims to generate £5bn in revenue in 2025



BAT'S GEOGRAPHICAL SPREAD

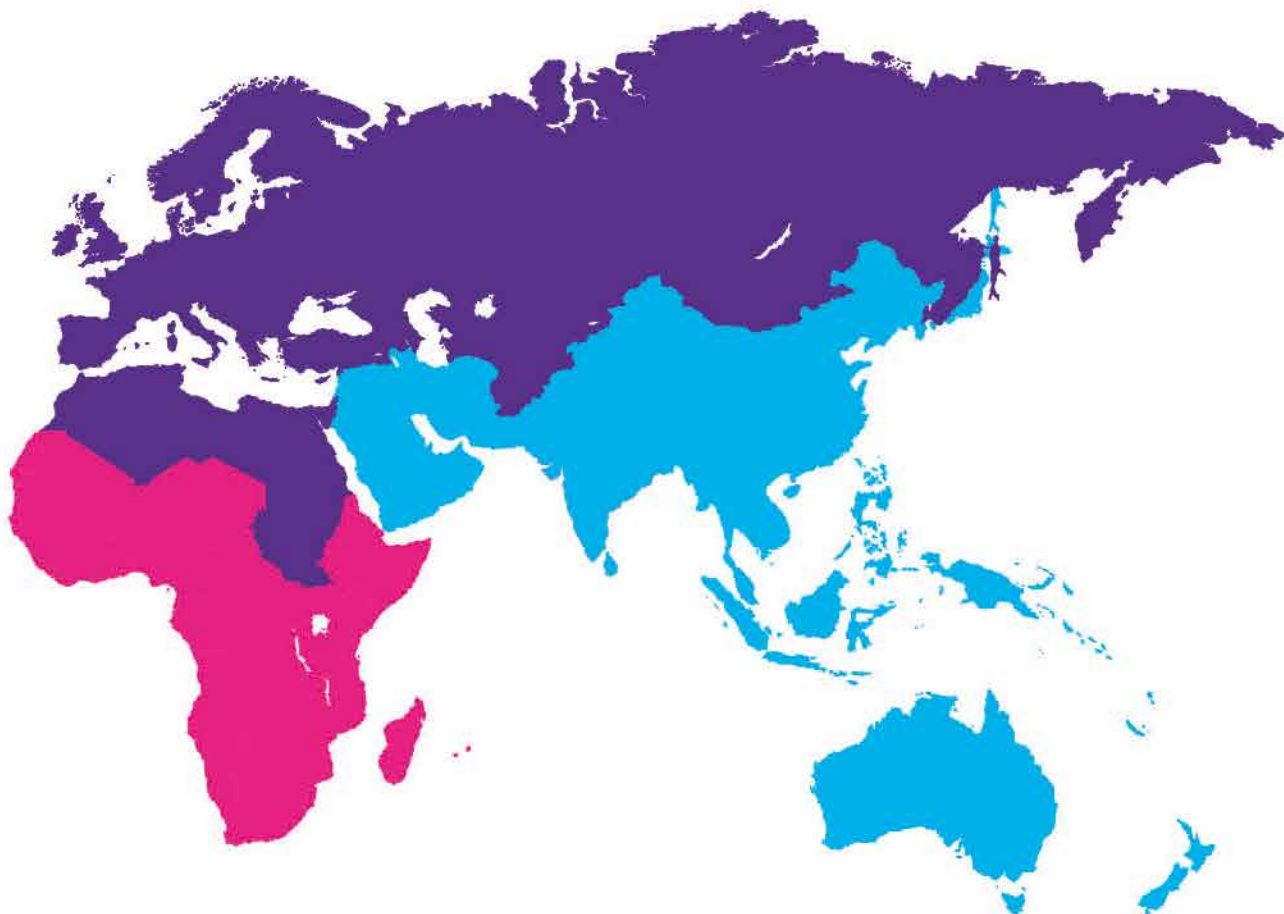


**United States
of America**



**Americas and Sub-
Saharan Africa**

Argentina, Brazil, Canada, Caribbean, Central America, Chile, Colombia, Kenya, Mexico, Nigeria, Paraguay, Peru, South Africa, Venezuela



Europe and North Africa

Austria, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Norway, Poland, Russia, Spain, Sweden, Switzerland, Turkey, Ukraine, Morocco, Algeria, Tunisia, Libya, Egypt & Sudan



Asia-Pacific and Middle East

Australia, Bangladesh, Cambodia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, Sri Lanka, Taiwan, Vietnam, UAE, Qatar, Oman, Lebanon, Iraq, Jordan, Syria, Palestine, Yemen, KSA, Bahrain, Kuwait, Iran, Myanmar & Afghanistan

OUR EVOLVED BUSINESS MODEL

Our global business understands our diverse consumers, develops products to satisfy their preferences and ultimately distributes them across over 180 markets.

Six key enablers support us in turning powerful insights into products that provide enjoyment to our consumers, while engagement helps our key stakeholders benefit from our sustainable growth.

IP / Technology

£300mn+

R&D expenditure

7

R&D / Product centre sites

Environmental

370,000tn

of leaf

2,568 GWh

energy consumed

4.03m

cubic metres of water withdrawn

Manufacturing

79

BAT-owned manufacturing facilities

45

cigarette factories



Social

84,000+

contracted farmers

c30,000

Suppliers

180+ Markets

Financial

£600mn+

annual capital expenditure

£426mn

additional investment in New Categories

BBB+/Baa2 credit rating*

Human

55,000+

employees globally

1,500+

R&D specialists

A Better Tomorrow™ for...

Society



Shareholders



Consumers



Employees



As measured by...

Environmental

- 37.4% reduction in Scope 1 and 2 CO₂e emissions (since 2017)
- Over 99% of wood fuel used for curing from sustainable sources
- 76% of tobacco hectares with best practice soil and water management plans
- 22.5% reduction in water withdrawn (since 2017)
- 21.4% reduction in waste to landfill (since 2017)

Financial

- 7% dividend growth (CAGR since 2010)
- 5.5% growth in adjusted diluted EPS at constant currency in 2020
- @103% operating cash conversion in 2020@
- 3.3% increase in revenue (at constant currency)

Financial

- +15% revenue from New Categories (vs 2019)
- +20 bps in Cigs + THP value share with +30 bps in Cigs + THP volume share (vs 2019)

Human

- 30% reduction in lost workday cases (vs 2019)
- Proportion of women in management roles grew to 38%
- Accredited as Global Top Employer by the Top Employers Institute
- Employee engagement index 7% higher than FMCG comparator group in latest 'Your Voice' survey

Social

- £41bn tax paid to governments
- 38,000+ human rights farmer training sessions, with over 390,000 attendances in 2020

Social

- Among world's top 10% ESG performers in Dow Jones Sustainability Index (DJSI)

Social

- 11m number of outlets
- 13.5m Non-Combustible consumers
- 100% adherence to Youth Access Prevention Guidelines

OUR EVOLVED ESG AGENDA

At BAT, we are transitioning from being a business where sustainability has always been important to one where it is front and centre in all that we do.

Consequently, we refreshed our Sustainability Agenda (as an integral part of our evolved Group Strategy) to place a greater emphasis on the importance of addressing climate change and environmental management. This is underpinned in excellence in all other environmental, social and governance (ESG) measures.



Our Sustainable Agenda

S

Reducing the **HEALTH** impact of our Business

Consumer
Choice

World-Class
Science

Standards
and regulation

E

Excellence in
ENVIRONMENTAL
management

Climate change

Water and waste

Sustainable agriculture

Circular economy

S

Delivering a positive
SOCIAL impact

Human rights

Farmer livelihoods

Health and safety

People and culture

G

Robust corporate
GOVERNANCE

Business ethics

Responsible marketing

Regulation

Policy engagement

Creating shared value for



CONSUMERS



SOCIETY



EMPLOYEES



SHAREHOLDERS

PAKISTAN TOBACCO COMPANY LIMITED

Pakistan Tobacco Company Limited (PTC) was the first multinational to be incorporated in Pakistan, right after the partition of the Subcontinent in 1947. We are a subsidiary of the British American Tobacco Group (BAT) and we take pride in the fact that we started off with a single warehouse near Karachi port and over the course of time, became one of the biggest FMCG companies in the country. We currently hold more than 75% of the total legitimate cigarette market share in the country and nearly 50% of total cigarette sales nationwide.

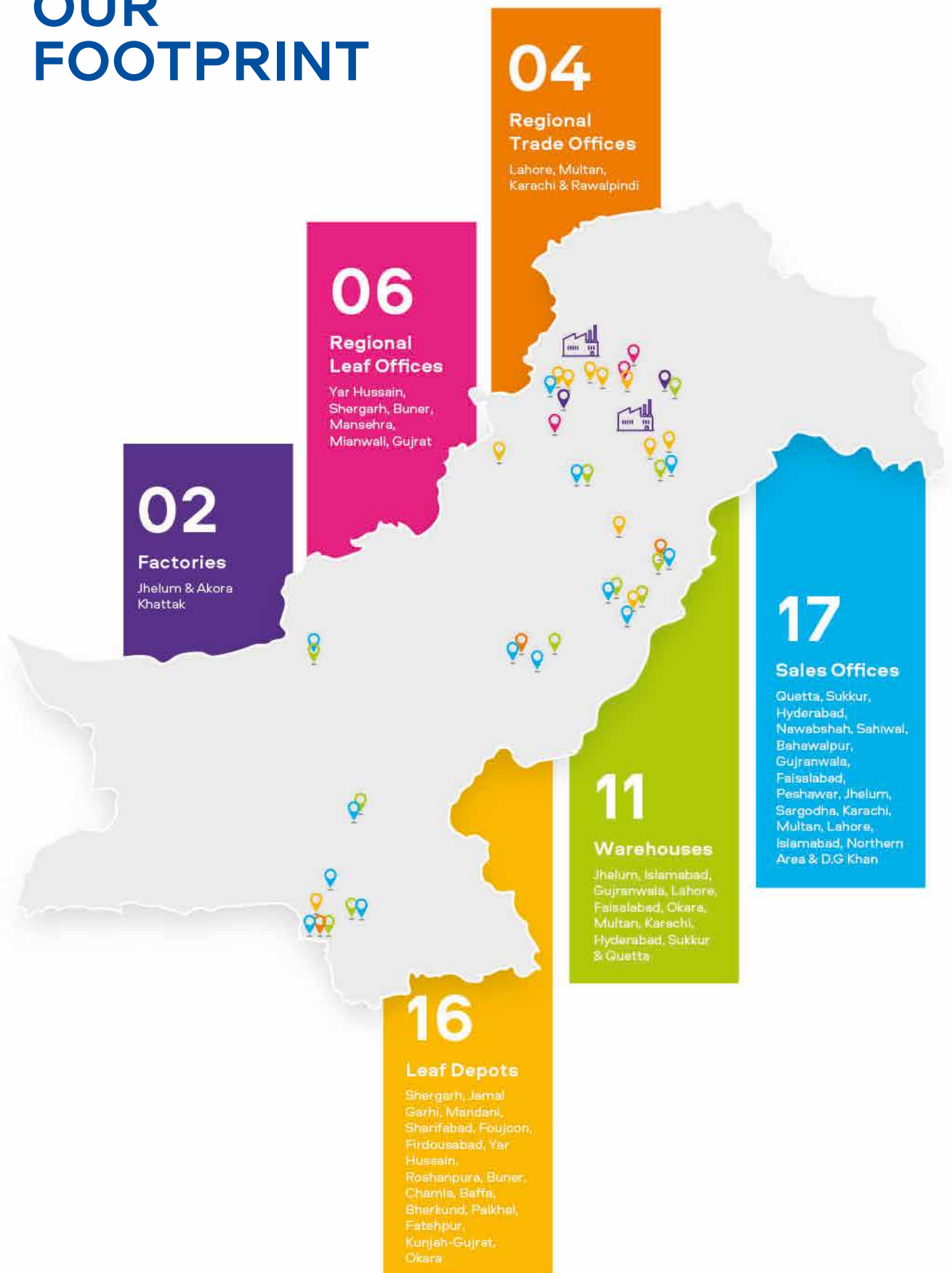
We are making a step-change in the development of standards to protect and support our New Categories ambition. We have created new benchmarks and set new records across the value chain - establishing Pakistan as an export hub for VELO in the APME region - thus building A Better Tomorrow™ for BAT, our consumers and all our

stakeholders. Furthermore, this year is poised to be the year of Sustainability. Exciting new initiatives such as expanding our plant nurseries footprint, increasing our water-filtration plants network and many new projects are underway. A year like no other, we are proud to not only have weathered the storm but come out of this stronger.

Aligned with the Government's ambition of reducing the balance of payments deficit, we exported Raw Tobacco and Finished goods to GCC and other Middle Eastern countries with an approximate worth of around \$31 million. Overall, we exported over 2.3+ Billion Cigarettes and 4+ Million Kilograms of Raw Tobacco. These numbers have the potential to grow manifold in the years to come.

We are extremely positive about the strategic interventions that our team undertook during 2020. Our globally sought-after talent, prized product portfolio, our partnerships throughout our crop to consumer operations and world class manufacturing facilities is what sets us apart locally and globally.

OUR FOOTPRINT



CORPORATE INFORMATION



Registered Office

Pakistan Tobacco Company Limited
Serena Business Complex
Khayaban-e-Suhrwardy
P.O. Box 2549
Islamabad – 44000
T: +92 (51) 2083200, 2083201
F: +92 (51) 2604516
www.ptc.com.pk



Factories

Akora Khattak Factory

PO Akora Khattak
Tehsil and District Nowshera
Khyber Pakhtunkhwa
T: +92 (923) 561561-72
F: +92 (923) 561502

Jhelum Factory

G.T Road, Kala Gujran, Jhelum
T: +92 (544) 646500-7
F: +92 (544) 646524



Company Secretary

Sami Zaman
T: +92 (51) 2083200



Bankers

Conventional Banks

MCB Bank Limited
Habib Bank Limited
National Bank of Pakistan
Citibank N.A
Standard Chartered Bank (Pakistan)
Limited
Deutsche Bank AG

Islamic Banks

MCB Islamic Bank Limited



Auditors

KPMG Taseer Hadi & Co.
6th Floor, State Life Building No. 5, Jinnah
Avenue, Blue Area, Islamabad 44000
T: +92 (51) 2823558
F: +92 (51) 2822671



Share Registrar

Famco Associates (PVT) LTD
8-F, Near Hotel Faran
Nursery, Block 6, P.E.C.H.S.
Shahrah-e-Faisal, Karachi
T: +92 (21) 34380101-5

Regional and Area Offices

Central Punjab

200-FF Block, Central Commercial Area,
Phase 4, DHA, Lahore Cantt
T: +92 (42) 35899351-55

11 KM Jaranwala Road,
Near Shafi Oil Mills, Faisalabad
T: +92 (41) 8740892-94

G.T Road, Rahwali, Gujranwala Cantt
T: +92 (55) 3864297

Southern Punjab

Office No. 601/602, 6th Floor,
The United Mall, Main Abdali Road, Multan
T: +92 (61) 4512553, 4585992

House No. 42/3, Tipu Shaheed Road,
Model Town A, Bahawalpur
T: +92 (62) 2877576

House No. 313, Street No. 3 Hameed Ullah
Mocal Colony, Sahiwal
T: +92 (40) 4503107

North

1st Floor, Faran-101, Civic Centre,
Phase IV, Bahria Town, Islamabad
T: +92 (51) 5734207-10

Cigarette Factory, G.T Road, Jhelum
T: +92 (544) 646500-11
F: +92 (541) 646529

MM Plaza, Plot # 110-111, Soni Pura Chak
47 Road, Shaheen Park, Sargodha
T: +92 (48) 3769921

2nd Floor Marina Mall Opposite Chief
Burger Near Abdara Chowk Main
University Road Peshawar
T: +92 (91) 5702649-50

Sindh & Balochistan

Office No. 903, 9th Floor,
Emerald Tower (Plot No. G - 19),
Main Clifton Road, Clifton Block 5,
Karachi 75600
T: +92 (21) 35147690-94

Banglow No. 05, Block B, Unit No. 05,
Near Bhittai Hospital Latifabad,
Hyderabad
T: +92 (22) 3813636

Bungalow No. A-17, Housing Society,
Nawabshah, (Near SSGE Regional Office).
Nawabshah
T: +92 (244) 364463-364458

Bungalow No. A/31 Akhuwat Nagar,
Shikarpur Road, Sukkur
T: +92 (71) 5807225 - 5807224

B-604, 2nd Floor, (Serena Bazar), Serena
Hotel Quetta, Quetta
T: +92 (81) 2832012 - 13

OUR LOGO EVOLUTION

The logo, along with a new brand identity, reflects changes in the world around us and our business. For decades, our previous leaf logo has served us well as a strong symbol of a world-leading tobacco company. Today, however, our purpose has evolved as we aim to reduce the health impact of our business through offering a greater choice of enjoyable and reduced risk products* for our consumers. Our dynamic new logo reflects our company today and our journey ahead. Our heritage – and the foundation of our success – is in cigarettes, however, we recognize the world is changing. We have a clear purpose to build A Better Tomorrow™ by reducing the health impact of our business.

New BAT Identity



Our Colours

The blues represent the water and air that sustain us, yellow/orange are the sun that nurtures us, greens are the land on which we depend and pink/purple represents our innovation and diversity.

PTC
PAKISTAN TOBACCO
COMPANY



OUR RESPONSE TO COVID-19

Since the COVID-19 outbreak, we have moved quickly to protect the health of our staff and customers, while activating our business contingency plan to avoid disruption to our services. Our digitalization efforts in recent years, to move our customers to digital channels and enable our employees to work remotely, have helped us adapt fast. Here is our response to COVID-19.

26 February

Regular Crisis Management Team meetings were held to take updates and take necessary decisions regarding safety of our employees

1 April

More than 2,000 cases in Pakistan were recorded

20 May

Almost a complete transformation to digital and remote way of working was implemented across business operations in the country

23-29 March

Disinfection of our offices, factories and distribution locations were conducted. Disinfection chambers were installed, strict temperature & symptom monitoring was deployed across all areas

15 May

We distributed Personal Protective Equipments, N-95 masks and sanitizers to doctors and health workers who were treating COVID-19 patients. Furthermore surgical masks and sanitizers were distributed amongst communities in Jhelum and Akora



1 August

Decline of first wave was witnessed in the government data. Business flourished along with new normal. Akora Khattak Factory and Jhelum Factory continued to push industry leading numbers across the BAT Group

10 December

Covid awareness campaigns launched to reaffirm the severity of the pandemic. We continued to operate with our Work from Home protocol ensuring the continued safety of its employees

28 June

HO and A&TMD offices started to reopen with limited capacity adhering to Covid protocols. Zero-Tolerance Policy for any non-compliances to the SOPs were put in place. We pioneered in implementing Covid protocol and helped to cascade best practices to other end markets

1 November

Pakistan experienced a second surge in the pandemic. Zero tolerance policy for any non compliance to SOPs continued to stay in effect

31 December

We continued to distribute Personal Protective Equipment's amongst front line health workers and the communities in Jhelum and Akora

AWARDS AND ACCOLADES

GDIB Award

Global Diversity and Inclusion Benchmark (GDIB) Awards are conducted by Diversity Hub Pakistan on an annual basis. GDIB awards is a mechanism to recognize and encourage progressive organizations who use GDIB standards to align D&I with organizational policies and process for sustainable financial and social performance.

GDIB has awarded Pakistan Tobacco Company Limited (PTC) 6 awards in the following categories:

- Vision
- Leadership
- Structure
- Recruitment & Development
- Learning and Education
- Communication

We ranked 5th place out of 30 companies by the GDIB panel

Top Employer 2020

Established more than 25 years ago, Top Employer Institute is a global certification Company recognizing excellence in people practices. Top Employers Institute has certified over 1500 organisations in 118 countries/ regions. Pakistan Tobacco Company Limited (PTC) has been awarded the Top Employer certification 2020 by the Top Employers Institute. We have achieved this award two years in a row.

Asia-Money Award

Asia-Money Awards are considered as one of the most prestigious awards globally and are designed to acknowledge listed companies that have excelled in areas such as financial performance, management team excellence, IR activities and CSR initiatives.

Pakistan Tobacco Company Limited (PTC) was awarded as the “Most Outstanding Company in Pakistan” in Tobacco Sector by the Euro-Money – Asia-Money Asia’s Outstanding Companies Poll 2020.

Management Association of Pakistan

Founded in 1964, MAP is a professional and non-political association with a not-for-profit agenda, and it pursues the vision to lead change processes towards best Management Practices. Management Association of Pakistan is committed to excellence in management through human capital development, creating awareness and recognizing best management practices to enhancing competitiveness. In 2020, Pakistan Tobacco Company Limited (PTC) was awarded the 35th corporate excellence award in the Tobacco Sector category.



RISK & OPPORTUNITY REPORT

As challenges in our operating landscape continue to intensify, the proactive identification and management of risks became vital in ensuring that the Company is able to deliver sustainable stakeholder value. The Company's risk management framework is characterized by defined mandates, comprehensive policy frameworks and robust governance structures. Effective risk identification, monitoring and mitigation processes are embedded in the Company's daily operations through a comprehensive framework comprising monitoring processes, internal controls and relevant stakeholder engagement mechanisms. As a subsidiary of BAT Group, we also benefit from globally followed highly effective best practices in risk management and thus, have been successful in nurturing a risk culture, which aptly balances risk and growth considerations.

Statement from Board of Directors

The Board is responsible for determining the risk appetite that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. The Company's risk management and internal control frameworks are aimed at safeguarding shareholders' investment, our assets as well evaluating and managing risks that may impede our objectives.

As part of the risk governance and overall good corporate governance stipulated in the Code of Corporate Governance 2019, several Directors of the Company have been appropriately certified under the Directors' Training Program from SECP approved institutions in accordance with the time frame set out in the Code. The following 9 Directors have obtained the requisite certification. Three are pending - their training is scheduled during the current year to ensure certification of the entire Board.

Names of Directors who have obtained certification from SECP approved institutions are provided below:

1. Syed Javed Iqbal
2. Asif Jooma
3. Tajamal Hussain Shah
4. Zafar Mahmood
5. Lt. Gen. M. Masood Aslam (R)
6. Usman Zahur
7. Syed Asad Ali Shah
8. Syed Ali Akbar
9. Mohammad Riaz

Risk Governance

The Board of Directors are responsible for determining the nature and extent of the significant risks the Company is willing to take to achieve its strategic objectives. The Board is supported by the Board Audit Committee in discharging its risk management related responsibilities and the Board Audit Committee regularly reviews the effectiveness of the Company's risk management processes and internal control systems. A dedicated Governance Committee (GC), comprising the Finance Director, as its chairman and Senior Managers representing key functions, reports to the Executive Committee on the risk performance of each function on a regular basis. The Company's risk profile is also monitored through the internal reporting mechanisms of the Group.

Risk Identification

During the year, a robust assessment of the principal risks faced by the Company were carried out, including those that would impact its business model, performance, brands, assets, solvency and its employees. Financial and non-financial risks are identified at a functional level, with inputs from relevant employees. This is carried out through team discussions and brainstorming sessions, which facilitate participation and value addition by employees across the Company. The identified risks are then reviewed for completeness by the GC on a regular basis.





Assessment and Evaluation

Elaborate Risk registers are used to assess and evaluate the risks in detail. Each identified risk is assessed and then categorized at one of the three levels (high/medium/low) in terms of the likelihood of its occurrence and the severity of its potential impact. Tolerance levels and trigger points are also defined for each identified risk. The risk registers are first validated by the GC, then the Executive Committee and finally by the Board Audit Committee.

Risk Management

Following the identification of key risks faced by the Company, the respective functions develop elaborate strategies and plans to mitigate the impacts of these risks. The Responsibility for managing each identified risk rests with the head of each function (risk owners), who reports regularly to the GC on the progress and effectiveness of the risk mitigation plans. Additionally, the potential impact of global trends and risks are also captured through input by the GC, which can recommend improvements in internal controls and risk mitigation plans in line with global best practices and experiences.

Monitoring

Risks are monitored at multiple levels in the organization including at functional level, by GC, Executive Committee, Board Audit Committee and Board level. Identified risks, the risk registers, mitigation plans, and performance of each risk mitigation plan are evaluated at these levels throughout the year. Furthermore, the Company is also fully compliant to all the requirements of Sarbanes Oxley Act (SOx) which has further strengthened the internal controls of the Company.

Materiality Approach Adopted by the Management

Materiality levels, other than those provided under regulations, are judgemental and may vary substantially from company to company. For us, matters are considered to be material if, individually or in aggregate, they are expected to significantly affect the performance, profitability, brands or assets of the Company.

Powers of the Board of Directors and the management have been defined with special reference to, and in compliance with the applicable regulatory framework. Authorizations for transactions have been clearly defined and documented in the Statement of Delegated Authorities (SoDA). These authorities have been defined keeping in view materiality levels appropriate to a certain position or level of an employee. These are reviewed and approved by BoD each year.

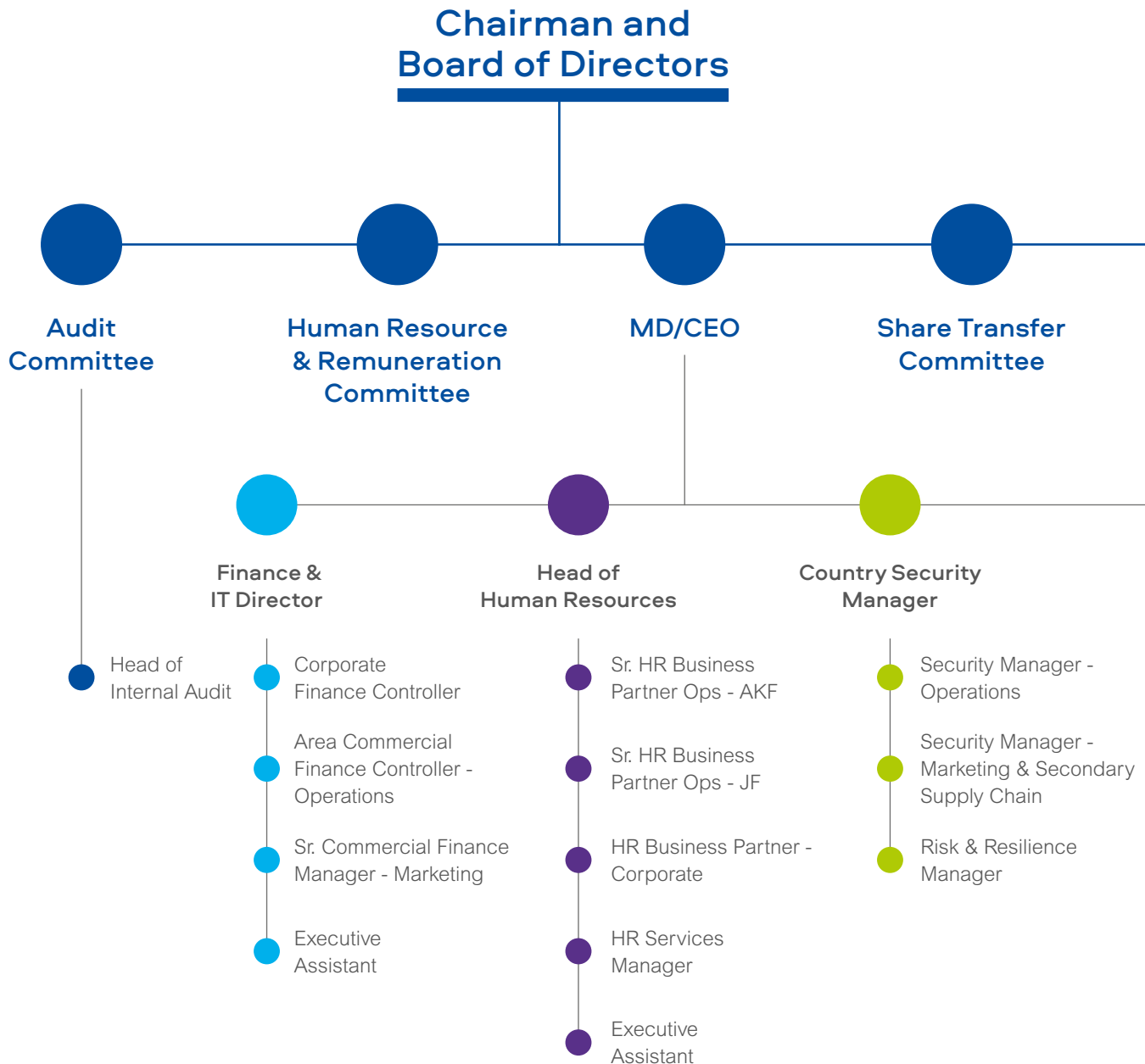
Key Sources of Uncertainty and Risks & Mitigating Strategies

Key sources of uncertainty emanate from challenging environments, the company operates in. Changes in political, social, technological, economic or legal factors also lead to risks, which the company might be exposed to. The Company actively monitors its risk universe to proactively manage and mitigate various risk exposures.

The following section details key risks that the Board believes could have the most significant impact on the Company's ability to create value. Some of these major risks are outside our control and other factors besides those listed below may affect the Company's performance. Some risks may be unknown at present; others which are currently immaterial, could emerge as material risks in the future.

| Risk Description | Level | Impact | Mitigating Strategy |
|-------------------------------|----------|---|--|
| Strategic Risks | | | |
| Illicit and Counterfeit Trade | High | <ul style="list-style-type: none"> Volume loss and profitability Erosion of brand value Investment in trade marketing is undermined | <ul style="list-style-type: none"> Active engagement with Government/ law enforcement agencies to highlight the issue and its impact on the legal industry |
| Aggressive Excise Increases | High | <ul style="list-style-type: none"> Direct impact on consumer affordability Down trading to illicit brands Reduced legal industry volumes Sustainability issues for the legal industry | <ul style="list-style-type: none"> Active engagement with Government/ law enforcement agencies to explain impact on the legal industry |
| Economic Conditions | Moderate | <ul style="list-style-type: none"> Direct impact on consumer buying power Down trading to illicit brands Reduced legal industry volumes | <ul style="list-style-type: none"> Brands across various consumer segments |
| Financial Risks | | | |
| Currency Devaluation | Moderate | <ul style="list-style-type: none"> Increased cost base Lower operating margins Pressure on profit growth | <ul style="list-style-type: none"> Hedging to minimize exposure Operational synergies across value chain Cost savings initiatives Physical hedging options |
| Material Price Sensitivity | Moderate | <ul style="list-style-type: none"> Increased cost base Lower operating margins Pressure on profit growth | <ul style="list-style-type: none"> Productivity initiatives Substitutes Alternative suppliers |
| Operational Risks | | | |
| Pandemics | Moderate | <ul style="list-style-type: none"> Injury to employees or contractor workforce Damage to company reputation Employee dissatisfaction Business Interruption | <ul style="list-style-type: none"> Strict compliance with EHS regulations, standards and protocols EH&S Trainings EH&S Audits Safety equipment Incident reporting |
| Accidents at Workplace | Low | <ul style="list-style-type: none"> Employee absenteeism Business interruption Damaging employee morale Reduced operational effectiveness | <ul style="list-style-type: none"> Strict compliance with EHS regulations, standards and protocols EH&S Trainings EH&S Audits Safety equipment Incident reporting |
| Employee Turnover | Low | <ul style="list-style-type: none"> Loss of key talent Low employee morale Employee dissatisfaction Reduced operational effectiveness | <ul style="list-style-type: none"> Market competitive remuneration International career opportunities Development and Growth opportunities Conducive and safe work environment Favourable employee policies |
| Natural Disasters | Low | <ul style="list-style-type: none"> Business interruption Property loss Employee safety Financial loss | <ul style="list-style-type: none"> Business interruption plans. Evacuation Plans and drills. Safety Equipment |

ORGANISATIONAL STRUCTURE



**Executive
Committee
(ExCo)**

**Area Director
Ops MESA**

**Legal & External
Affairs Director**

- Head of External Affairs & Company Secretary
- Commercial Counsel
- Executive Assistant

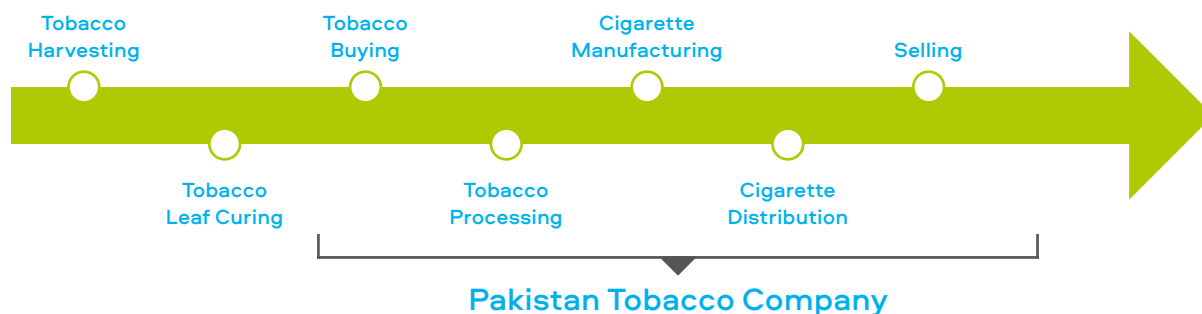
- Factory Manager - JF
- Factory Manager - AKF
- Supply Chain Manager SAA
- Area Quality Manager
- Area EHS Manager

**Head of
Marketing**

- Head of Activation and Trade Marketing Distribution
- Business Development Manager GTR & Afghanistan
- Planning Manager - PK
- Group Brand Manager JPGL
- Executive Assistant

As at 31st December 2020

POSITION OF REPORTING ORGANISATION WITHIN VALUE CHAIN



Sourcing

1. Tobacco Buying

While the Company does not own tobacco farms or directly employ farmers, it buys the majority of its tobacco from local farmers that grow tobacco crop in areas of KPK and Punjab province. The Company provides on-ground support and advice to these farmers, enabling them to increase yields, improve tobacco leaf quality and achieve consistency in crop attributes. In this way, the livelihood of many tobacco farmers remains connected with the Company.

factory. Our production facilities are located in Akora Khattak and Jhelum, which provide employment opportunities to the indigenous people of these areas.

2. Other Raw materials

The Company procures other raw materials used in the manufacturing and packaging of cigarettes from local as well as international suppliers. In turn, the local industries supplying raw materials to the Company are able to generate income and employment by transacting commercially with the Company. Venturing into new categories, the Company currently imports finished goods but will soon produce it locally.

Warehousing and Distribution

Following production, the finished products are then transported from the factories to warehouses located in various parts of the country. Export goods are stored only at Jhelum Factory and shipped to other regions from there. The other finished goods are sold to our appointed distributors operating across the country. These distributors sell the product to wholesalers and retailers operating in their respective market areas. In carrying out its warehousing and distribution operations, the Company leases several warehouses across the country whereas it utilizes the services of Logistics Service Providers for the transportation of goods. These operations in-turn enable other companies, businesses and people not only in generating income for themselves but also in creating employment opportunities for others. The benefits of the economic activity generated by our business trickles down to various segments and benefits the society at large.

Manufacturing

1. Tobacco Processing

Prior to being used in the manufacturing of cigarettes, tobacco undergoes processing first in the GLT (Green Leaf Threshing) Plant and then in the PMD (Primary Manufacturing Department). These operations, being in Akora Khattak and Jhelum, benefit the local community by not only providing direct employment opportunities but also business opportunities created as a result of ancillary services, required by the Company to run its operations.

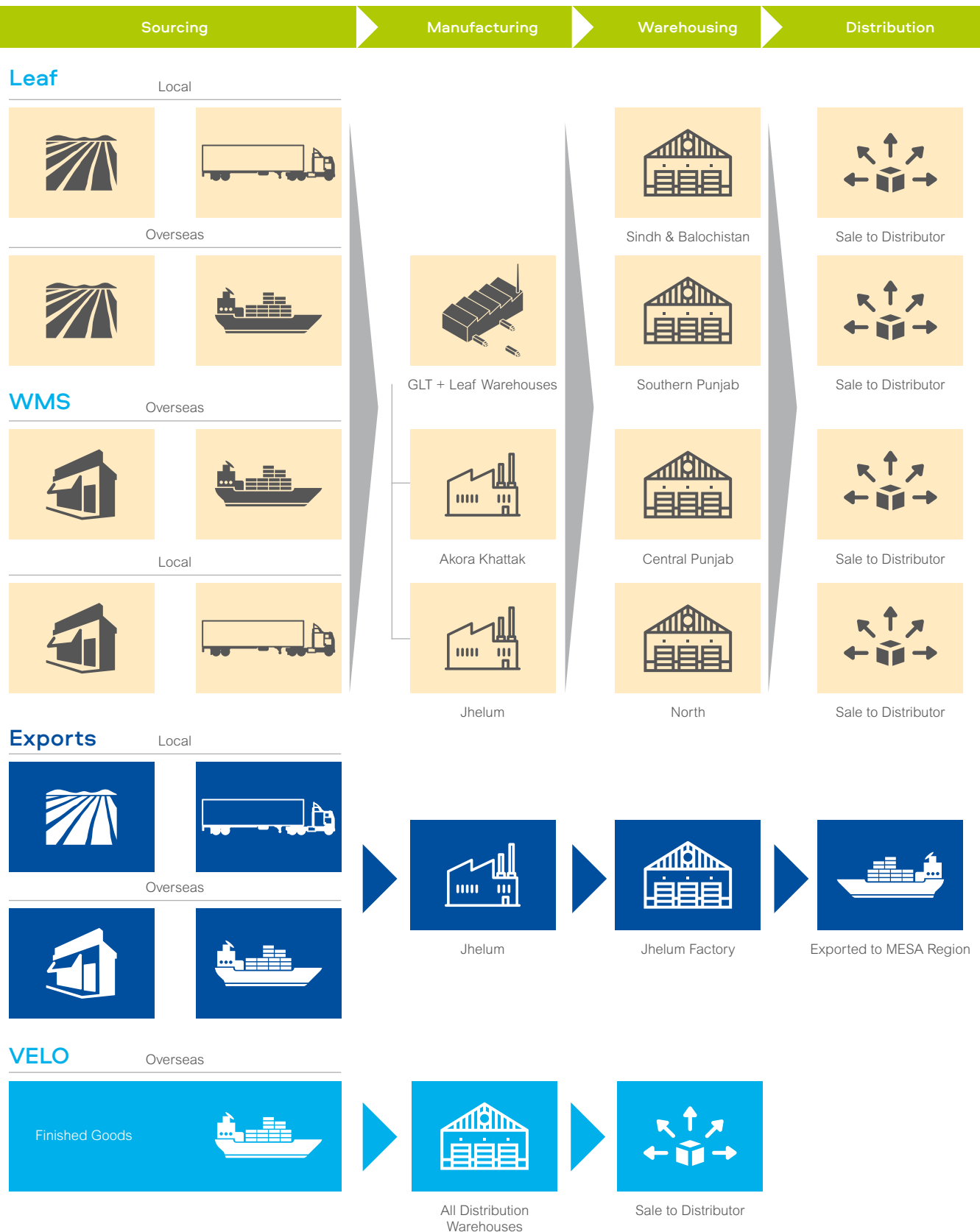
2. Cigarette Production

In the production phase, processed tobacco and raw materials are first used to make cigarette sticks, then formed into cigarette packs and finally packed in corrugated boxes, ready to be shipped out of the

Selling and Marketing

Every year the Company carries out various marketing and selling activities to support its business partners and to promote its brands. These also include activities that help in providing insights into consumer preferences and perceptions, especially those related to the Company's brands. In executing these activities, the Company utilizes the services of many local suppliers, which in turn generates not only commercial activity for other local businesses but also creates many employment opportunities.

Following is the Graphical Representation of PTC's Operations and New Categories Product Distribution:



BOARD OF DIRECTORS



Zafar Mahmood

(Chairman and Non- Executive Director)

Mr. Zafar Mahmood holds an MA in Economics and an LL.B, as well as a Post Graduate Diploma in Development Administration from Manchester University, UK. He served the Government of Pakistan for 38 years in multiple important roles, including Secretary Textiles, Secretary Industries, Secretary Water & Power, Secretary Petroleum & Natural Resources, Secretary Commerce and Secretary Cabinet. During his distinguished career, he also held the positions of Consul General in Istanbul, Vice Chairman Export Promotion Bureau and Chairman Punjab Public Service Commission. He retired from public service while holding the critical role of Chairman WAPDA. He joined the PTC Board in 2016.



Usman Zahur

(Managing Director/CEO)

Mr. Usman Zahur joined PTC 23 years ago and since then, he has held various senior Marketing positions in Brands, Trade and SP&I across different geographies. In 2012, he was assigned as the Head of Marketing – Bangladesh, where he led the marketing team in achieving unprecedented growth in a very complex and competitive environment. He returned to Pakistan in 2017 as Area Marketing Director for South Asia Cluster including Sri Lanka and Myanmar. He was appointed as the Managing Director / CEO of the Company in November 2019.



William Pegel

(Finance & IT Director)

Mr. William Pegel joined PTC as Area Head of Finance for South Asia Cluster in 2019. He has over 24 years of experience in various BAT companies and successfully performed the role of Finance Director in various end markets including New Zealand, Papua New Guinea, Ghana and Bangladesh. He has also held various senior finance roles at BAT Australia and BAT South Africa since 1996. Prior to joining PTC, he was an integral member of the BAT Bangladesh Leadership Team, displaying strong leadership and business acumen. He is a Certified Chartered Accountant from the South African Institute of Chartered Accountancy. He joined the Board in September 2019.



Syed Asad Ali Shah

(Legal & External Affairs Director)

Syed Asad Ali Shah has more than 18 years of experience with the Company. He has worked in several managerial roles in Marketing, Supply Chain and Corporate & Regulatory Affairs Functions in Pakistan, United Kingdom and North America. He has previously served as the Head of Government Affairs and in August 2018, he was appointed as the Area Head of Legal and External Affairs for South Asia Cluster. He holds a master's degree from Cranfield University School of Management, UK. He joined the Board in April 2019.



Syed Ali Akbar

(Marketing Director)

Syed Ali Akbar became a part of PTC in May 2019 as the Marketing Director, holding a strong legacy with over two decades of experience of working with various MNC's and Fortune 500 companies in senior leadership roles of General Management, M&A and Business Development. He has served as a director in different organisations, both in public and commercial sectors; not just in Pakistan but also the Middle East, North Africa and North America. He embarked on this outstanding career journey as a Management Trainee at Unilever Bestfoods and very quickly grew, taking up senior leadership roles in Engro Corporation, BAT and Coca-Cola. Whilst leading large diverse teams across countries in notable positions, he has received various local & global honours for his strategic vision; one of the most coveted accolades being in recognition of his ground-breaking strategy of driving innovation at Coca-Cola where he was awarded the Global Award 2018 – the Zenith of recognition by the Chairman & the Board. He joined the Board in November 2019.



Syed Javed Iqbal

(Non-Executive Director)

Syed Javed Iqbal has been with the BAT Group for the last 23 years. He joined as a Management Trainee and has held various key positions in the Finance function within PTC as well as with British American Tobacco Group. He has served in BAT South Korea as the Finance Controller and later in Global Headquarters in London as the Finance Manager for Global Marketing. In 2011, he was appointed as the Finance Director for Swiss Business Unit. He returned to Pakistan in 2014 as Director Finance & IT. In July 2016, he became the Managing Director /CEO of PTC and Area Director of South Asia Cluster. He is currently the Area Director for Middle East & South Asia business in BAT with effect from November 2019.

BOARD OF DIRECTORS



Tajamal Hussain Shah

(Non-Executive Director)

Mr. Tajamal Hussain Shah is a legal professional with extensive experience in the public and private sector. Before joining BAT in 2000, he worked for various organisations based in England including as a regulator of the financial services industry with UK's department of trade and industry and in the banking department of the international law firm DLA Piper. In this period of his life, he specialised in general banking, asset and aircraft financing. He spent over 18 years with BAT, occupying various senior legal and management roles. He retired in July 2018 from the role of Area Head of Legal and External Affairs for South Area Cluster to become a non-executive director on the board of PTC. Currently, he is heading the legal and business consultancy firm THS & Co., which specialises in telecommunication and technology law, constitution and tax as well as compliance. He is a UK qualified Barrister and a Solicitor for England and Wales.



Belinda Joy Ross

(Non-Executive Director)

Ms. Belinda Joy Ross completed her LL.B. and B. Com at the University of Otago, New Zealand and is registered as a Barrister and Solicitor of the High Court of New Zealand. Before joining BAT, she has worked as a private practitioner at one of Auckland's leading firms and has also provided advisory services to various New Zealand and South Pacific Businesses. Belinda has over 21 years of experience within British American Tobacco (BAT) and her current role encompasses Legal Affairs, Corporate Affairs and Security matters across Asia Pacific and Middle East regions. She is a member of the leadership teams of Asia Pacific and Middle East regions as well as the Global Legal and External Affairs team. She joined the Board in April 2019.



Lt. Gen. M. Masood Aslam (R)

(Independent Director)

Lt. General M. Masood Aslam (R) has special expertise in countering militancy, violent extremism and undertaking rehabilitative measures to ensure lasting peace. He was commissioned in an infantry regiment of the Pakistan Army in November 1971. During his illustrious career, he has held various command and staff appointments, including commanding a brigade and a division. At a crucial time in the country's history, he commanded the Peshawar Corps and oversaw military operations in FATA and KPK. Post his retirement, he remains actively involved with numerous think tanks in Pakistan and abroad. He has also served the country overseas as Pakistan's Ambassador to Mexico. He joined the Board in April 2019.



Mohammad Riaz

(Independent Director)

Mr. Mohammad Riaz started his distinguished 37 year career of Government Service as the Secretary / Chief Budget of FBR in 1981. He later served overseas as Commercial and Economic Counsellor in Paris and Counsel General, Istanbul. Due to his active involvement in Public Affairs, he was posted as DG Social Sector at the Prime Minister's Secretariat. Later he also served as the Member Customs of FBR and DG Customs Intelligence for 4 years. He retired after serving as Federal Secretary National Assembly/Parliament for 2.5 years. After retirement, he was appointed as a member of the Board of Governors of the State Bank of Pakistan (SBP) in 2016. He has also served as a Member, Monetary Policy Committee of the Ministry of Finance/SBP. He joined the Board in April 2019.



Asif Jooma

(Independent Director)

Mr. Asif Jooma started his career in the corporate sector with ICI Pakistan Limited in 1983 and has over 35 years of extensive experience in senior commercial and leadership roles. Following his early years with ICI Pakistan Limited and subsequently Pakistan PTA Limited, he was appointed Managing Director of Abbott Laboratories Pakistan Limited in 2007. After serving there for nearly six years, he returned to ICI Pakistan Limited as Chief Executive in February 2013. He has previously served as President of the American Business Council, President of the Overseas Investors Chamber of Commerce and Industry (OICCI) and Chairman of the Pharma Bureau. He has also served as a Director on NIB Bank Limited, Engro Fertilisers Limited and Director and Member Executive Committee of the Board of Investment (BOI) – Government of Pakistan. He currently serves on the Board of Systems Limited and is the Chief Executive of NutriCo Morinaga (Private) Limited.

Mr. Jooma is on the Board of Governors of the Lahore University of Management Sciences (LUMS) and a Trustee of the Duke of Edinburgh's Awards Programme whilst previously also serving on the Board of Indus Valley School of Art and Architecture (IVSAA). He graduated Cum Laude from Boston University with a Bachelor of Arts in Development Economics. He has attended Executive Development Programmes at INSEAD and Harvard Business School. He joined the Board in April 2019.



Zafar Aslam

(Non-Executive Director)

Mr. Zafar Aslam is a Mechanical Engineer, having completed management programs at University of Cranfield, Stanford University and IMD Lausanne. He's worked on multiple programs with McKinsey, Accenture and Gartner. He joined BAT 24 years ago, as a Management Trainee in Operations. After several roles in PTC, he moved to Malaysia as the Asia Pacific (AsPac) Regional Supply Chain Program Manager before returning to Pakistan as the Factory Manager. In 2010, he was appointed as Operations Director, BAT Bangladesh. He then served as the Regional Head of Plan & Service based in the UK and later as the Group Head of Plan, Service & Logistics in the Global Head Office, London before returning to Asia as the Regional Operations Director for AsPac Region in 2016. He was also appointed Director on the Boards of British-American Tobacco (Singapore) Pte Ltd & British-American Tobacco Marketing (Singapore) Pte Ltd. Since January 2018, he has taken over the added responsibilities of the Middle East Area as Regional Operations Director. He joined the Board in April 2019.

COMMITTEES OF BOARD

The Board has a number of committees, which assist the Board in the performance of its functions.

Executive Committee

The Executive Committee of the Board (ExCo) comprises of Executive Directors of the Company and heads of departments. The ExCo drives to achieve the strategic targets set by the Board of Directors.



Usman Zahur

Managing Director & CEO



Syed Asad Ali Shah

Legal & External Affairs Director



William Pegel

Finance & IT Director



Syed Ali Akbar

Marketing Director



Waqas Ahmad Khan

Head of Human Resources



Husain Iqbal Jaffery

Head of Operations



Sami Zaman

Company Secretary

Matters delegated to the Management

It is the responsibility of management to conduct the routine business operations of the Company in an effective and ethical manner in accordance with the strategies and goals as approved by the Board and to identify and administer the key risks and opportunities which could impact the Company in the ordinary course of execution of its business. Management is also concerned in keeping the Board members updated regarding any changes in the operating environment. It is also the responsibility of management, with the oversight of the Board and its Audit Committee, to prepare financial statements that fairly present the financial position of the Company in accordance with applicable accounting standards and requirements of the Companies Act, 2017.

Board Meetings

During the year 2020, five meetings were held on 24th February, 7th May, 24th July, 23rd October and 10th December. Attendance of its members is as follows:

| Members | Attendance |
|--|------------|
| Mr. Zafar Mahmood <i>Chairman</i> | 5/5 |
| Usman Zahur <i>Managing Director and CEO</i> | 5/5 |
| William Francis Pegel <i>Director Finance & IT</i> | 5/5 |
| Syed Asad Ali Shah <i>Director Legal and External Affairs</i> | 5/5 |
| Syed Ali Akbar <i>Director Marketing</i> | 4/5 |
| Syed Javed Iqbal <i>Non-Executive Director</i> | 1/5 |
| Belinda Joy Ross <i>Non-Executive Director</i> | 4/5 |
| Zafar Aslam Khan <i>Non-Executive Director</i> | 3/5 |
| Lt. Gen. M. Masood Aslam (R) <i>Independent Director</i> | 5/5 |
| Mohammad Riaz <i>Independent Director</i> | 5/5 |
| Asif Jooma <i>Independent Director</i> | 5/5 |
| Mr. Tajamal Shah <i>Non-Executive Director</i> | 4/5 |

Audit Committee

In 2020, 4 meetings were held on 24th February, 7th May, 24th July and 23rd October. Attendance of its members is as follows:

| | |
|----------------------------------|-----|
| Mohammad Riaz <i>Chairman</i> | 4/4 |
| Lt. Gen. M. Masood Aslam (R) | 4/4 |
| Asif Jooma | 4/4 |
| Tajamal Shah | 3/4 |
| Belinda Joy Ross | 3/4 |

Executive Committee (ExCo)

In 2020, one meeting was held on 18th June*. Attendance of its members is as follows:

| | |
|--|-----|
| Usman Zahur | 1/1 |
| William Francis Pegel | 1/1 |
| Syed Asad Ali Shah | 1/1 |
| Syed Ali Akbar | 0/1 |
| Hussain Iqbal Jaffery <i>Director, Supply Chain</i> | 1/1 |
| Waqas Ahmad Khan <i>Head of HR</i> | 1/1 |

* ExCo meetings reduced due to creation of new empowered forums for decisions on operational matters. See page 38 for more details

Human Resources & Remuneration Committee Meetings

In 2020, one meeting was held. Attendance of its members is as follows:

| | |
|------------------------------|-----|
| Lt. Gen. M. Masood Aslam (R) | 1/1 |
| Asif Jooma | 1/1 |
| Usman Zahur | 1/1 |

Shares Transfer Committee

In 2020, twelve meetings were held. Attendance of its members is as follows:

| | |
|--------------------|-------|
| Usman Zahur | 9/12 |
| William Pegel | 12/12 |
| Syed Asad Ali Shah | 12/12 |

Governance Committee

In 2020, eleven meetings were held. Attendance of Board members is as follows:

| | |
|----------------|-------|
| William Pegel | 11/11 |
| Syed Asad Shah | 10/11 |

Commercial Committee

In 2020, eleven meetings were held. Attendance of Board members is as follows:

| | |
|--|-------|
| Usman Zahur | 9/12 |
| William Francis Pegel | 12/12 |
| Syed Asad Ali Shah | 12/12 |
| Syed Ali Akbar | 9/12 |
| Hussain Iqbal Jaffery <i>Moved to new role in August 2020</i> | 6/7 |
| Waqas Ahmad Khan | 12/12 |

TORs / Functions of Board Committees

| Committees Audit Committee | Committees Human Resources and Remuneration (HR&R) |
|--|--|
| Functions <p>The Audit Committee functions within the scope of the terms of reference approved by the Board, which sets out the roles and responsibilities of the Committee and as well as the requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2019. The role and responsibilities of the Audit Committee include:</p> <ul style="list-style-type: none"> Seeking assurance on the measures taken by the management in identification, evaluation and mitigation of relevant business risks. Reviewing quarterly, half-yearly and annual financial statements of the Company and preliminary announcements of results before approval by the Board and publication. | Functions <p>The Committee is responsible for:</p> <ul style="list-style-type: none"> Recommending human resources management policies to the Board; Recommending to the Board the selection, evaluation, compensation (including retirement benefits) and succession planning of the MD/CEO; Recommending to the Board, the selection, evaluation, compensation (including retirement benefits) of COO, CFO, Company Secretary and Head of Internal Audit; and Consideration and approval on recommendations of MD/CEO on such matters for key management positions who report directly to MD/CEO or COO. |

| | |
|--|--|
| <ul style="list-style-type: none"> • Reviewing the Company's statement on internal control systems, prior to their approval by the Board. • Ascertaining that the internal control systems including financial and operational controls, accounting system and reporting structure, are adequate and effective. • Monitoring compliance with the best practices of corporate governance and instituting special projects and investigations on matters deemed appropriate by the Committee or desired by the Board. • Review and approve the scope and extent of internal audit, including the annual Internal Audit Plan, and regularly monitors the progress of the internal audit engagements. | |
| Committees Share Transfer Committee | Committees Executive Committee of the Board (ExCo) |
| Functions | Functions |
| <p>The Committee is responsible for dealing with the day to day matters relating to the shares of the Company.</p> | <p>The Executive Committee of the Board (ExCo) is the central working nucleus of the organisation. Comprising of Executive Directors and Heads of Departments of the Company, the ExCo drives to achieve the strategic targets set by the Board of Directors.</p> |
| Committees Governance Committee | Committees Commercial Committee |
| Functions | Functions |
| <p>The Governance Committee (the Committee) is a sub-committee of the Executive Committee (ExCo).</p> <p>The objective of the Committee is to assist the PTC ExCo to discharge their corporate governance responsibilities to exercise due care, diligence and skill in relation to:</p> <ul style="list-style-type: none"> • Achievement of PTC goals within an appropriate framework of internal control and risk management; • Process simplification with empowered teams leading to smarter and faster decision making; • Internal control system; • Risk management and analysis; • Business policies and practices; • Compliance with the SoBC standards and policies; • Compliance with applicable laws and regulations; and • Monitoring and controlling of business and other risks <p>While recognising that the primary responsibility for corporate governance resides with the Board, it has been delegated to the Committee, which has a representation of the ExCo and their direct reports</p> <p>The Committee does not replace or replicate established management responsibilities and delegations or the reporting lines and responsibilities of internal audit or external audit functions and nor does the delegation to the Committee fragment or diminish the responsibilities of the Board as a whole.</p> | <p>The committee is also sub-committee of ExCo. The objective is to assist the ExCo in reviewing key business metrics on a monthly basis which include market overview, current business performance, proposed plans, financial performance, latest estimates, operational performance and supply plans.</p> <p>The commercial forum is responsible for the following:</p> <ol style="list-style-type: none"> 1. Seamlessly drive the commercial agenda for PTC 2. Monitor progress and facilitate delivery for ongoing projects and work streams (Star Charts) 3. Provide organizational support to and approval for ongoing projects 4. Operational decision making and business cases for key projects and budgetary approvals 5. Detailed PIRs of completed projects 6. Necessary escalations and approvals if required for ASOP and ALT Commercial <p>This is an approving forum for all budgets for business plans as per the SoDA governance.</p> |

REPORT OF AUDIT COMMITTEE

The Audit Committee comprises of five directors. All members of the Audit Committee are non-executive directors including the Chairman. The Head of Internal Audit is the Secretary of the Audit Committee and reports directly to the Chairman. In line with corporate best practices laid out in the Code of Corporate Governance 2019, there is more than one independent director present in the Audit Committee.

Four meetings of the Audit Committee were held during 2020. The composition of the Audit Committee as on December 31, 2020 is as follows:

| Directors | Status | 24 th Feb | 7 th May | 24 th Jul | 23 rd Oct | Total |
|---|---------------|----------------------|---------------------|----------------------|----------------------|-------|
| Mr. Mohammad Riaz <small>Chairman</small> | Independent | ✓ | 📺 | 📺 | ✓ | 4 |
| Lt. Gen. M. Masood Aslam (R) <small>Member</small> | Independent | ✓ | 📺 | 📺 | ✓ | 4 |
| Mr. Asif Jooma <small>Member</small> | Independent | ✓ | 📺 | 📺 | ✓ | 4 |
| Ms. Belinda Joy Ross <small>Member</small> | Non-Executive | X | 📺 | 📺 | 📺 | 3 |
| Mr. Tajamal Shah <small>Member</small> | Non-Executive | ✓ | 📺 | X | ✓ | 3 |

*Participants joining via Video conference call.

The Audit Committee is a standing committee of the Board. The Audit Committee assists the Board in carrying out its responsibilities relating to the Company's accounting policies, management of business risks, internal controls, financial reporting practices and the conduct of business in accordance with Code of Corporate Governance.

Meetings of the Audit Committee are held once every quarter. The Secretary prepares and circulates minutes to all members and attendees of the meeting. The external auditors attend the meetings to assist the Audit Committee on matters relating to financial accounts and reporting. The Audit Committee also meets the external auditors without the CFO and Head of Internal Audit being present. The Managing Director and the Finance Director attend meetings of the Audit Committee on standing invitation.

The Audit Committee functions within the scope of the terms of reference approved by the Board, which sets out the roles and responsibilities of the Audit Committee as well as the requirements of the Code of Corporate Governance.

For 2020 the Audit Committee Reports

1. The Company has complied, without any material departure, with the requirements of Listing Regulations, Code of Corporate Governance, Company's Standards of Business Conduct and other relevant statutory & regulatory requirements;
2. The Company has issued a Statement of Compliance with the Code of Corporate Governance which has also been reviewed and certified by the external auditors of the Company;
3. The Audit Committee reviewed and approved quarterly, half-yearly and annual financial statements of the Company and recommended them for approval of the Board of Directors. Further, the financial statements comply with the requirements of the Fourth Schedule to the Companies Act, 2017, and applicable International Accounting Standards and International Financial Reporting Standards

notified by SECP. No significant issues were identified by the external auditors with respect to the financial statements;

4. The Audit Committee approves that the Annual Report is fair, balanced and understandable and it provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy;
5. The Audit Committee reviewed all preliminary announcements of the Company's results prior to publication;
6. The Audit Committee reviewed the Company's statement on internal control systems prior to its endorsement by the Board;
7. The Audit Committee reviewed the Risk & Controls Matrix for identified risks, implemented controls and countermeasures to mitigate these risks. Furthermore, the Audit Committee reviewed recommendations from risk-based reviews for the mitigation of risks and improvement of processes;
8. The Audit Committee reviewed the procedures established for receipt, retention and treatment of concerns relating to the Company's accounting, internal accounting controls or auditing matters, on a confidential and anonymous basis; and
9. The Audit Committee evaluated its performance and shared the results with the external auditors.

Internal Audit and Risk Management

The Company has an appropriately staffed Internal Audit department for the appraisal of internal controls and monitoring of compliance. The Audit Committee reviewed the resources and performance of the Internal Audit department to ensure adequacy for the planned scope of the Internal Audit reviews.

Risk Assessments submitted to the Audit Committee drive the formulation of the annual Audit Plan to mitigate identified risks in the Company's operations. Audits are undertaken based on this plan and findings from these audits are reported to the Audit Committee.

Based on the internal audit reports, the Audit Committee reviewed the adequacy of controls and recommended improvements in the audit reviews. Report findings highlighted the adequacy of controls as well as the compliance shortcomings in the areas audited. Corrective actions were discussed with management and remediation plans were put into place. Regular follow ups were done with management on the execution of remediation plans ensuring management of risks, effective operation of controls and improved compliance.

Head of Internal Audit has direct access to the Audit Committee. Internal Audit has carried out its duties under the plan approved by the Audit Committee.

External Audit

The external auditors M/s. KPMG Taseer Hadi & Co. were allowed direct access to the Audit Committee. Major findings arising from audits and any matters that the external auditors wished to highlight were freely discussed with the Audit Committee.

Without interfering with the independence of the external and internal auditors, the Audit Committee encouraged coordination between them in the discharge of their respective duties.

The Audit Committee has reviewed and discussed with the external auditors and management, all the Key Audit Matters and other issues identified during the external audit along with the methods used to address the same. For continuous improvement of internal controls, the Audit Committee also discussed the internal controls and the management letter with the external auditors.

Being eligible for reappointment as auditors of the Company, the Audit Committee has recommended the appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants as external auditors of the Company for the year ending 31 December 2021. M/s KPMG Taseer Hadi & Co. has been the Company's external auditors since 2016 and has a thorough knowledge of the Company's business and industry.



STANDARDS OF BUSINESS CONDUCT AND ETHICAL PRINCIPLES

We, the Executive Committee mandated by the Board of Pakistan Tobacco Company Limited, believe in delivering with integrity and being absolutely transparent in our operations. Leading by example, we have embedded the Standard of Business Conduct in the DNA of this organisation and we stand by it.

These Standards of Business Conduct set out the standards that everyone working for PTC must follow, while also providing support and guidance to assist our people to ensure that their conduct meets the high standards of integrity expected of them.

In our Ethos we express commitment to be "diverse" and "responsible". Behaving responsibly will help us protect the quality of our business relationships amongst ourselves, our stakeholders and markets. Harnessing the diversity of our people, helps define our organisation, our culture and makes working together enjoyable.

To ensure that these principles are applied every day in our jobs, we need to express them in detailed terms. We needed to explain the challenges and set standards so that people could identify situations that might cross the line and provide guidance on how to address such situations. To understand how these and other principles should be reflected in our daily business lives and in our own behaviours at work, we need to set ourselves standards. This is why we have the Standards of Business Conduct.

These Standards are designed to help us make the right decisions when conducting day to day business and to assist us in upholding the integrity upon which our reputation is founded. They are based on our beliefs and values and underpin our commitment to honesty, integrity and transparency. Our Standards have been in place for many years and are kept under review to ensure that they remain updated with the best business practices. The latest version has been updated and revised in alignment with the United States best practice, following the acquisition of Reynolds American Inc. by British American Tobacco PLC. Though these Standards cannot cover every situation that we may encounter at work, but they can help guide our conduct. Above all, we must always choose what we truly believe to be the right course of action.

These Standards also provide an extensive outline of the legal obligations that all employees of Pakistan Tobacco Company Limited need to comply with at all times. However, these Standards are further intended to support all of us in ensuring, not only that our conduct remains lawful, but also that it is in line with the high standards that we expect of ourselves. They help

to reinforce our purpose, ambitions, values and mindset that we require to succeed. They do this by making clear the rules that govern our business conduct and by providing guidance to help us make appropriate judgments and decisions in the course of our work. Everyone in the Company is responsible for upholding these requirements. Failure to observe the Standards is a cause for disciplinary action, which may lead to dismissal.

The Standards encourage employees to feel secure in seeking advice or raising concerns. If any employee is unsure of what to do in any situation or has concerns about wrongdoing at work, there are colleagues who can help, managers who will listen, and policies that are there to support the employee. Above all, channels are available for employees to raise their concerns regarding any violation of the Standards. The Company does not tolerate any retaliation against anyone who raises a concern.

We all have a personal responsibility to uphold the Standards that we set for ourselves and to act in ways that maintain and improve the reputation of Pakistan Tobacco Company Limited. The Company encourages everyone to be familiar with these Standards, not just as a set of rules but as a way of working. By living up to the letter and the spirit of the Standards in our actions and judgment, we ensure that Pakistan Tobacco Company Limited continues to be an organisation which not only delivers excellent financial returns, but is also the one which we are proud to work for.

Governance Exceeding Regulatory Requirements

The Company's commitment towards adherence to the highest levels of ethical values is demonstrated by its voluntary adoption of the best business practices in addition to the stipulated regulatory requirements.

Some governance practices exceeding legal requirements that have been adopted by the Company include:

- Implementation of robust EH&S equipment, systems, processes and standards to ensure a high level of safety of all its employees and contractors.
- Detailed disclosure of financial analysis including quarterly analysis, ratios analysis, horizontal and vertical analysis, risks and opportunities etc.
- Implementation of “Standards of Business Conduct” to reinforce that the Company strongly believes in operating with integrity and that there is no room for corrupt practices.

Whistle Blowing

At the Company any employee who suspects a wrongdoing at work, is strongly encouraged to report such wrongdoing through the whistle blowing procedure.

Policy and Procedures

The Company's whistle blowing policy (Policy) gives employees (and people working with the Company) trust and confidence in how their concerns will be treated. The whistle blowing policy allows employees to report their concerns on any breach of the SoBC. The actions that can be reported include:

- Criminal Acts
- Putting Health or Safety at Risk
- Environmental Damage
- Bullying or Harassment
- Accounting Malpractices
- Failing to Comply with Legal Obligations
- Concealing any of the above activities

The Policy through the procedures set out therein, ensures highest level of confidentiality for the whistle blower and the investigation process. Additionally, in order to encourage people to speak up, the Policy also mandates no reprisal against the whistle-blower, who may also report the concern anonymously.

Procedures for raising concerns are provided below:

Informal reporting: Voice concern with line manager or any other senior manager.

Formal reporting: Report the matter formally for investigation with line manager or any of the designated officer either verbally or in writing.

Designated Officer: Referred to by the individual directly or by the line manager for investigation but matter is kept confidential.

Anonymous reports: Individuals may wish to raise concerns anonymously.

Reporting a wrongdoing: If you have a concern you wish to raise, you may write to any of the Designated Officers or contact them via telephone or fax.

The designated officers are:

Managing Director and CEO

Legal and External Affairs Director

Head of Internal Audit

Company Secretary

All employees of the Company are made aware of this Policy and the safeguards it provides to the whistle-blower.

Number of incidences reported in 2020

11 whistle blowing incidences were reported in the said year.

Conflicts of Interest

A conflict of interest will arise in any situation where an employee's position or responsibilities within the Company present an opportunity for him/her or any close relative to obtain a personal gain or benefit (apart from the normal rewards of employment), or where there is a scope for them to prefer their personal interests, or those of any close relative, above their duties and responsibilities to the Company.

Bribery and Corruption

Corruption causes distortion in markets and harms economic, social and political development, particularly in developing countries. It is wholly unacceptable for the Company and its employees to be involved or implicated

in any way in corrupt practices. The Company expects similar standards from the third parties it works with and to ensure the same has in place policies like Suppliers Code of Conduct and Anti-Bribery & Corruption Procedure

Entertainment and Gifts

The exchange of entertainment and gifts with business partners can build goodwill in business relationships and, within limits, is perfectly acceptable. However, some gifts and entertainment can create improper influence (or the appearance of improper influence) and might even be seen as bribes. The Company's Entertainment and Gift Policy prohibits giving and receiving of such gifts that may create any improper influence.

Political Contributions

The Company or its employees in official capacity shall not make any donations or contributions to any political party or make any donations or contribution to any entity or individual for a political purpose.

Charitable Contributions

Pakistan Tobacco Company Limited recognizes the role of business as a corporate citizen and the Company is encouraged to support local community and charitable projects.

Accurate Accounting and Record Keeping

Honest, accurate and objective recording and reporting of information, both financial and non-financial, is essential to:

- the Company's credibility and reputation;
- its ability to meet its legal, tax, audit and regulatory obligations; and
- informing and supporting business decisions and actions by the Company.

Protection of Corporate Assets

Employees are responsible for safeguarding and making appropriate use of the Company assets which they are entrusted with in order to do their jobs and meet the Company's business objectives.

Confidentiality and Information Security

The Company and employees must protect and maintain the confidentiality of all commercially sensitive information, trade secrets and other confidential information relating to the Company and its business.

Insider Dealing and Market Abuse

The Company is committed to supporting fair and open securities markets. Accordingly, employees are prohibited from dealing on the basis of insider information or engaging in other forms of market abuse.

Competition and Anti-Trust Laws

The Company believes in free competition. The Company must seek to compete fairly and ethically and within the framework of applicable 'competition' laws (or 'anti-trust' laws, as they are known in certain countries).

Money Laundering and Anti-Terrorism

Money laundering involves the possession of, or any dealing with, the proceeds of criminal activity. It includes the process of concealing the identity of illegally obtained money so that it appears to have come from a lawful source. The Company does not condone, facilitate or support money laundering.

Trade in the Company's Products

The Company engages only in lawful trade in its products. Illicit trade, involving smuggled or counterfeit products, harms our business and we would like to see our market free of it.

Sanctions

Various sanction regimes exist throughout the world, ranging from comprehensive economic and trade sanctions to more specific measures such as arms embargoes, travel bans and financial or diplomatic restrictions. Economic and trade sanctions impact upon the business of our Company by restricting the extent to which they can operate within certain jurisdictions.

Respect in the Workplace

All Company employees must treat all of their colleagues and business partners inclusively, with dignity and with respect.

Human Rights and the Company's Operations

The Company is committed to ensuring that its operations are always conducted in a way that respects the human rights of its employees, the people it works with and the communities in which the Company operates.

IT Governance Policy

The Company has a robust IT governance based on a number of policies and IT standards, where strategy and respective plans are defined based on the Company's automation and technology needs, processes and procedures. IT Systems are defined and implemented as per the industry standard process and related requirements. All the controlling processes are governed using industry best practices, from leaf buying process to cigarette manufacturing to sales automation.

Being the custodian of the Company's most important asset, the data, the Company's IT, supported by global support groups, is ensuring that right people have access to the Company's infrastructure through Global IT standards, IT Infrastructure Library (ITIL) processes and

controls which are in place. To ensure required standards and quality, all IT projects and initiatives are approved from IT steering committee and built as part of the Company's IT plan.

All of the above is governed through policies and standards such as IT Security Policy, Approved Product List (APL), and Technical Security Standards (TSS) etc.

Robust ERP System

We have enabled the business team, on the latest and the most reliable ERP system, to ensure that all financial activities are recorded, and reporting facility is available to management for the latest update on business results and quick decision-making.

Scaled Sales Automation System

A full sales automation system used by salesmen to sell our product to retailers has been put in place. It enables the availability of key information and speeds up the selling process.

Cloud Based Infrastructure

We have transformed all the local data centres to globally hosted GEO redundant facility to ensure its availability to business is 24/7 from everywhere. All applications and storage facilities are in cloud with six levels of backups and GEO redundant backup / failover servers.

Business Continuity Planning

A Company-wide business continuity plan exists which is reviewed on a quarterly basis and tested twice a year. It is done to ensure that it is as per latest challenges and situations to ensure sustainable business operations during any disaster or climate situation.

Human Resource Talent Management

The Company's focus on creating diverse talent pools begins with attracting the best candidates in the market from all backgrounds and experiences. All the hiring managers are fully trained through 'Interviewing & Assessing Skills' training, which ensures effectiveness at hiring top & high potential talent without any biases or preconceived notions. The rigorous assessment criteria consists of multiple stages of shortlisting which primarily evaluate a candidate's agility & adaptability to be a part of a diverse community both locally and internationally.

The Company offers a plethora of learning opportunities for the talent to perform in a multi-cultural environment, including short and long term international assignments based in other end markets of the BAT Group.

Records Management Policy

The Company has its formal Records Management and Information Security Policies. Records Management Policy defines Company's Critical Records and their mandated retention periods considering their legal audit and tax obligations in addition to business needs. Both policies not only ensure that critical records are properly saved and archived but their security is also uncompromised. For electronic records, backups are maintained and for hard records, the Company has its own offsite "Records Storage" where critical records with longer retention period are kept safely.

Investors Grievance Policy

If any Investor has any grievance, he can contact the designated person for handling Investor Claims. On the official website of the Company under the head "Investor Relations" a name has been provided along with contact details of the person designated to handle investor grievances as per the SECP's guidelines.

Business Ethics & Anti-Corruption Measures

The Company is committed to operate the business fairly and ethically in line with applicable laws, right across the world. Conducting business ethically and with integrity amongst other things entails avoiding all forms of corrupt practices. As an organisation we have a "zero tolerance" approach to corrupt practices and in no circumstances, will such conduct be tolerated.

The Integrity Guide ("Guide") designed by LEX department reflects our commitment to encouraging the application of the Company's Standard of Business Conduct. This Guide is designed to help everyone working for or with the Company to understand the Business Integrity Principles. It aims to define and determine behaviours in certain situations which are prone to risk and will serve as a basis for discussing ethical business issues with others.

In order to improve corporate sustainability the Company further stresses and pushes its contractors, agents or consultants, to act consistently with the SoBC by applying similar standards within their own organisations.

Actual and Perceived Conflicts of Interest

The Company is determined to provide the best working environment to all its employees. It is a part of SoBC that all employees must avoid situations where their personal interests might, or might appear to, be in conflict with the interests of the Company. In this regard the guiding principle is that an employee must disclose to the higher management of any personal or business conflict of interest he/she may have.

In the case of any Board member of the Company, disclosure should be made to, and approval sought from, the Board of the Company at its next meeting, and the decision should be recorded in the minutes.

All employees must disclose any conflicts of interest in accordance with the procedure set out in the SoBC at the end of each year.

The Company maintains a 'conflicts log' which records the details of all conflicts of interest disclosed by employees and the action taken in respect of them.

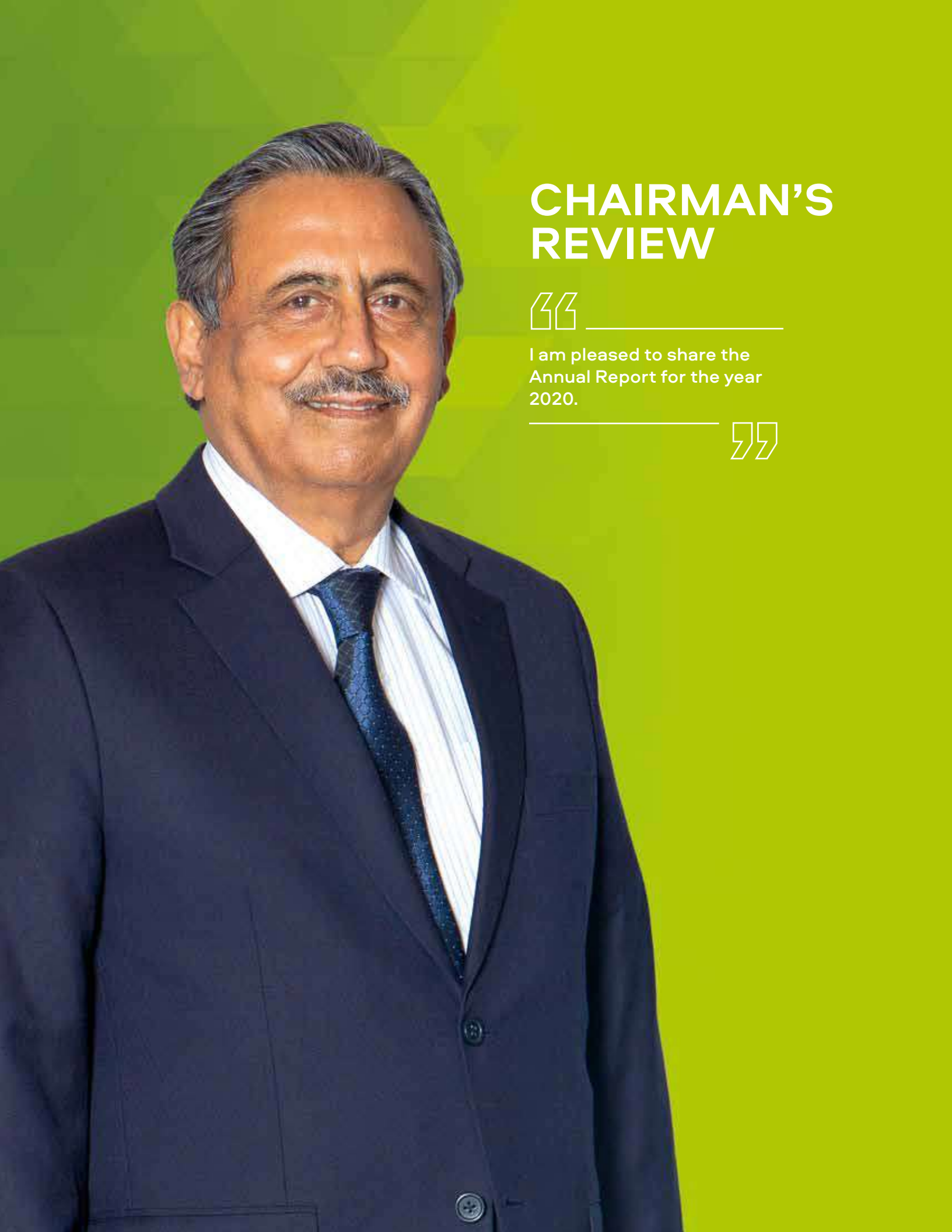
The Company Secretary is responsible for maintaining the 'conflicts log'.

Related Parties

All transactions with related parties arising in the normal course of business are carried out on an unbiased, arm's length basis at normal commercial terms and conditions.

As required under the fourth schedule of the Companies Act, 2017, detailed disclosures regarding related party transactions have been presented in Note 38 to the financial statements. Such disclosures are in line with the requirements of the 4th Schedule of the Companies Act, 2017, and applicable International Financial Reporting Standards.

In compliance with the Code of Corporate Governance and applicable laws, a comprehensive list of all related party transactions was placed before the Audit Committee for review at the end of each quarter. After review by the Committee, the transactions were considered and approved by the Board keeping in view the recommendations made by the Committee.



CHAIRMAN'S REVIEW

“

I am pleased to share the
Annual Report for the year
2020.

”

2020 Performance

The legitimate tobacco industry remained under pressure due to the widening price differential between duty not paid (DNP) brands and legitimate brands following the 93% increase in excise rates in 2018 and 2019 that fuelled illicit market share growth in 2020. The Government's decision not to change excise rates was a positive outcome from FY 2020-21 budget that provided consumer price stability, but this was short-lived as key brands in the illicit sector reduced their selling prices by 25% post budget to Rs 30/pack. Enhanced enforcement support by the Government is key to ensure fair competition within the tobacco industry and would prevent loss of further tax revenues towards the national exchequer.

Growing Illicit market share was the primary driver behind PTC's volume decline in 2020, however, the Company's overall financial position has remained healthy. The Company delivered EPS growth of 28% which was achieved by keeping a strong focus on effective cost management, lean operations and investment in brands portfolio to offer products which reflect evolving consumer preferences.

Corporate Social Responsibility

This year is poised to be the year of Sustainability. PTC has a long standing tradition of giving back to society; since 1981, the company has been running one of the largest private sector afforestation programs across the country. Under this initiative, the Company plants and distributes tree saplings free of cost. During 2020, the Company planted and distributed more than 9 Million saplings. A new fully solar powered nursery is also under construction in Lahore.

Amongst our other CSR initiatives, the Company continued to provide free medical advice and medicines under its Mobile Doctor Unit program. In 2020, more than 50,000 patients took medical advice and medicines under this program. To ensure local community is protected from water borne diseases, the Company is providing clean drinking to the less privileged sectors of the society through 5 water filtration plants filtering 64,000 litres of water per day. Our lift irrigation system provided water to more than 1,000 hectares of agricultural land of Buner district benefitting more than 450 farmers. To mitigate water scarcity in the Country, PTC installed drip irrigation systems in Buner and Mansehra that enabled water conservation of 927 Million litres.

Corporate Governance

PTC takes pride in its compliance with good corporate governance practices. A comprehensive system of controls, governance and risk management is in place to ensure that the Company's assets and the interests of the shareholders are protected. With the acquisition of Reynolds American Inc. by the BAT Group and subsequent adherence to all of the Sarbanes-Oxley Regulations (SOx), the Company's controls and governance environment has improved significantly. The compliance to all the SOx controls is monitored by external auditors and the Group's internal compliance teams.

The Company also requires its employees to operate and deliver with integrity and strongly discourages malpractice. This message is cascaded and internalized across the Company through face to face and online trainings conducted throughout the year as part of SoBC refreshers. Furthermore, channels have been established and made available for anyone working in or with the Company to raise their concerns in confidence and without fear of reprisal.

Business Sustainability

PTC's strategic objectives are aimed at building a business which can be sustained over a long-term period. 2020 was a landmark year for PTC as it ventured into new categories by launching nicotine pouches called 'VELO' with the aim of driving 'tobacco harm reduction' agenda. This was delivered on the back of bold and agile initiatives including national expansion of VELO, launch of VELO sound station and setup of an exclusive local factory for VELO. On the cigarettes and cut-tobacco exports front, \$31 Million in foreign direct inflows were generated to further augment the Company's ambition of becoming the primary export hub for the region. Pakistan has also emerged as a front runner for setting up a shared services hub. This may serve as a talent incubator enabling Pakistan to become a Services Exports market unlocking enormous potential for future foreign direct investment.

The presence of a large illicit sector remains an area of concern, as it continues to create major sustainability issues for the legitimate industry while causing revenue losses of close to Rs 70 Billion for the Government. Thus, it is in the best interest of all stakeholders that stringent action is taken by the relevant law enforcing authorities to curb the illicit sector.

In addition, it is necessary to note the regulations issued in early March 2020 by the Ministry of National Health Services, Regulations and Coordination to prohibit tobacco and tobacco products' advertising, promotion and sponsorship have the potential to adversely affect the Company's business. Local DNP brands continue to violate the previous laws and the new regulation which not only disrupted the creation of a level playing field within the tobacco industry but also negatively impacted Government tax revenues.

PTC also believes in recruiting the best talent in Pakistan which will provide us the human capabilities to excel in a challenging business environment. The senior management of the Company and I have full confidence in the long-term sustainability of our business and in the efficacy of its leadership.

Our business rests on strong and durable foundations, which have stood the test of time, and it has the necessary dynamism and enterprising spirit to ensure the delivery of sustainable growth for the long-term. I have faith that the Company will continue to provide an attractive value for its shareholders in the future.



Zafar Mehmood Chairman



MD/CEO'S MESSAGE

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It gives me immense
pleasure to present the
performance of the
Company for the year 2020.

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Business Performance

During the year consumer affordability remained a challenge for the duty paid tobacco sector due to the widening price differential between legitimate and duty not paid (DNP) brands. The excessive excise-led price increase in June 2019 and price reduction of key DNP brands post FY 2020-21 budget accelerated consumer downtrading to DNP brands attributing to the 7% decline in sales volume for 2020. The year in review also witnessed the outbreak of a global pandemic COVID-19 with impact on business and social activities. However, PTC results remained buoyant which is testament to its people's resilience and drive for results.

PTC continued to instil a cost-conscious culture across the organization with the aim for sustainable profit growth. Despite domestic sales reduction, the Company recorded 11.6% growth in gross revenues from same period last year. EPS growth was 28% resulting in the highest ever dividend payout to PTC shareholders at Rs 63/share for the full year subject to approval of shareholders in their meeting scheduled for April 22nd. This was driven by a clear and aligned strategy that was underpinned by passionate commitment of our people and excellence in execution and delivery.

Our Brands

The Company continued with its strategy to build a differentiated brand portfolio with strong brand equity in every consumer segment. Our flagship brand John Player Gold Leaf continues to lead the premium segment as the preferred choice of consumers in the segment while Capstan by Pall Mall retains its standing as the best performing brand in the Value for Money (VFM) segment with an increase of 1.8% in its market share for 2020.

In line with BAT Group's vision for A Better Tomorrow™, PTC launched modern oral nicotine pouches VELO with the aim of tobacco harm reduction and within a short span of 12 months, became the 6th biggest modern oral company within the BAT Group. The company closed the year with 73 million pouches delivered to consumers.

Our People

PTC remains committed to investing in hiring, retaining, and developing high performing employees that will lead to successful delivery of business objectives and drive the corporate strategy. The company takes immense pride in the fact that local talent not only excels in Pakistan but is preferred across the BAT world with many Pakistanis placed in leadership roles internationally in BAT Group companies. Like last year, PTC retained Top Employer status for 2020 by Top Employer Institute which demonstrates its strong and consistent focus on building the company brand.

Our Processes

PTC has continued its journey towards manufacturing excellence with the aim of enhancing productivity throughout the value chain by investing in modernization of machinery and optimal processes. This led to effective cost management, enabling the Company to generate more value for its shareholders. Furthermore, to ensure safe and smooth operations, strong focus was given during the year to developing robust operating procedures to mitigate the risk of COVID-19 pandemic impact.

Our Future

Looking forward PTC aims to drive BAT's vision for A Better Tomorrow™ by delivering on the tobacco harm reduction agenda through its newly launched VELO brand. This coupled with an exclusive factory setup and VELO Sound Station will reinforce the Company's commitment for A Better Tomorrow™ by providing its consumers with reduced risk* alternatives to tobacco products.

The challenges of 2020 are expected to continue in 2021. The uncertainty in the country's economy alongside COVID-19 pandemic will continue to impact PTC's operating environment. The continuous presence of Illicit brands and its sizeable market share creates a non-level playing field for legitimate brands placing them at a serious disadvantage. PTC continues to work with the Government on enforcement against the illicit sector and counterfeit producers to ensure fiscal and regulatory discipline across the industry in the future. This will not only ensure the sustainability of the legitimate sector but also result in significant revenue inflows for the Government.

During the year, regulations were issued by the Ministry of National Health Services, Regulations and Coordination to prohibit tobacco and tobacco products' advertising, promotion, and sponsorship. These regulations were formulated without any consultation with the legitimate tobacco industry and we believe that illicit players will continue to violate the previous laws and the new regulation further fuelling unfair competition within the tobacco industry.

I strongly believe that the Company is well-equipped to manage these challenges and will continue to deliver on the expectations of its shareholders.



Usman Zahur MD/CEO

DIRECTOR'S REPORT

The Directors Present the Annual Report of Pakistan Tobacco Company Limited (PTC) Along with the Audited Financial Statements of the Company for the year Ended December 31, 2020.

Macroeconomic Environment

In 2020, the global economy faced high degree of uncertainty owing to the challenges posed by COVID-19 pandemic, with Pakistan being no different. The first half of the year was particularly stressed due to frequent lockdowns across the country impacting business and social activities. Due to manufacturing and supply chain disruptions caused by the pandemic as a consequence of the national lockdown to control the spread of the virus, Pakistan's exports of \$22.9 Billion faced a decline of -6.8% compared to same period last year (SPLY)

To curtail the negative impacts of COVID-19, the Government made a number of targeted interventions to enhance economic activity in the country by introducing schemes with low markup such as Temporary Economic Refinance Facility for investment in plant and machinery to enhance domestic production capacities, Export Refinance Facility to enhance export operations and Salary Refinancing for providing working capital relief to businesses. This was further augmented by a reduction in policy rates announced by State Bank's Monetary Policy Committee during 2020 which helped reduce inflation from the previous level of 12.6% for SPLY by 4.6%.

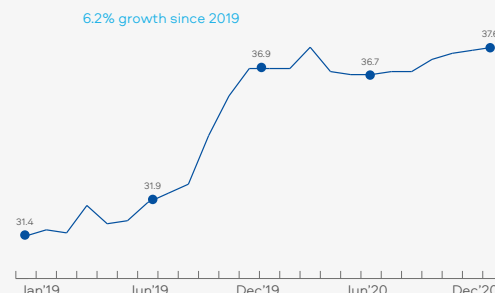
Contrary to expectation, foreign worker remittances to Pakistan grew by 6.4% reaching \$23.1 Billion in FY 2019-20. This provided much needed stability to the current account with the PKR depreciating only ~3% year-on-year from Rs 154.9/USD in Dec'19.

Industry Overview

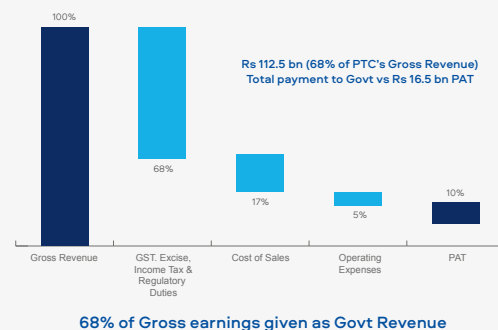
Fiscal Environment

During the FY 2018-19 and FY 2019-20, excise duty on Value for Money (VFM) brands increased by 93% which resulted in widening the price gap between duty paid and duty not paid (DNP) brands. The sell-out price for duty paid VFM brands stood at Rs 80/pack compared to Rs 37.7/pack for Illicit brands in 2020 which resulted in an increase in Illicit share as depicted in Graph-1:

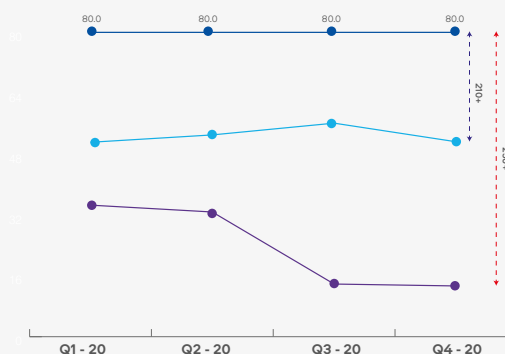
Graph 1
Illicit Market Share (%)



Graph 2
PTC's Profit & Loss Snapshot



Graph 3
Price Index



Source: Access Retail & Nielsen - Retail Audit 2020

In FY 2020-21 budget, the Government did not change the excise rates to reduce price differential between DNP and legitimate VFM brands. This had a positive outcome that provided consumer price stability in the tobacco sector. Contrary to expectation, the price gap between duty paid and DNP products increased to +250% as key brands in the illicit sector reduced their selling prices by 25% (down to Rs 30.5/pack).

The disparity between Duty paid and DNP brands continues to pose a serious challenge to the legitimate tobacco sector where selling prices of DNP brands are not just lower than the Government mandated minimum price of Rs 62.75/pack, but even lower than the minimum excise and sales tax payable on a pack of 20 cigarettes i.e. Rs 42.12/pack. This consistent tax avoidance not only impacts the sustainability of the tax-paying legitimate industry but also results in Government revenue loss of approximately Rs 70 Billion per annum.

Enforcement remains a key pillar to curtail growth of the DNP segment. Enforcement efforts by the Government need to be significantly scaled up with dedicated human and financial resources to ensure a level playing field in the legitimate tobacco industry which will positively impact revenue collection for the Government.

During 2020, there was rapid growth in counterfeit incidence of the PTC brands. According to one independent research, counterfeit incidence of PTC brands amounted to an annualized volume loss of 2.8 Billion sticks with a potential revenue loss of Rs 6 Billion for the Government. As a countermeasure, the company introduced a technology enabled solution to arrest volume decline to 1.2 Billion sticks. This solution not only enables consumers to identify a genuine product at the point of sale but also serves as an effective tool for Law Enforcement Agencies (LEAs) for on-spot detection of counterfeit products. This initiative has been instrumental in curbing counterfeit incidence and has helped PTC retain sales and as a consequence increase payment to the national exchequer.

Regulatory Environment

Towards end of Q1'20, the Ministry of National Health Services, Regulations and Coordination issued a Statutory Regulatory Order further prohibiting the advertisement, promotion and sponsorship of tobacco and tobacco products. This has further negatively impacted the legitimate players within the tobacco sector as the local DNP brands continue to violate the previous laws and the new legislation with impunity.

PTC has challenged this in Sindh High Court due to certain provisions in the S.R.O that go beyond the scope of "The Prohibition of Smoking and Protection of Non-Smokers Health Ordinance 2002" (NSO 2002).

Company Performance

The Company witnessed a decline in sales volume of 7% during the year under review. This is primarily attributable to consumers downtrading to duty not paid cigarettes following the 93% increase in excise rates announced in FY 2018-19 and FY 2019-20 budgets and ~Rs 10/pack price reduction of key DNP brands post FY 2020-21 budget. The Company continued to maintain its market share leadership in the legitimate segment growing market share by 1.3% in 2020, reaching 76.2%. In 2020, PTC contributed Rs 112.5 Billion to the National Exchequer in the form of excise duties, sales tax, income tax and regulatory duties.

The Company continues to focus on enhancing productivity across its value chain by ensuring effective cost management, lean operations, and modernization of machinery infrastructure. In 2019, the Company embarked on its very first "Made in Pakistan" exports journey by becoming a new export hub for the BAT Group and in 2020 – its first year of full-scale operation, provided the Country with \$31.1 Million in Foreign Direct Inflows. PTC's export operation has huge potential to grow in the coming years which will generate additional valuable foreign currency inflows into the Country.

Director's Report

The Company's cost base remained under pressure throughout 2020 in the wake of the decline in volumes, currency devaluation, inflation and COVID-19 associated costs. Despite these challenges, the Company continued to focus on effective cost management and delivered multiple efficiency improvement projects, thereby allowing it to keep costs in check.

BAT Group is driving the agenda for A Better Tomorrow™ by reducing health impact of its business and offering reduced risk products* to its adult consumers. The group has invested approximately \$5 Billion in research and development for new categories which comprise of reduced risk products*. In 2020, PTC in line with Group's agenda for tobacco harm reduction, ventured into new categories by launching oral nicotine products, VELO. Currently, the VELO distribution network has expanded to 17 key cities across Pakistan and significant efforts are underway to leverage its potential in keeping with PTC's aim for A Better Tomorrow™.

With people at the core of its delivery, the Company has a strong focus on people by attracting and retaining the best talent in the country. PTC was awarded the Top Employer for 2020 by Top Employer Institute. Moreover, for its drive and consistent focus on Diversity and Inclusion, the Company was also awarded the "Global Diversity & Inclusion, Progressive Award 2020" by Global Diversity and Inclusion Benchmarks.

PTC runs one of the largest private sector afforestation programs and a Mobile Doctor Unit (MDU) program. Under its flagship afforestation program running since 1981, the Company planted and distributed more than 9 million saplings free of cost in 2020. A new fully solar powered nursery is also under construction in Lahore. Under the MDU program, the Company dispensed medical advice and medicines free of cost to more than 50,000 patients in 2020. To ensure local community is protected from water borne diseases, the Company is providing clean drinking to the less privileged sectors of the society through 5 water filtration plants filtering 64,000 litres of water per day.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

| | Rs. (million) | |
|-------------------------------|----------------|---------|
| | FY 2020 | FY 2019 |
| Domestic Turnover | 161,275 | 147,292 |
| Exports Turnover | 4,983 | 1,733 |
| FED & Sales Tax | 105,368 | 97,050 |
| Net Turnover | 60,891 | 51,975 |
| Cost of Sales | 29,329 | 25,765 |
| Gross Profit | 31,562 | 26,210 |
| Operating Profit | 21,846 | 17,675 |
| Profit Before Tax – PBT | 22,388 | 18,285 |
| Profit After Tax – PAT | 16,492 | 12,889 |
| Earnings Per Share – EPS (Rs) | 64.55 | 50.45 |

Profit & Loss Analysis

During 2020, PTC continued its commitment with the Government as one of the largest tax paying companies in Pakistan. It contributed Rs 112.5 Billion in revenues to the Government, which translated to 68% of gross earnings, and retained 10% of revenues for distribution amongst shareholders and re-investment in the business as depicted by Graph-3

Domestic turnover increased by 10% vs Same Period Last Year (SPLY) despite 7% volume decline due to the first half (Jan-Jun' 20) impact of the Jun' 19 excise-led price increase. Exports Turnover was driven by a significant increase in export volumes as compared to SPLY, which is a testament of the Company's commitment to the Governments' agenda of driving export growth. The Company exported 2.3 Billion cigarette sticks and 4.1 Mn kgs of raw tobacco in 2020 with turnover amounting to \$31.1mn

Cost of Sales also increased primarily due to devaluation of local currency, increase in exports and inflationary pressures. These were mitigated through multiple productivity savings initiatives and focused cost management to reduce overall cost base.

Selling & distribution expenses declined by 3% which is linked to reduction in sales volume. However, significant investments have been made in trade activities, Covid compliance initiatives and national expansion of new categories.

Other Operating Expenses increased by 12% during 2020. The major portion of this increase is attributable to one-off disposal of obsolete plant and machinery equipment across PTC's manufacturing sites with the aim of footprint optimization.

Net Finance Income decreased by 11% in 2020, attributable to the decline in average interest rates.

Statement of Financial Position Analysis

Property, plant & equipment increase in 2020 was primarily driven by upgrades to existing manufacturing capacities and infrastructure to support better product quality, innovation and higher operating efficiencies. PTC has also initiated VELO localization whereby construction of a standalone manufacturing facility has been initiated.

Stock in trade decrease was attributable to lower raw material stock.

Loans and advances include advances paid to media agencies for on-going VELO marketing campaigns.

Other receivables mainly includes balances related to cash margins withheld by banks to comply with State Bank import regulation to deposit 100% cash margin against arrangements/contracts for import of raw material. Balance under this head decreased in 2020 due to settlement of margins with banks.

Short term investments are done in Government treasury bills which recorded an increase from previous year due to higher availability of surplus funds from sales cash inflows at year end.

Current liabilities increased due to higher payables outstanding at year end to internal and external vendors.

Liquidity Management

PTC's Treasury function is responsible for raising finances for the Company as required, managing its cash resources and mitigating the financial risks that arise during its business operations. Clear parameters have been established, including levels of authority as well as the type and use of financial instruments. All treasury related activities are executed as per defined policies, procedures and limits. These are reviewed and approved by the Board or the delegated authority to the Finance Director/Treasury Committee. Detailed review of Company's liquidity management and financing arrangements is provided in this Annual Report on page 92.

Contribution to National Exchequer

Despite the challenges faced from the DNP sector, PTC continues to remain one of the largest contributors to the national exchequer. Despite volume reduction in 2020, the Company's contribution to the National Exchequer was Rs 112.5 Billion in excise duties, sales tax, income tax and regulatory duties.

In order to maintain growth in revenues from the Tobacco industry, the Government needs to have a sharper focus on enforcement and curtailing the growth of the DNP sector. Increase in market share of the illicit sector, is indicative of the huge revenue loss of approximately Rs 70 Billion per annum. Thus, it is imperative that the illicit sector is curtailed through use of both fiscal and administrative measures.

Profit Distribution & Reserve Analysis

The Company started the year with reserves of Rs 15.8 Billion. During the year, final dividend of Rs 23 per share related to year ended 2019, was approved by shareholders and was subsequently paid. In 2020, the Company earned net profit of Rs 16.5 Billion and declared two interim dividends of Rs 15 per share in Q2'20 and Rs 20 per share in Q3'20. The net reserves position of the Company at year end stands at Rs 16.9 Billion. The details of appropriations are also elaborated in the table below:

Director's Report

| | Rs. (million) | Rs. Per Share |
|------------------------------------|---------------|---------------|
| Opening Reserves | 15,736 | |
| Final Dividend 2019 | (5,876) | 23.00 |
| Net Profit 2020 | 16,492 | 64.55 |
| Other Comprehensive Loss | (452) | |
| Available for appropriation | 25,900 | |
| Appropriation: | | |
| Interim Dividends 2020 | (8,942) | 35.00 |
| Closing Reserves | 16,958 | |

Final Dividend

The Board of Directors of PTC in its meeting held on February 23, 2021 is pleased to recommend a final cash dividend of Rs. 28.0 per share for the year ended December 31, 2020 (2019: Rs. 23.0 per share), for the shareholders' approval. This recommendation will be subject to approval of the shareholders in the Annual General Meeting, scheduled on April 22, 2021.

Consolidated Financial Statements and Segmental Review

Consolidated financial statements, as included in this Annual Report, combine performance of Pakistan Tobacco Company Limited and its wholly owned subsidiary, Phoenix (Private) Limited. The subsidiary company is dormant and has not commenced commercial operations.

Subsequent Events Review

The Management has assessed events arising subsequent to the end of the financial year of the Company till the date of the report and hereby, confirms that no material changes and commitments affecting the financial position of the Company have occurred during this period.

Operations Review

PTC has a full seed to smoke business encapsulating two factories and one of the largest leaf operations in the BAT Group. With the aim of enhancing productivity throughout the value chain, the Company has a strong focus on effective cost management, lean operations, and continuous modernization of the machinery infrastructure.

In 2019, the Company, in line with Government's vision, launched its export initiative titled "Made in Pakistan" and earned the position of being an export hub for the BAT Group. Under this initiative in 2020 – its first full year of operation, PTC exported over 2.3 Billion Cigarettes and around 4.1 million KGs of tobacco worth \$31.1 Mn.

As part of the tobacco harm reduction agenda, PTC has invested more than £10 Million in Modern Oral plant and machinery for an independent factory at Jhelum site. It is expected that the factory will start producing modern oral nicotine pouches in the first half of 2021 to enable PTC further its agenda towards tobacco harm reduction and cement its position as an export hub for BAT Group.

EH&S – Environment, Health & Safety

COVID-19 pandemic and its challenge to the health and safety of PTC's employees was handled in an organized and responsible manner in 2020. A dedicated 'Crisis Management Team' comprising of PTC's leadership was formulated with the aim of brainstorming risk mitigation strategies for crisis scenarios. Further, comprehensive standard operating procedures and 'Zero Tolerance Policies' were enforced, and company-wide awareness sessions were conducted to avoid COVID-19 contraction amongst PTC's employees.

Significant awareness and infrastructural improvements have been made in relation to Environment, Health & Safety processes and procedures at the manufacturing plants. Keeping in view the energy crisis, multiple energy conservation initiatives were undertaken in 2020 including Jhelum Factory doubling its solar generation capacity to 200kW, making it the highest renewable energy generating site for PTC while Akora Factory has achieved 2nd highest status in water recycling ratio in BAT world, thereby, reducing its CO2 emissions footprint by 850 tons. PTC's manufacturing has been globally recognized in BAT Group for the efforts and outstanding results delivered through this drive for excellence.

Marketing Review

Consumer affordability continued to come under stress in 2020 due to global pandemic-led economic tightening and the widening price differential between legitimate and DNP brands. However, despite the challenges faced, focused investments were made for a future-fit brands portfolio.

Capstan by Pall Mall retains its standing as the best performing brand in the VFM segment with a 1.8% increase in market share in 2020. Additionally, the segment witnessed reinforcement campaigns during the year to further enhance Gold Flake's equity and mix. This was a strategic intervention which has helped the brand significantly capture lost volume and market share. Embassy's franchise base was also successfully retained through its pack format change campaign allowing it to sustain and maintain its distribution and consumer base respectively.

Despite increase in the incidence of counterfeit, PTC's anti-counterfeit drive via a unique technology enabled scanning solution in Q3'20 enabled the Company to gain back volume from Counterfeit brands which also resulted in positive feedback from consumers, retailers and LEAs.

In the Aspirational Premium segment, post successful pilot launch of John Player, expansion campaign was carried out in Q3'20 which was further aided by successful interventions of limited-edition packs resulting in improved sales traction for the brand in Q4'20.

In the Premium segment, based on consumer trends and positive sales results, handlers of Dunhill were increased at a national level resulting in positive sales growth and a larger handler base in 2020. These initiatives have further propelled the Dunhill brand to new heights in Pakistan.

Risk Management & Internal Controls

The Board is responsible for managing the risks and challenges faced by the Company in its course of operations, while maintaining a strong control environment. The Company's risk management and internal controls framework is aimed at safeguarding the shareholders' investment and the Company's assets, while minimizing the impact of the risks that may impede the delivery of the Company's objectives. Details of this are captured in the section on Risk & Opportunity of the Annual Report.

Comprehensive policies and procedures, structured governance mechanisms and a conducive organizational culture have facilitated a strong compliance and control environment across the Company. All heads of functions are required to carry out a comprehensive assessment of globally defined key controls that are expected to be in place and operating effectively. Any non-compliances and material weakness are reported along with action plans to address them. Additionally, all employees are required to sign off an annual Statement of Compliance to the Company's Standards of Business Conduct. Furthermore, the Company is also fully compliant to all the requirements of Sarbanes Oxley Act (SOx) which has further strengthened the internal controls of the Company.

Corporate Governance

Good Corporate Governance

The Directors confirm compliance with the Corporate and Financial Reporting Framework of the Securities and Exchange Commission of Pakistan's Listed Companies (Code of Corporate Governance) Regulations, 2019 ("the Code of Corporate Governance") for the following:

- a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

Director's Report

- b) Proper books of accounts of the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and the accounting estimates are based on reasonable and prudent judgement.
- d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departures therefrom have been adequately disclosed and explained.
- e) The system of internal controls is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the Code of Corporate Governance and listing regulations.
- h) All major Government levies in the normal course of business, payable as at December 31, 2020 have been disclosed in the notes to the financial statements.
- i) Key operating and financial data for last six years in summarized form is provided separately in this Annual Report.
- j) Values of investments in employee's retirement funds for the year ended December 31, 2020 are as follows. Further details are provided in Note 33 to the separate financial statements.

| Fund Name | Rs. (million) |
|---|---------------|
| Staff Pension Fund | 5,492 |
| Employees Gratuity Fund | 1,173 |
| Management Provident Fund | 735 |
| Pakistan Tobacco Company Limited Provident Fund | 382 |
| Staff Defined Contribution Pension Fund | 659 |

Composition of the Board

The Board comprises a total of 12 directors: 8 non-executive directors, of whom 4 are independent directors, and 4 executive directors.

The current composition of the Board is as below.

| Name of Director | No. of Directors |
|---|------------------|
| • Male Directors | 11 |
| • Female Director | 1 |
| a. Independent Directors | 4 |
| (i) Mr. Zafar Mahmood (Chairman) | |
| (ii) Lt. Gen. M. Masood Aslam (R) | |
| (iii) Mr. Mohammad Riaz | |
| (iv) Mr. Asif Jooma | |
| b. Non- Executive Directors | 4 |
| (i) Mr. Tajamal Shah | |
| (ii) Ms. Belinda Joy Ross | |
| (iii) Mr. Zafar Aslam Khan | |
| (iv) Syed Javed Iqbal | |
| c. Executive Directors | 4 |
| (i) Mr. Usman Zahur (Managing Director and CEO) | |
| (ii) Mr. William Francis Pegel | |
| (iii) Mr. Syed Asad Ali Shah | |
| (iv) Mr. Syed Ali Akbar | |

There is female representation on the Board in compliance with the regulatory requirement.

The overall effectiveness of the Board is enhanced by the diversity and breadth of perspective of its members, who combine professional and academic skills and experience, local and international, and collectively the Board also has sufficient financial acumen and knowledge. PTC conforms to the regulatory requirements on the composition and qualification of the Board of Directors.

Directors' detailed profiles including their names, status (independent, executive, non-executive), in addition to industry experience and directorship of other companies, have been provided separately in the Annual Report. The status of directorship (independent, executive, non-executive) is indicated in the Statement of Compliance with the Code of Corporate Governance.

Changes in the Board

No changes in Board were announced in 2020.

Meetings of the Board

Under the applicable regulatory framework, the Board is legally required to meet at least once in every quarter to ensure transparency, accountability, and monitoring of the Company's performance. Special meetings are also held during the year to discuss important matters, as and when required. In 2020, 5 Board meetings were held, out of which the 1st meeting was held on 24th February 2020.

The notices / agendas of the meetings were circulated in advance, in a timely manner and in compliance with applicable laws. All meetings of the Board held during the year surpassed the minimum quorum requirements of attendance, as prescribed by the applicable regulations.

The Company Secretary acts as the Secretary to the Board. All decisions made by the Board during the meetings were clearly documented in the minutes of the meetings maintained by the Company Secretary and were duly circulated to all the Directors for endorsement and were approved in the subsequent Board meetings.

| Name of Director | Attendance |
|---|------------|
| Zafar Mahmood Chairman | 5/5 |
| Usman Zahur Managing Director and CEO | 5/5 |
| William Francis Pegel Director Finance & IT | 5/5 |
| Syed Asad Ali Shah Director Legal & External Affairs | 5/5 |
| Syed Ali Akbar Director Marketing | 4/5 |
| Syed Javed Iqbal Non-Executive Director | 1/5 |
| Belinda Joy Ross Non-Executive Director | 4/5 |
| Zafar Aslam Khan Non-Executive Director | 3/5 |
| Lt. Gen. M. Masood Aslam (R) Independent Director | 5/5 |
| Mohammad Riaz Independent Director | 5/5 |
| Asif Jooma Independent Director | 5/5 |
| Tajamal Shah Non-Executive Director | 4/5 |

Board Meetings Held Outside Pakistan

In 2020, PTC conducted all its Board meetings in Pakistan.

Committees of the Board

The Board has four committees, which assist the Board in the performance of its functions. Details of all Board Committees, including attendance and their functions, are provided separately in the Annual Report.

Director's Report

Directors' Remuneration

As per the requirements of the Code of Corporate Governance, there is a formal and transparent procedure in place for fixing the remuneration packages of individual Directors. No Director is involved in deciding his/her own remuneration.

These remuneration packages are approved as per requirements of the regulatory framework and internal procedures, while ensuring that they are not at a level that could be perceived to compromise the independence of non-executive directors.

The remuneration of executive directors including the CEO, key management personnel and other executives is given in note 37 to the financial statements.

Evaluation of Board's Performance

The Company has designed an "Evaluation Tool" to assist the Board to:

- understand and recognise what is working well;
- identify areas for improvement;
- discuss and agree on priorities for change, which can be addressed in the short-and long-term;
- agree on an action plan.

The Evaluation Tool comprises an evaluation questionnaire, which is circulated to all the Directors in which each Director must evaluate himself/herself as well as the Board. In order to encourage open and frank evaluations, as well as to ensure anonymity, the evaluation process is directed by the Company Secretary, who mails the questionnaire to each Director and then collates the results into a report including a summary of the results, and recommendations to the Board. The Report is then discussed in the next Board Meeting to address the areas of concern and improve the Board's performance.

Offices of the Chairman & CEO

To promote transparency and good governance, the offices of the Chairman of the Board of Directors and the Chief Executive Officer are held by separate individuals with clear segregation of roles and responsibilities.

Brief Roles & Responsibilities of the Chairman & CEO

Roles and responsibilities of the Chairman and the CEO have been clearly and distinctly defined by the Board.

The Chairman is basically a leader and mediator to head the meeting of the Board of Directors effectively and take decisions after a free and open sharing of views within a limited time quickly and efficiently. The Chairman is responsible for the overall discharge of the Board's duties.

The CEO is the executive head of the Company, who heads all facets of the Company through respective heads of functions and manages the day to day operations of the Company and provides leadership towards the achievement of the Corporate Plan. The CEO is responsible for leading, developing and executing the Company's short- and long-term strategies with a view to enhance shareholders' value. The CEO liaises with the Board and communicates on behalf of the Management.

CEO's Performance Evaluation by the Board

The Board appoints the CEO for a term of 3 years, in compliance with applicable laws. His performance is reviewed annually, based on the yearly corporate plan, besides his responsibilities under the regulatory framework.

Performance for the year 2020 is demonstrated by achievement of the corporate plan and compliance with the applicable regulatory requirements.

Formal Orientation At Induction

Newly inducted Board members are taken through an Induction Plan for their orientation and familiarization towards the Company's vision, organizational structure, roles and responsibilities of senior executives, major pending or threatened litigation, policies relating to dividends, whistleblowing, summary of Company's major assets, liabilities and noteworthy contracts etc.

As part of the Induction Plan, senior executives of the Company present the performance of their respective department to the newly inducted Directors.

Directors' Training Program

PTC has ensured compliance with the applicable regulatory requirements regarding Directors training. More than half of the Directors have obtained certification under Directors' Training Program (DTP) approved by SECP.

Last AGM

The Company's 73rd AGM (Annual General Meeting) was held on May 8, 2020. All shareholders, including minority shareholders, were proactively sent out invites informing them about the time and place of the meeting, well in advance. High quality and comfortable arrangements, aimed at facilitating the shareholders of the Company, were made to conduct the AGM.

During the meeting, general clarifications on the published financial statements and the impact of illicit trade were sought by the shareholders and investors. No issues were reported in that meeting.

Auditors

Statutory Audit for the Company for the financial year ended December 31, 2020 has been concluded and the Auditors have issued their Audit Reports on the Company Financial Statements, Consolidated Financial Statements and the Statement of Compliance with the Code of Corporate Governance. The Auditors, Messers KPMG Taseer Hadi & Co., shall retire at the conclusion of the Annual General Meeting, and they have indicated their willingness to continue as Auditors for PTC. They have confirmed to have achieved satisfactory rating by the Institute of Chartered Accountants of Pakistan (ICAP) and compliance with the Guidelines on the Code of Ethics of the International Federation of Accountants (IFAC) as adopted by ICAP. The Board proposes their appointment as Auditors for the financial year ending December 31, 2020 on the recommendation of the Audit Committee. This shall be subject to the approval of the shareholders in their meeting scheduled for April 22, 2021.

Director's Report

Pattern of Shareholding

Our holding company, British American Tobacco (Investments) Limited (BAT-IL), incorporated in United Kingdom holds 94.34% shares of the Company at the year end. The pattern of shareholding as at December 31, 2020 alongside the disclosure as required under Code of Corporate Governance is provided separately in this Annual Report.

Trading In Shares by Directors and Executives

The Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minors have reportedly not performed any trading in the shares of the Company.

Review of BCP

PTC recognizes the importance of Business Continuity Management (BCM) as the means to ensure that the business can continue to succeed in times of crisis and during the recovery process. To this end, the Company has established a BCM Manual as per International Standards which enables the Company to:

- Proactively plan and prepare in the case of an incident;
- Understand how to respond should an incident occur;
- Know how to manage the situation effectively; and
- Return to Business as Usual (BAU) as quickly as possible to minimize the negative impact on the business.

The Board reviews compliance with the BCM Manual on an annual basis. Responsibility and accountability for ensuring compliance with the Standards and for the implementation of the BCM process has been delegated to the Managing Director. Operational management of BCM is delegated to the Head of Security who is the lead for BCM in the Company. Heads of Functions are the risk owners and are responsible for enabling and maintaining an effective BCM capability within their respective functions. The Business Continuity Manager facilitates and coordinates the BCM process in the Company.

By implementing a BCM process, the Company ensures that:

- Its people, assets and information are protected, and employees receive adequate support and communications in the event of a disruption;
- The relationships with other organizations, relevant regulators or government departments, local authorities and the emergency services are properly developed and documented, and stakeholder requirements are understood and can be delivered; and
- The Company has an enhanced capacity to protect its reputation and remains compliant with its legal and regulatory obligations.



Zafar Mehmood
Chairman



Usman Zahur
MD/CEO

PRODUCT PORTFOLIO

PREMIUM

DUNHILL

- Dunhill
- Dunhill Switch

Dunhill, our global drive brand and a true international premium offer, has been leading innovations in the market since its launch since 2008

GOLD LEAF

- John Player Gold Leaf
- John Player Gold Leaf Special

The story of John Player Gold Leaf starts from the story of its founder John Player, who started a small tobacco selling business in 1877 and turned it into a Company: John Player & Sons. John Player Gold Leaf is the leading premium offer in the country

BENSON & HEDGES

- Benson & Hedges (Red)
- Benson & Hedges (Blue)

In 1873, Richard Benson & William Hedges started a partnership in London. Benson & Hedges was launched in Pakistan in 2003

ASPIRATIONAL PREMIUM

JOHN PLAYER

- John Player

Launched in 2018, John Player is the most contemporary Aspirational Premium brand for the down-trading Premium consumer

CAPSTAN FILTER

- Capstan Filter

Capstan Filter is the biggest Aspirational Premium brand for us and the offer is now available in King Size Filter

VALUE FOR MONEY

CAPSTAN BY PALL MALL

- Capstan by Pall Mall

Capstan By Pall Mall is our global drive brand and currently the leading & most popular Value for Money offering in market

EMBASSY

- Embassy Filter

Embassy has built its heritage over a number of years & thrives on its brand loyalty

GOLD FLAKE BY ROTHMANS OF LONDON

- Gold Flake
- Gold Flake Soft Cup

Gold Flake enjoys a rich history and legacy in the market and is still among the most popular offerings in Pakistan

NEW CATEGORY

VELO

- Polar Mint
- Berry Frost

Our Tobacco free alternatives come in 2 flavours varying in nicotine content i.e. 4mg, 6mg, 10mg



Syed Asad Ali Shah

LEGAL & EXTERNAL AFFAIRS DIRECTOR

ILLICIT TRADE

2020 came with its own set of challenges and the challenges for the legitimate tobacco industry were no different. Amidst the pandemic, all efforts of Law Enforcement Agencies (LEAs) were diverted to focus on ensuring compliance of national lockdowns and border closures across the country. The seriousness of LEAs to enforce the lockdowns resulted in a temporarily reduced incidence of smuggled cigarettes due to border closures and also a temporarily reduced incidence of local Duty Not Paid (DNP) cigarettes due to supply chain disruption, however, they resorted to other means to ensure consistent supply of illicit cigarettes to the retailers and eventually the customers.

The current situation serves as a harbinger of the times to come and if no action is taken by the Government, the prevalence of illicit cigarettes in Pakistan is likely to grow further. Unprecedented levels of counterfeit incidence were witnessed in early 2020. The Duty Not Paid (DNP) sector continues to sell at far lower than the mandated minimum price of PKR 63.

Furthermore, keeping in view the sharp increase in availability of counterfeit cigarettes, we decided to launch a technology enabled solution for its brands to protect its intellectual property and safeguard its business from the threats posed by the counterfeiters. In collaboration with DIGIMARC, a globally renowned solution provider,

we embarked on a journey to roll out the solution on our product offering. The application can be downloaded by distributors, wholesalers, retailers, consumers and LEA officials to authenticate the product to be sure that the product being purchased or sold is genuine and the liable taxes and duties have been paid to the Government of Pakistan.

The Federal Board of Revenue (FBR) published a tender for the provision of a Track and Trace solution for the tobacco, cement, fertilizer, and sugar industries. It is believed that a solution tailored to address the local challenges of the Pakistani market will be beneficial to address the issue of illicit trade.

DIGIMARC



Counterfeit brands posed a significant challenge to the legitimate tobacco sector. To counter this, a technology-enabled solution - DIGIMARC - was introduced by us whereby consumers and retailers are equipped to identify a genuine product at point of sale. This also serves as an effective tool for on-spot detection of counterfeit products by Law Enforcement Agencies.



+2 Million
Scans



Decrease
in Counterfeit Sale



Action taken by
Law Enforcement
Agencies



Step 1

DIGIMARC App will automatically open the camera and user will scan the pack (front/back side)



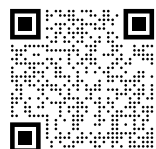
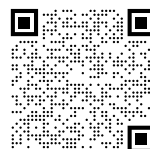
Step 2

If the Pack is genuine then our logo will appear. PTC logo is the authentication of Original Pack



Step 3

By pressing our logo it will direct you to our official website



OPERATIONAL EXCELLENCE

Our Operations Team did not shy away from clinching higher accolades in distinguishing itself from the ordinary. This journey towards excellence entailed passion, grit, resilience and the synergy for A Better Tomorrow™. With the 'One Ops' team whose mantra is being Bold, Fast, Responsible, Empowered and Diverse, the year 2020 saw to fruition unprecedented results.

While COVID-19 could be termed as a black swan event that forced many companies and entire industries to rethink and transform their operational model, our Ops took the entire BAT world with a complete surprise. Jhelum and Akora factories were busy registering themselves as global benchmark setters in Overall Equipment Efficiency (OEE) and Mean Time Between Failure (MTBF).

Our Ops ensured 100% OTIF in delivery of Export and Local orders to our valued customers.

Our Leaf team delivered the best leaf season with the highest crop input, CQI and lowest crop cost globally.

Our Ops delivered renewable expansion by 100% and optimized costs via initiatives to attain the rank of lowest cost manufacturer of the world.

All this and more, while delivering premium quality to the customers securing the seal of global quality excellence award.

This Journey does not stop. Another feather in the cap goes to the resilient supply chain team who faced all odds and converted misses into opportunities. The team ensured that despite the pandemic, the On Time In Full (OTIF) remains a perfect hit from raw materials availability

to finished goods sales. The formidable team also managed to secure renewal on export licenses for both finished goods and cut rag amidst limited Government operations and remained on track to deliver our "Made in Pakistan" journey. Moreover, with the devaluation of the rupee, the team took the initiative to go for stock hedging to ensure 2021 supplies are procured in advance to deliver potential savings. As the situation was normalizing, the global supply chain was disrupted yet again by a container shortage and port congestions worldwide resulting in raw material delays; this was effectively managed without additional cost. With New Category Products gaining traction in the national market, the team not only ensured product delivery from imported supplier but also established readiness for local product supply chain. To its credit, 2020 was closed delivering 100% Cycle Plan-OTIF with innovative breakthroughs like DIGIMARC to curtail counterfeit sales and reclaiming 70% of lost volume.

Our procurement meanwhile delivered the highest-ever savings in 2020 minimizing the impact of currency devaluation by means of proactively distributing volumes locally.



11

SKUs of imported WMs were localized



2.76

Million GBP Highest ever WMs savings



1.7

Million GBP P&L savings were delivered by in-directs through effective negotiations and ingenious strategies



38.3 Billion
Production Volume



2.3 Billion
Cigarette sticks Exported
to Middle East



Akora Khattak Factory was
the 2nd most efficient factory
in the BAT Group



AKF has manifested itself
as the 2nd highest water
recycling ratio in BAT world
whilst also impeding its CO₂
emissions footprint by 850
tons.



OUR ESG ACHIEVEMENTS



Afforestation

In 2020, we set forth in transforming our flagship Afforestation programme. Since 1981 we have planted and distributed over 90 million trees for a sustainable future. Of this large number, in 2020 alone, we were able to hit a new high of 9 million trees planted through our 'Seed Ball Project'; three times of what was achieved by the company last year (a record was set last year). This initiative has helped us truly transform the landscape and counter the ever-growing problem of desertification in Pakistan. We operate and maintain 5 nurseries across the country, 2 in Islamabad, one in Faisalabad, one in Jhelum and one in Swabi. We plan to add more nurseries to help counter the negative impacts of global warming faced by the country.



Water Filtration

To combat water borne diseases we have built and continue to maintain 5 water filtration plants; 4 in the suburbs of Lahore and one in Jhelum. We are providing clean drinking water to the less privileged sectors of society everyday.



Mobile Doctor Units (MDUs)

Since 1985, to provide free first aid and medical services to far flung and rural areas, we own and operate 7 MDU's in 6 different Leaf Areas. These MDU's are stationed in Yar Hussian, Mianwali, Akora Khattak, Sher Gharh, Mansehra and Jhelum. Due to Covid operations were ceased in March, however upon reopening in August more than 50,000 patients have been attended too.



Drip Irrigation

We embarked upon the journey of Drip Irrigation in 2019 under the umbrella of ESG & till date 165 hectares of drip irrigation units has been installed successfully. All these initiative enabled us to save overall 927M litres of water in 2020, which is now available for other food crops. These technologies being the most efficient are delivering water savings and conserving water and ensuring sustainable water usage and agriculture.



Solar Power

By successful installation of 150 kW Solar PV (Photo Voltaic) plants in our 5 leaf buying centres & GLT plants, we aim to reduce our carbon footprint. This has resulted in reduction of 90 tons of CO₂ footprints. By 2021, the aim is to conduct 100% leaf buying through solar powered buying centres. Furthermore, we are saving 435,500 Kwh power annually at our 2 factories. Our new VELO factory will be the first ever fully solar operated plant in the BAT world.

CALENDAR OF NOTABLE EVENTS 2020



LEAF SUSTAINABILITY INITIATIVES

This year our Leaf Team took remarkable steps in improving its social uplift agenda



Star Farmer Program

We promote a competitive environment among farmers leading to adoption of new agricultural technologies and best practices. The aim is to have better productivity and quality to improve farmer livelihood. For 2020 crop, we conducted events across all leaf producing areas to reward its progressive farmers under the flagship initiative of Star Farmer Program. In the journey of transformation and excellence in agriculture, we strive to transfer modern skills, new technologies, best agricultural practices to improve farmers livelihood with a vision to strive for A Better Tomorrow™.

Technology Deployment

To equip our valuable business partners – our farmers, with modern techniques in agriculture sector, new technologies are introduced aiming at fast-tracked deployment at farm level to bring ease in operations, reduce cost of production and better farmer returns. Specific equipment were introduced to mitigate the identified challenges at various crop stages including hybrid seed varieties, float seedling production, drip irrigation, tobacco leaf stitching machine and Loose-leaf barn.

We strive to have agronomy excellence as a key game changer. It is a continuous journey that will remain under prime focus to produce premium quality tobacco at a competitive cost, where farmer livelihood can be improved.



Turbo Barns

Crop sustainability is the key to our business. To ensure the same, we work closely with our farming community to increase their net returns. We have taken the route of arresting farmer's cost of production & improving their curing quality for increasing their margins. In this connection one of the most significant cost & quality element is curing impacting both farmers spend & tobacco quality.

Keeping in view the aforementioned challenges & their impact on business, we have introduced new technology in the form of 'Turbo Barns' and took it to the farmers doorstep. This journey kick-started in 2017 with the aim to modify our traditional barns to turbo barns & ensured incremental increase in the same. This initiative not only improved the cured tobacco quality but also helped us in meeting increased farmer's net returns & reducing pressure on natural wood reservoirs. This resulted in 13%-15% savings in wood consumption.



Human Rights

Human rights is one of the key areas where we took multiple major initiatives such as:

- **Women Empowerment;** Trainings were conducted through female trainers across leaf growing areas. 900 farming families were trained on health & safety, child education & kitchen gardening.
- **Mobile Doctor Unit;** We are providing MDU facility to under privileged rural communities since 1985. In 2020 alone, over 50,000 people benefited from this much needed facility.
- **Grievance Mechanism;** To ensure respect for all and having safe work environment at our farmer's premises, boxes were installed across leaf areas for labours and farmers to raise their voice related to any human rights issues.

Our efforts have been globally recognized by the Group & highlighted in its Human Rights report. These efforts will pave way to achieve our vision of A Better Tomorrow™.

MARKETING PERFORMANCE REVIEW

2020 has been a challenging year for us. Not only were there industry specific challenges such as price disparity and growing illicit & counterfeit incidence post-2019 Federal Budget, but also a turbulent 1st Half due to the onset of COVID-19, which led to severe operational challenges for the business, accompanied by the introduction of the TAPS (Tobacco Advertising, Promotions and Sponsorship) ban.

Given the situation at hand, however, the marketing department rose to the challenge to keep delivering on yearly goals and ensuring business continuity. Key wins such as the inculcation of digitization-driven initiatives such as DIGIMARC have been instrumental in curbing the incidence nationally. Additionally, ensuring continued strategic investment behind our core brands, we delivered on our full year volume targets with 38.5Bn cigarette sales; the Premium segment played a key role in delivering both volume and value for us. In addition to this, 2020 paved the road for the business bringing to life the group's vision of A Better Tomorrow™ by launching Pakistan's first ever Modern Oral Category product, VELO.

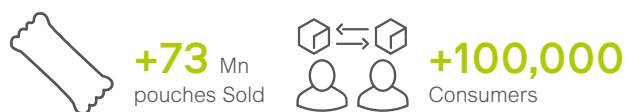
Establishing Modern Oral in Pakistan

Pakistan successfully embarked on the modern oral journey in December 2019, by introducing VELO as a modern, premium and innovative offer. Our guiding principles helped us target the right consumer, focus on relevant consumer channels, and create impactful conversations through generating contemporary content. To keep the fire burning, we kicked off the pilot in two test markets – Karachi and Lahore. VELO was able to emerge as a disruptive force in the market.

The pilot launch was marred by severe lockdowns, but this did not deter our resolve and as part of our contingency plan, we activated 3rd party E-commerce platforms which ensured that our products were readily available to our consumers during lockdown. For the post lockdown period, we leveraged our pilot market learnings as part of our robust learning agenda and saw a period of accelerated growth.

The stage was set for VELO to build on this momentum and improve its brand salience and affinity amongst its target group. This was made possible by the introduction of VELO Sound Station; the biggest digital asset for the brand - a space for contemporary music centered around the pop culture of today. By tapping into music as a key passion point, VELO Sound Station was the perfect fit to massify VELO for the right audience

which gained further traction when it got picked up by notable publishers and influencers alike. 2020 was a landmark year of VELO in terms of learning and achievements.



Premium Growth in 2020

Our premium portfolio has had a tremendous year in 2020 despite the route to market challenges that came with COVID-19 and the consumer communication limitations that came with the TAPS (Tobacco Advertising, Promotions and Sponsorship) ban. Each brand within the portfolio has stood out through its strategic focus on superior product quality, distribution expansion and one of its kind packaging innovations. Together the portfolio has delivered a 4% volume growth at the back of powerful brands.

Dunhill, the leading international brand for progressive consumers, delivered a stellar 72% volume growth with its highest ever volume delivery and executed the rotational relocations that marked the first of its kind packaging innovation in all Middle East South Asia (MESA) area. The largest premium brand of Pakistan, John Player Gold Leaf, held its strong footing by maintaining its volume share and JPGL Special continued to lead the Non-Full Flavour space delivering a superb 18% volume growth. Aspirational Premium brands like Capstan Filter and John Player continued their national expansion and equity journey together delivering a 32% growth for the AP space at the back of rising differential between Premium & VFM pricing.

Digitizing the RTM Model

2020 has been a year that many would like to forget but for us, it was a journey of excellence, transformation and sustainability. The ambition to stay relevant for the future by making the Company 'Simpler, Faster & Stronger' was our mantra that led to the complete digital transformation in the RTM (Route to Market) and RTC (Route to Consumer) value chains which changed the market dynamics forever.

We partnered with Pakistan's biggest mobile financial services provider EasyPaisa, a subsidiary of Ali Baba. This was an industry first initiative which leveraged Mobile Financial services to make our salesmen completely cashless by digitizing the end to end sale transaction with the retailer. This initiative is currently live in 50% volume contributing markets with 30% of total retail cash in these markets digitized, essentially leading to time saving, which is being invested back into the business.

For us, consumer centricity has always been at the heart of our operations. The COVID-19 pandemic caused a big shift in purchasing behaviour of the consumer and purchasing from E-commerce platforms was one of the biggest trends in the country with a growth of 200%+ in transactions vs 2019. We also embarked on an exciting journey by partnering with some of the biggest E-commerce players such as Daraz & FoodPanda that cater more than 80% of online shopping traffic along with 24 other accounts across the country. 2020 has truly been a transformational year for us. The holy grail for us is to further expand our digital landscape in RTM & RTC structures to continue the journey to becoming Simpler, Faster and Stronger.



BECOMING THE EXPORTS HUB FOR MODERN ORAL

Our clear commitment to providing consumers with a range of less harmful products is central to our corporate purpose, around which our long-term ambition is planned. This year Pakistan Tobacco Company initiated setup of an exclusive manufacturing plant in Jhelum for modern oral nicotine pouches. With this plant, the Company aims to become an export hub for BAT and potentially generate additional foreign direct inflows for the Country. Furthermore, this factory will be the first in BAT world to fully operate on Solar Energy.



VELO Sound Station

In the first year since we've launched, VELO has had a remarkable success. In our commitment for A Better Tomorrow™, we have established a new, potentially reduced-risk category in Pakistan – but the journey has just begun. In our quest to engage with society on a large-scale level and for us to generate mass appeal of our vision, it was necessary for us to dig deep into what really resonates with the people of Pakistan. VELO saw music as a gateway to generate mass appeal for our vision. And thus, VELO Sound Station was born.

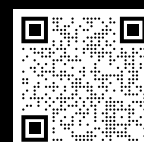
It is the largest music platform in any market across the BAT world. The first episode of VELO Sound Station aired on 20th November 2020 and since then the inaugural season has had huge success.

VELO SOUND STATION : SEASON 1 OUTCOME

+2 Bn
Impressions

+550K
Followers

+500 Mn
Views & Plays



Scan to View

SECURITY THAT MEANS BUSINESS

Crisis Management

An uphill task this year was ensuring Business Continuity Management as the pandemic spread across the globe. Pakistan, when faced with a stricter lockdown in quarter 1 and 2 of 2020 resulted in political instability, businesses closures, restrictions on intercity and interprovincial movements, and civil disorder arising due to a dwindling economy. This harmed the performance of multi-nationals and blue chips operating in the country. Against all odds, we continued to deliver products and services beyond its strategic and operational plans. Response to the pandemic was conducted to always be ahead of time; proactively reviewing and updating the plans.

At the very outset of COVID-19, before it was declared a global pandemic by WHO, we had updated the existing pandemic plans and prepared the business response in consonance with Regional plans and referred to the same during the Crisis Management Team's (CMT) meetings. Sequel to embargos imposed by the Government, chances of getting into unrest situation was an emerging potential risk in the country mainly due to lockdown which impacted the huge population of daily wagers. Hence, we decided to add the Potential Unrest readiness tracker to the existing Unrest & Evac plan. This horizon scan helped us to pre-empt the risk from impacting the business. Information gathering process was robust which helped CMT to make informed, timely & correct decisions. Crisis Management training was also meticulously developed keeping the COVID-19 scenario in mind to cater to every aspect that could lead the business into a crisis. In the actual situation, numerous robust and fit-for-purpose plans were invoked which proved to be effective while dealing with the pandemic.

Support for Business Initiatives

Notwithstanding the above odds, the focus was on the delivery of commercial goals keeping simplicity in implementation and excellence in execution of processes to ensure Zero-Tolerance Policy New Ways of Working to Security incident and to align the delivery of integrated corporate security service support with integrity in line with Ambition-21 by transforming the function based on the new way of working.

Training and Development

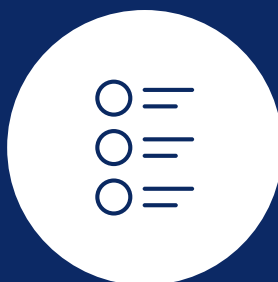
Training and Development even in these trying times remained key focus area within the Security Function. Concept of these training sessions was based on self-learning/refresher training. BAT Ethos and Security Strategy-21 (SS-21) related aspects were especially emphasized during the distance training sessions developed and delivered by each Security team. Our way forward for the year 2021 and beyond is based on securing the future - for a sustainable better tomorrow.



Simplification through Empowerment, an outcome of Strategic Leadership Agenda 2020, aims to achieve the Group's vision of A Better Tomorrow™. In line with our Ethos of being Bold, Fast, Empowered, Diverse and Responsible, this pillar aims to set clear directions for faster decision making. Paving the way for transformation, this pillar will revolutionize the Organization to become Simpler, Faster and Stronger. Let's Simplify to Amplify Delivery.



Delegate -
Empower and Revamp
New Ways of Working



Streamline -
Simplify Policies
and Procedures



Digitize -
Connect, Automate and
Ensure Faster Delivery

2020 PERFORMANCE

Net turnover

60,891

Rs in Million

Profit After tax

16,492

Rs in Million



Sales Volume

38.5

Billion Sticks

Cash Generated from
Operating Activities

22,215

Rs in Million

CRITICAL PERFORMANCE INDICATORS

1) Financial Indicators

| Key Performance Indicators | 2020 | 2019 |
|------------------------------------|----------|----------|
| Market Share (Legitimate market) | 77.3% | 75.4% |
| Gross Turnover (Rs. In Million) | 166,258 | 149,025 |
| Net Turnover (Rs. In Million) | 60,891 | 51,975 |
| Gross Profit (Rs. In Million) | 31,562 | 26,210 |
| Profit before Tax (Rs. In Million) | 22,388 | 18,285 |
| Profit after Tax (Rs. In Million) | 16,492 | 12,889 |
| Earnings Per Share (Rs) | 64.55 | 50.45 |
| Dividend per Share (Rs) | 58.0 | 48.0 |
| Operating Cash (Rs. In Million) | 22,215 | 8,564 |
| Market Price per share (Rs) | 1,609.64 | 2,440.55 |

2) Non-Financial Indicators

a) Market Share of the Illicit Trade

This indicator gives visibility on the business lost to duty not paid sector due to weak enforcement. Illicit sector currently accounts for 37.6% of the total market share.

b) Trade Coverage

The Company's trade coverage covers a total of 238,000 retail outlets.

c) Legitimate Market Share Across Segments

i) Premium Segment share

77% market share in the legitimate premium segment held by JPGL - John Player Gold Leaf.

ii) Aspirational Premium Segment

In the Aspirational Premium segment, post successful pilot launch of John Player, a brand built on the legacy of the House of John Player, was piloted in four test markets, followed by an expansion into the next 13 biggest cities of Pakistan. Aided by a focused consumer

activation campaign, exciting touch points and retailer engagement, the launch was a success and quickly turned into the most promising brand launch in recent history.

iii) VFM (Value for Money) Segment

Our position in the VFM category was strengthened through the strong performance of Capstan by Pall Mall. The brand captured the largest market share of 51.3% in 2020, up by 1.8% from 2019. Further, The Value For Money (VFM) segment witnessed Gold Flake's migration to Rothmans of London with reinforcement campaigns during the year to further enhance Gold Flake's equity and mix

d) OEE – Overall Equipment Efficiency

In 2020, our Jhelum factory achieved 79.8% Overall Equipment Efficiency (OEE) while Akora-Khattak factory (AKF) posted OEE of 82.3%. This feat has propelled AKF to become the 2nd most efficient factory in BAT Group.

e) Lost Workday Cases (LWC)

EH&S is key priority for the Company. Due to the increased emphasis, the number of work-related accidents resulting in injury to employees under the management's direct supervision remained minimal.

f) Human Capital

i) Employee Retention

Employee development and retention is a primary agenda for the Company and is continuously monitored.

ii) Employee Engagement

The high level of engagement we maintain with our teams enables us to effectively convey our message of confidence throughout the year. In recent years, our engagement mechanisms have aimed to nurture an open culture, facilitating communication across all levels of the organization. Employees are given the opportunity to directly engage with the Company's senior management on current business realities and growth prospects, while factory workers also engage with management through numerous platforms including monthly small group meetings. Employees can engage through initiatives via Your Voice – an employee opinion survey platform.

In 2020, we were certified as a Top Employer for the third year running by Top Employer Institute, which is a testament of our high level of employee engagement.

iii) Diversity and Inclusion

We are an equal opportunity employer and do not discriminate on the grounds of gender, race, religion or social class, when making decisions on recruitment and promotions. We have aligned ourselves with the BAT's diversity ambitions and continue to widen diverse representation through ensuring balanced access at entry level, providing opportunities for flexible working, increasing maternity benefits and facilitating platforms for engagement. Moreover, for its drive and consistent focus on Diversity and Inclusion, the Company was also awarded the "Global Diversity & Inclusion, Progressive Award 2020".

g) Social and Relationship Capital

We have always been focused on investing in community and social initiatives. Following is the overview of various social responsibility initiatives taken in 2020

i) Afforestation

Under our flagship afforestation program, we planted and distributed more than 9 million saplings, free of cost, in 2020. A new fully solar powered nursery is also under construction in Lahore. This is in addition to the already established five nurseries in Islamabad, Jhelum, Faisalabad and Swabi.

ii) Water Filtration

To combat water borne diseases, we have 5 water filtration plants in Lahore and Jhelum benefiting millions everyday. The Company is providing clean drinking to the less privileged sectors of the society annually.

iii) Mobile Doctors Units

Under the MDU program, we dispensed medical advice and medicines to more than 50,000 patients in 2020 free of cost.

iv) Lift Irrigation

More than 450 farmers are benefiting from our lift irrigation system that provides water to more than 1000 hectares of agricultural land of Buner district. Pakistan Tobacco Company Limited through its MoU with the Agriculture department of KPK Installed generators in 2016. In the last four years, our efforts have helped farmers increase the yield from their land and taken burden off the depleted national grid.

h) Natural Capital

i) Leaf Consumption

In 2020, we purchased 29.4 million kgs of tobacco leaf from local farmers, thereby, supporting the livelihood of farmers growing tobacco in the areas of KPK and Punjab.

ii) Environmental Sustainability Initiatives

Significant awareness and infrastructural improvements have been made in relation to Environment, Health & Safety processes and procedures at the manufacturing plants. Keeping in view the energy crisis, multiple energy conservation initiatives were undertaken in 2020 including Jhelum Factory doubling its solar generation capacity to 200kW, making it the highest renewable energy generating site for us while Akora Factory has achieved 2nd highest status in water recycling ratio in BAT world, thereby, reducing its CO₂ emissions footprint by 850 tons.

Performance Measures

Key Indicators and performance measures change as the strategic goals evolve over time but are mostly aligned to the Company's overall goal of increasing shareholders value in the future. These indicators are integral to the assessment of value generated for all our stakeholders. These indicators serve as a basis for the assessment of the performance of our Company's operations and value generation and they continue to be relevant for the foreseeable future.

Methods and Assumptions Used in Compiling the Indicators

Key Performance Indicators (KPIs) measure progress toward the desired objectives. They provide focus for strategic and operational improvement, create an analytical basis for decision making and help focus attention on what matters the most. The use of KPIs involves setting the targets (the desired level of performance) and tracking progress against them.

QUARTERLY ANALYSIS 2020

| Rs in Million | Quarter 1 | Quarter 2 | 2020 Quarter 3 | Quarter 4 | 2020 Annual |
|------------------------------------|------------|------------|-------------------|------------|----------------|
| Statement of Profit or Loss | | | | | |
| Gross Turnover | 38,606,738 | 47,277,711 | 36,656,177 | 43,717,857 | 166,258,483 |
| Excise Duties | 19,038,632 | 22,885,900 | 17,801,040 | 21,182,007 | 80,907,579 |
| Sales tax | 5,654,549 | 6,942,365 | 5,384,803 | 6,478,676 | 24,460,393 |
| Net Turnover | 13,913,557 | 17,449,446 | 13,470,334 | 16,057,174 | 60,890,511 |
| Cost of sales | 7,762,318 | 8,219,307 | 6,936,907 | 6,410,289 | 29,328,821 |
| Gross Profit | 6,151,239 | 9,230,139 | 6,533,427 | 9,646,885 | 31,561,690 |
| Selling and distribution costs | 1,012,073 | 1,793,565 | 511,631 | 1,698,158 | 5,015,427 |
| Administrative expenses | 903,565 | 625,886 | 732,655 | 1,095,798 | 3,357,904 |
| Other operating expenses | 413,069 | 554,709 | 430,094 | 693,357 | 2,091,229 |
| Other income | 428 | 7,078 | (4,444) | 745,536 | 748,598 |
| | 2,328,279 | 2,967,082 | 1,678,824 | 2,741,777 | 9,715,962 |
| Operating profit | 3,822,960 | 6,263,057 | 4,854,603 | 6,905,108 | 21,845,728 |
| Finance income | 115,938 | 347,482 | 170,671 | 148,775 | 782,866 |
| Finance cost | 59,369 | 50,114 | 69,264 | 61,952 | 240,699 |
| Finance income - net | 56,569 | 297,368 | 101,407 | 86,823 | 542,167 |
| Profit before income tax | 3,879,529 | 6,560,425 | 4,956,010 | 6,991,931 | 22,387,895 |
| Income tax expense | 1,058,851 | 1,766,674 | 1,230,155 | 1,839,725 | 5,895,405 |
| Profit for the year | 2,820,678 | 4,793,751 | 3,725,855 | 5,152,206 | 16,492,490 |



| | Sales , Net Turnover and Income | Operating Costs (Cost of Sales and all Operating Costs) | Profit |
|------------------|---|---|--|
| Quarter 1 | Q1'20 accounted for approximately 23% of total sales of the Company for FY'20. Sales volume in Q1'20 decreased by 22% compared to Q1'19 primarily because of Excise led price increase in June 2019. However, the Net Turnover increased by 12% compared to Q1'19 due to Rs 20/pack excise-led price increase. Interest income from short term investments decreased by 44.9% compared to Q1'19 because of reduction in interest rates. | Cost of sales increased by 16% compared to Q1'19 despite decrease in sales volume. This was primarily due to currency devaluation and general inflation in prices of raw materials. Selling and distribution costs decreased by 3% due to decrease in volume whereas administrative costs increased by 29% on account of general inflation compared to Q1'19. | Net profit for Q1'20 was 1% higher than that of Q1'19. This was primarily driven by higher Net Turnover and effective cost management. |
| Quarter 2 | Q2'20 accounted for 28% of total sales of the Company for FY'20. Sales volume in Q2'20 improved by 27% compared to Q1'20 in anticipation of potential price increase post FY2020-21 budget. Net Turnover also increased by 25% against Q1'20. Income from short term investments increased by 200% vs Q1'20 driven by higher funds availability (47% higher) because of higher turnover and efficient investment strategy. Compared to Q2'19, Net turnover was higher by 12.1%. | Cost of sales increased by 6% from Q1'20 owing to increase in volume in Q2'20 and increased by 22% from Q2'19 owing to increase in cost base on account of rupee devaluation and general inflation. Selling and distribution costs increased by 77% as compared to Q1'20 due to increased volumes. | Profit increased by 70% compared to Q1'20. This is primarily because of higher sales volume compared to Q1'20. Compared to Q2'19 profit was higher by 13%. |
| Quarter 3 | Q3'20 accounted for 22% of total sales of the company for FY'20. Sales volume was lower by 26% vs Q2'20. Resultantly, Net Turnover also declined by 23% compared to Q2. This was on account of higher distributor on hand stocks. Compared to Q3'19 Net Turnover increased by 41% due to increase in sales volume by 30%. Investment in marketing activities, dividend payments and payments to farmers on account of leaf purchases resulted in lower liquidity and as a result decline in income from short term investments by 26% compared to average of Q1'20 & Q2'20. | Decrease in sales resulted in decrease in cost of sales by 13% compared to average of Q1'20 & Q2'20. Compared to Q3'19 cost of sales increased by 49% due to increase in sales volume. Selling and distribution costs decreased by 64% compared to average of Q1'20 and Q2'20 due to decrease in sales volume vs cumulative quarterly average for prior periods. All other operating costs of the company saw a reduction of 7% in Q3'20 compared to average of Q1'20 & Q2'20. | Profit declined by 2% in Q3'20 compared to average of Q1'20 and Q2'20 due to significant drop in sales volume which was partially offset by effective cost management. Profit increased by 27% vs Q3'19. |
| Quarter 4 | Q4'20 accounted for 26% of total sales of the Company for FY'20. Sales volume picked up pace in the last quarter of the year rising by 21% compared to Q3'20 and higher by 4% compared to Q4'19. Net turnover increased by 7% and 11.6% compared to cumulative average of prior quarters of 2020 and Q4'19 respectively. | Cost of sales decreased by 16% compared to cumulative average of prior quarters of 2020 and again by 16% compared to Q4'19 on account of effective cost management. Selling and distribution costs increased by 54% in Q4'20 as compared to average of last three quarters of the year due to increase in sales volume. Other operating costs increased by 47% compared to cumulative average of prior quarters of 2020. Compared to Q4'19, there was an increase of 25% in operating costs primarily due to higher Group IT recharges. | The profit for Q4'20 increased by 36% compared to cumulative average of prior quarters of 2020 mainly because of higher costs. Compared to Q4'19 profit was higher by 77%. |

Analysis of Variation in Interim Results with Final Accounts

The Company's sales volume showed an upward trend in the first 6 months of the year on account of expected excise led price increases. However, post FY 20-21 budget excise rates remained unchanged. Sales volume declined by 9% in the second half compared to the first half of the year due to already accumulated stocks at distributors end. On the flip side, profitability improved by 17% in the second half due to effective cost management and greater efficiency.

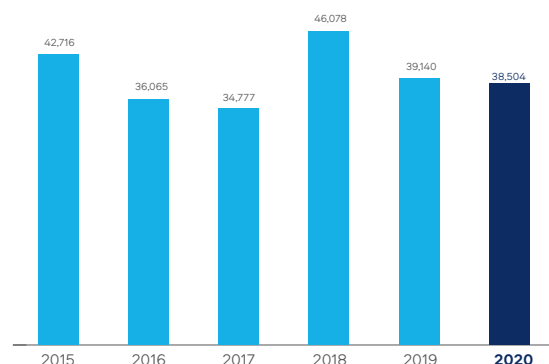
The Company's input costs saw increase in first half of the year 2020 which was mainly attributable to FX devaluation and inflation. In H2'20, cost of sales declined by 17% primarily due to reduction in sales volumes and strict cost control regime augmented by savings generated through productivity initiatives across the Company. Following the same trend, selling and distribution costs also declined by 21% due to decline in sales volume.

The Company's cash flow position in second half of the year decreased by 34% primarily on account of dividend, capex, royalty and leaf payments. As a result, interest income for second half also declined by 31% due to lower funds available for short term investments. Overall, the Company managed to generate healthy cash flows for the year ended 2020 as a result of effective liquidity management.

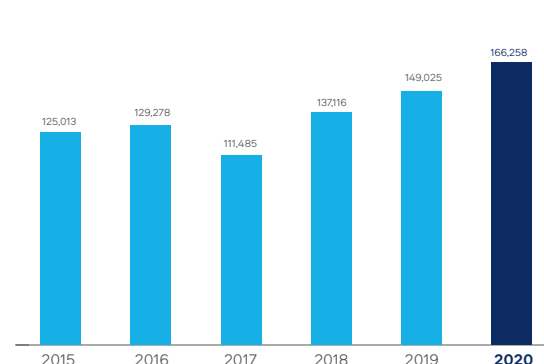
GRAPHICAL PRESENTATION

of Statement of Profit or Loss & Statement of Financial Position

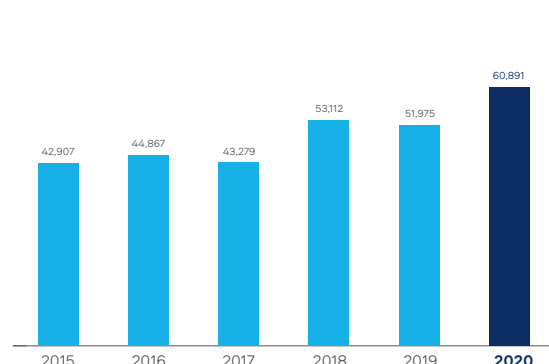
Volume
(Million Sticks)



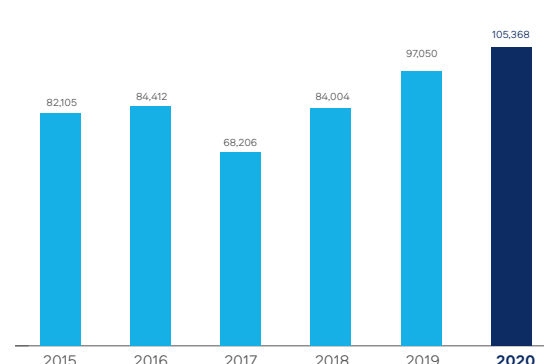
Gross Turnover
(Rs in Million)



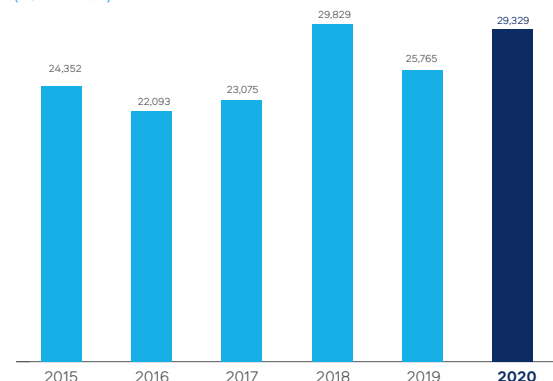
Net Turnover
(Rs in Million)



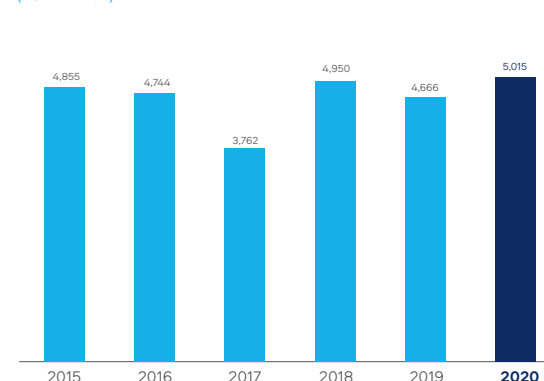
Excise & Sales Tax
(Rs in Million)



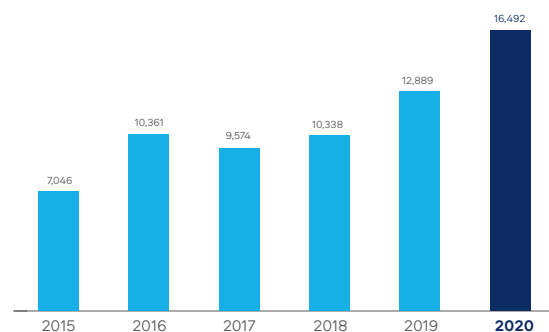
Cost of Sales
(Rs in Million)



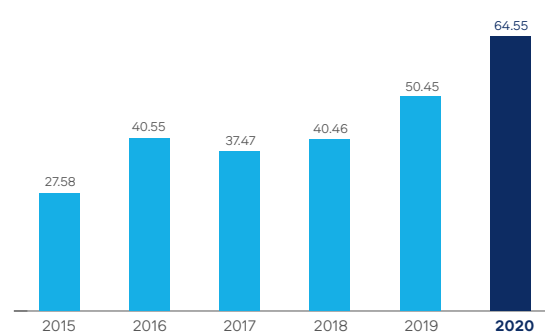
Selling & Distribution Costs
(Rs in Million)



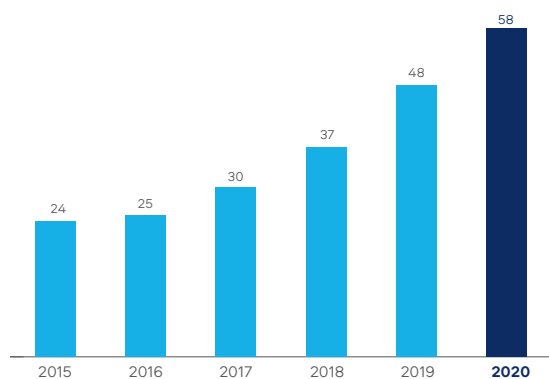
Profit after Tax (Rs in Million)



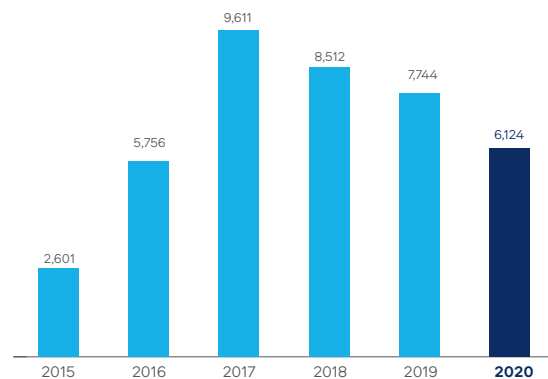
Earnings per Share (Rs/share)



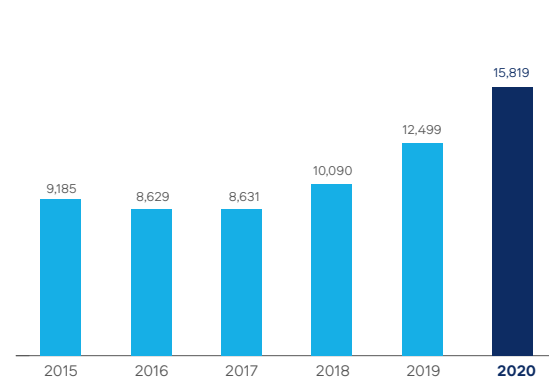
Dividend per Share (Rs/share)



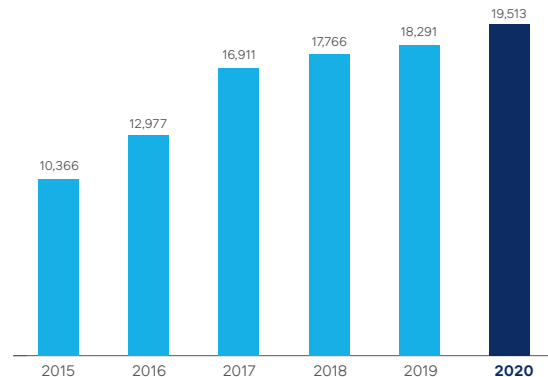
Working Capital (Rs in Million)



Property, Plant & Equipment (Rs in Million)



Share Capital and Reserves (Rs in Million)



HORIZONTAL & VERTICAL ANALYSIS

Source Data

| Rs. in million | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Statement of Profit or Loss | | | | | | |
| Gross turnover* | 166,258 | 149,025 | 137,116 | 111,485 | 129,278 | 125,013 |
| Excise duties | (80,908) | (74,741) | (63,118) | (51,247) | (64,976) | (63,290) |
| Sales tax | (24,460) | (22,308) | (20,886) | (16,959) | (19,436) | (18,815) |
| Net turnover | 60,891 | 51,975 | 53,112 | 43,279 | 44,867 | 42,907 |
| Cost of sales | (29,329) | (25,765) | (29,829) | (23,075) | (22,093) | (24,352) |
| Gross Profit | 31,562 | 26,210 | 23,284 | 20,204 | 22,774 | 18,555 |
| Selling and distribution costs | (5,015) | (4,666) | (4,950) | (3,762) | (4,744) | (4,855) |
| Administrative expenses | (3,358) | (2,780) | (2,558) | (2,664) | (2,185) | (2,435) |
| Other operating expenses | (2,091) | (1,872) | (1,382) | (1,186) | (1,198) | (1,068) |
| Other income | 749 | 783 | 178 | 242 | 353 | 137 |
| Operating profit | 21,846 | 17,675 | 14,571 | 12,834 | 15,000 | 10,335 |
| Finance income | 783 | 813 | 743 | 234 | 428 | 316 |
| Finance cost | (241) | (203) | (34) | (56) | (46) | (72) |
| Profit before income tax | 22,388 | 18,285 | 15,280 | 13,011 | 15,382 | 10,579 |
| Income tax expense | (5,895) | (5,396) | (4,942) | (3,438) | (5,021) | (3,533) |
| Profit for the year | 16,492 | 12,889 | 10,338 | 9,574 | 10,361 | 7,046 |
| Earnings per Share - basic and diluted (Rupees) | 64.55 | 50.45 | 40.46 | 37.47 | 40.55 | 27.58 |

*Gross revenue figure has been adjusted as per IFRS-15 methodology. Certain marketing costs have been deducted from total revenues from 2017 and onwards.

Statement of Financial Position

Non Current Assets

| | | | | | | |
|---|---------------|---------------|---------------|--------------|--------------|--------------|
| Property, plant and equipment/ Advances for capital expenditure | 15,819 | 12,499 | 10,090 | 8,631 | 8,629 | 9,185 |
| Investment in subsidiary company | 5 | 5 | 5 | 5 | 5 | 5 |
| Long term loans | - | - | - | - | - | - |
| Long term deposits and prepayments | 28 | 31 | 32 | 32 | 34 | 29 |
| | 15,851 | 12,534 | 10,127 | 8,668 | 8,668 | 9,219 |

Current Assets

| | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Stock-in-trade | 19,483 | 21,423 | 18,489 | 14,461 | 13,619 | 14,008 |
| Stores and spares | 679 | 664 | 634 | 594 | 570 | 676 |
| Trade debts | 1 | 4 | 2 | 3 | 2 | 1 |
| Loans and advances | 335 | 126 | 96 | 73 | 179 | 182 |
| Short term prepayments | 76 | 15 | 250 | 213 | 184 | 170 |
| Other receivables | 1,336 | 2,132 | 1,862 | 969 | 1,049 | 447 |
| Cash and bank balances/Short term investments | 7,244 | 3,537 | 8,993 | 7,154 | 1,127 | 53 |
| | 29,154 | 27,901 | 30,326 | 23,466 | 16,729 | 15,536 |
| Total Assets | 45,006 | 40,436 | 40,453 | 32,134 | 25,397 | 24,755 |

Current Liabilities

| | | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Trade and other payables | 21,439 | 19,306 | 21,202 | 13,024 | 9,095 | 10,417 |
| Accrued interest / mark-up | 1 | 19 | 5 | 3 | 3 | 12 |
| Short term running finance | - | - | 76 | - | 95 | 1,220 |
| Lease liability | 679 | 383 | 148 | 165 | 164 | 154 |
| Current Income tax liabilities | 912 | 449 | 382 | 662 | 1,615 | 1,132 |
| | 23,031 | 20,157 | 21,813 | 13,854 | 10,973 | 12,934 |

Non Current Liabilities

| | | | | | | |
|---------------------------------|--------------|--------------|------------|--------------|--------------|--------------|
| Deferred income tax liabilities | 889 | 646 | 589 | 1,108 | 1,132 | 1,039 |
| Lease liability | 1,574 | 1,342 | 285 | 260 | 315 | 415 |
| | 2,462 | 1,988 | 874 | 1,368 | 1,447 | 1,454 |

Share Capital & Reserves

| | | | | | | |
|------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Share capital | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 | 2,555 |
| Revenue reserves | 16,958 | 15,736 | 15,211 | 14,356 | 10,422 | 7,811 |
| | 19,513 | 18,291 | 17,766 | 16,911 | 12,977 | 10,366 |
| | 45,006 | 40,436 | 40,453 | 32,134 | 25,397 | 24,755 |

| Horizontal Analysis ¹ | | | | | | Vertical Analysis ² | | | | | |
|----------------------------------|----------|----------|----------|----------|----------|--------------------------------|--------|--------|--------|--------|--------|
| 20 Vs 19 | 19 Vs 18 | 18 Vs 17 | 17 Vs 16 | 16 Vs 15 | 15 Vs 14 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Percentage (%) | | | | | | Percentage (%) | | | | | |
| 11.6% | 8.7% | 23.0% | (13.8%) | 3.4% | 16.6% | | | | | | |
| 8.2% | 18.4% | 23.2% | (21.1%) | 2.7% | 16.2% | | | | | | |
| 9.6% | 6.8% | 23.2% | (12.7%) | 3.3% | 16.5% | | | | | | |
| 17.2% | (2.1%) | 22.7% | (3.5%) | 4.6% | 17.2% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| 13.8% | (13.6%) | 29.3% | 4.4% | (9.3%) | 6.9% | 48.2% | 49.6% | 56.2% | 53.3% | 49.2% | 56.8% |
| 20.4% | 12.6% | 15.2% | (11.3%) | 22.7% | 34.0% | 51.8% | 50.4% | 43.8% | 46.7% | 50.8% | 43.2% |
| 7.5% | (5.7%) | 31.6% | (20.7%) | (2.3%) | 25.2% | 8.2% | 9.0% | 9.3% | 8.7% | 10.6% | 11.3% |
| 20.8% | 8.7% | (4.0%) | 21.9% | (10.2%) | 1.5% | 5.5% | 5.3% | 4.8% | 6.2% | 4.9% | 5.7% |
| 11.7% | 35.5% | 16.5% | (1.0%) | 12.2% | 64.1% | 3.4% | 3.6% | 2.6% | 2.7% | 2.7% | 2.5% |
| (4.4%) | 340.6% | (26.6%) | (31.4%) | 157.4% | (17.6%) | 1.2% | 1.5% | 0.3% | 0.6% | 0.8% | 0.3% |
| 23.6% | 21.3% | 13.5% | (14.4%) | 45.1% | 45.8% | 35.9% | 34.0% | 27.4% | 29.7% | 33.4% | 24.1% |
| (3.7%) | 9.4% | 217.2% | (45.3%) | 35.5% | 58.1% | 1.3% | 1.6% | 1.4% | 0.5% | 1.0% | 0.7% |
| 18.8% | 498.8% | (40.0%) | 22.9% | (36.2%) | (27.5%) | 0.4% | 0.4% | 0.1% | 0.1% | 0.1% | 0.2% |
| 22.4% | 19.7% | 17.4% | (15.4%) | 45.4% | 47.2% | 36.8% | 35.2% | 28.8% | 30.1% | 34.3% | 24.7% |
| 9.3% | 9.2% | 43.8% | (31.5%) | 42.1% | 51.1% | 9.7% | 10.4% | 9.3% | 7.9% | 11.2% | 8.2% |
| 28.0% | 24.7% | 8.0% | (7.6%) | 47.0% | 45.3% | 27.1% | 24.8% | 19.5% | 22.1% | 23.1% | 16.4% |
| 26.6% | 23.9% | 16.9% | 0.0% | (6.0%) | 5.4% | 35.1% | 30.9% | 24.9% | 26.9% | 34.0% | 37.1% |
| 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | (100.0%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| (9.9%) | (4.2%) | (0.6%) | (3.7%) | 15.5% | (10.4%) | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| 26.5% | 23.8% | 16.8% | 0.0% | (6.0%) | 5.3% | 35.2% | 31.0% | 25.0% | 27.0% | 34.1% | 37.2% |
| (9.1%) | 15.9% | 27.9% | 6.2% | (2.8%) | 17.8% | 43.3% | 53.0% | 45.7% | 45.0% | 53.6% | 56.6% |
| 2.2% | 4.7% | 6.8% | 4.2% | (15.6%) | 43.1% | 1.5% | 1.6% | 1.6% | 1.8% | 2.2% | 2.7% |
| (67.3%) | 174.3% | (41.1%) | 43.3% | 103.0% | (71.9%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 166.0% | 31.3% | 32.1% | (59.3%) | (1.7%) | 172.3% | 0.7% | 0.3% | 0.2% | 0.2% | 0.7% | 0.7% |
| 402.7% | (93.9%) | 17.5% | 15.7% | 8.0% | (7.0%) | 0.2% | 0.0% | 0.6% | 0.7% | 0.7% | 0.7% |
| (37.3%) | 14.5% | 92.2% | (7.6%) | 134.9% | 5.0% | 3.0% | 5.3% | 4.6% | 3.0% | 4.1% | 1.8% |
| 104.8% | (60.7%) | 25.7% | 534.7% | 2023.3% | (64.5%) | 16.1% | 8.7% | 22.2% | 22.3% | 4.4% | 0.2% |
| 4.5% | (8.0%) | 29.2% | 40.3% | 7.7% | 17.7% | 64.8% | 69.0% | 75.0% | 73.0% | 65.9% | 62.8% |
| 11.3% | (0.0%) | 25.9% | 26.5% | 2.6% | 12.8% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| 11.0% | (8.9%) | 62.8% | 43.2% | (12.7%) | (7.5%) | 47.6% | 47.7% | 52.4% | 40.5% | 35.8% | 42.1% |
| (96.9%) | 253.8% | 56.2% | (0.7%) | (70.9%) | (51.1%) | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| 0.0% | (100.0%) | 100.0% | (100.0%) | (92.2%) | 116.7% | 0.0% | 0.0% | 0.2% | 0.0% | 0.4% | 4.9% |
| 77.2% | 158.3% | (10.3%) | 0.5% | 6.5% | 29.3% | 1.5% | 0.9% | 0.4% | 0.5% | 0.6% | 0.6% |
| 103.0% | 17.5% | (42.3%) | (59.0%) | 42.7% | 145.6% | 2.0% | 1.1% | 0.9% | 2.1% | 6.4% | 4.6% |
| 14.3% | (7.6%) | 57.4% | 26.3% | (15.2%) | 4.0% | 51.2% | 49.8% | 53.9% | 43.1% | 43.2% | 52.3% |
| 37.5% | 9.7% | (46.8%) | (2.1%) | 9.0% | (5.6%) | 2.0% | 1.6% | 1.5% | 3.4% | 4.5% | 4.2% |
| 17.3% | 371.1% | 9.5% | (17.4%) | (24.1%) | 3.7% | 3.5% | 3.3% | 0.7% | 0.8% | 1.2% | 1.7% |
| 23.9% | 127.5% | (36.1%) | (5.5%) | (0.5%) | (3.1%) | 5.5% | 4.9% | 2.2% | 4.3% | 5.7% | 5.9% |
| 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 5.7% | 6.3% | 6.3% | 8.0% | 10.1% | 10.3% |
| 7.8% | 3.5% | 6.0% | 37.8% | 33.4% | 43.2% | 37.7% | 38.9% | 37.6% | 44.7% | 41.0% | 31.6% |
| 6.7% | 3.0% | 5.1% | 30.3% | 25.2% | 29.4% | 43.4% | 45.2% | 43.9% | 52.6% | 51.1% | 41.9% |
| | | | | | | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

¹ Horizontal analysis shows changes in the amount of corresponding line items by comparing current period with previous period

² For Statement of Profit or Loss, net turnover is the base figure whereas for Statement of Financial Position, total assets is the base figure for calculating vertical analysis

ANALYSIS OF STATEMENT OF PROFIT OR LOSS & STATEMENT OF FINANCIAL POSITION

Gross Turn Over:

From 2015 to 2020, gross turnover has followed a healthy growth trend. During 2020, the gross turnover grew by 11.6% which was attributable to excise led price increase in first six months and impact of premium portfolio price increase in the second half of the year even though sales volume were lower vs 2019. However, looking back at historical numbers, the growth trend in gross revenues was disrupted in the years 2016 and 2017 as the illicit sector grew rapidly and their market share reached an alarmingly high level of 41.2% which resulted in steep fall in the Company's volume. The policy reforms introduced in 2017/18 budget helped in the revival of legitimate industry in 2018 and resultantly the Company's volume rebounded as the illicit sector saw a decline and consumers shifted from non-duty-paid cigarettes to duty-paid cigarettes.

Important to note, that Gross Turnover in 2017 and onwards, followed the IFRS 15 revenue recognition requirements, whereby, certain marketing costs were deducted from the total revenues.

FED and Sales Tax:

PTC is one of the largest tax contributors to the national exchequer. Over the years, the contribution to the national exchequer has followed an increasing trend, except in 2016 and 2017, when revenue growth stalled due to accelerated expansion of the illicit sector and the legal industry lost volume to duty not paid products. To address the steep fall in government revenues, fiscal reforms were introduced in budget 17/18 and 18/19, which helped to put the tax revenues back on the growth trajectory as elaborated above. In 2020, the Company contributed Rs 105 billion in tax revenues in the form of FED and Sales tax, higher by 8.5% compared to 2019.

Net Turnover:

In line with the growth in gross turnover, the net turnover has also followed a similar trend increasing from Rs 42.9 billion in 2015 to Rs 60.8 billion in 2020 (CAGR of 7.22%). During 2020, the net turnover increased by 17.2% from 2019. This is attributable to excise led price increase impact in first half of the year and premium portfolio price increase in the second half of the year 2020.

Cost of Sales:

Cost of sales increased by 14% in comparison to previous year primarily due to higher inflation and FX devaluation. Through strict cost regime and multiple product saving initiatives, the Company was able to mitigate the increase in costs for the second half of the year by 16%.

Selling & Distribution:

Over the years, the Company has continued to invest in its brands and trade capabilities. Brand investments are aimed at building a strong portfolio wide brand equity through product upgrades, effective marketing activities and consumer engagements. The Company ventured into new categories by launching VELO and its expansion across urban cities of Pakistan, which also contributed to an increase in overall selling and distribution expenses. In 2020, the selling and distribution expenses were Rs 5 billion, up by 7.5% vs 2019.

Profit After Tax

Over the past six years, the Company has been able to register a healthy growth in its profits apart from the year 2017 when the Company's volume took a significant hit. During 2020, the Company increased its profit after tax by 28% vs 2019. This is attributable to effective cost management, productivity savings and healthy finance income from efficient working capital management.

Earnings per share (EPS)

EPS has registered CAGR (cumulative average growth rate) of 18.5%, growing from Rs 27.58 per share in 2015 to Rs 64.55 per share in 2020, in line with the profitability growth trend over the years. EPS for 2020 registered a growth of 28% vs 2019.

Property Plant & Equipment

Over the years, property, plant & equipment has increased from around Rs 9.2 billion in 2015 to Rs 15.8 billion in 2020. The Company has invested not only to increase production capacity but also to upgrade its machinery footprint, enabling it to support future product innovations. Moreover in 2020, the Company has initiated setup of a standalone VELO factory for production localization. To meet strict EH&S requirements, the Company has also upgraded the operating infrastructure for ensuring a highly safe working environment for the Company's workforce.

Working Capital Management

The Company's cash advance sales model enables working capital requirements to be managed efficiently. The growing profitability and supplier management systems have also allowed the Company to improve its working capital position over the years, reaching a positive Rs 6.1 billion in 2020. These factors have improved the cash conversion cycle to 90 days in 2020 vs 153 days in 2019.

Non-Current Liabilities

Non-current liabilities (NCL) consist of lease liability and deferred tax liability. Over the years, the Company experienced a period of sales growth, increased profitability, higher liquidity and improved working capital position, eliminating the need for long term financing. Investment needs were easily financed through cash generated from operations. The trend continued in 2020 as well with no long-term financing options availed. However, due to the introduction of a new accounting standard, IFRS 16 – Leases in 2019, there has been an increase in the lease liabilities by 17% in lieu of new contracts entered during the year.

Share Capital & Reserves

Over the years, share capital has remained the same at Rs. 2.6 billion. However, reserves have increased from Rs. 7.8 billion in 2015 to Rs. 16.9 billion in 2020 owing to consistent growth in profitability over the years.

SUMMARY OF STATEMENT OF PROFIT OR LOSS, FINANCIAL POSITION & CASH FLOWS

| | | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|------------------------------------|-------------|-----------|----------|----------|----------|----------|----------|
| Statement of Profit or Loss | | | | | | | |
| Gross turnover* | Rs. million | 166,258 | 149,025 | 137,116 | 111,485 | 129,278 | 125,013 |
| Excise duties/Sales Tax | Rs. million | (105,368) | (97,050) | (84,004) | (68,206) | (84,412) | (82,105) |
| Net turnover | Rs. million | 60,891 | 51,975 | 53,112 | 43,279 | 44,867 | 42,907 |
| Cost of Sales | Rs. million | (29,329) | (25,765) | (29,829) | (23,075) | (22,093) | (24,352) |
| Profit for the Year | Rs. million | 16,492 | 12,889 | 10,338 | 9,574 | 10,361 | 7,046 |
| Earnings per share | Rs./share | 64.55 | 50.45 | 40.46 | 37.47 | 40.55 | 27.58 |

*Gross revenue figure has been adjusted as per IFRS-15 methodology. Certain marketing costs have been deducted from total revenues from 2017 onwards.

| | | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------|--------|--------|--------|--------|--------|--------|
| Statement of Financial Position | | | | | | | |
| Property Plant & Equipment/Advances for Capital Expenditure | Rs. million | 15,819 | 12,499 | 10,090 | 8,631 | 8,629 | 9,185 |
| Working Capital (Current Assets-Current Liabilities) | Rs. million | 6,124 | 7,744 | 8,512 | 9,611 | 5,756 | 2,601 |
| Share Capital & Reserves | Rs. million | 19,513 | 18,291 | 17,766 | 16,911 | 12,977 | 10,366 |
| Non- Current Liabilities | Rs. million | 2,462 | 1,988 | 874 | 1,368 | 1,447 | 1,454 |

| | | | | | | | |
|---|-------------|----------|----------|---------|---------|---------|---------|
| Statement of Cash Flows | | | | | | | |
| Cash flow from Operating Activities | Rs. million | 22,215 | 8,564 | 12,810 | 12,280 | 10,555 | 5,179 |
| Cash flow from Investing Activities | Rs. million | (3,192) | (835) | (1,359) | (740) | 17 | (1,015) |
| Cash flow from Financing Activities | Rs. million | (15,317) | (13,110) | (9,688) | (5,418) | (8,374) | (4,917) |
| Net Change in Cash and Cash Equivalents | Rs. million | 3,707 | (5,380) | 1,763 | 6,122 | 2,198 | (753) |
| Beginning Cash and Cash Equivalents | Rs. million | 3,537 | 8,917 | 7,154 | 1,032 | (1,166) | (413) |
| Ending Cash and Cash Equivalents | Rs. million | 7,244 | 3,537 | 8,917 | 7,154 | 1,032 | (1,166) |

| | | | | | | | |
|---|-------------|-------|-------|-------|-------|-------|---------|
| Cash and Cash Equivalents comprise | | | | | | | |
| Cash and Bank Balances/Short Term Investments | Rs. million | 7,244 | 3,537 | 8,993 | 7,154 | 1,127 | 53 |
| Short Term Borrowings | Rs. million | - | - | (76) | - | (95) | (1,220) |
| | Rs. million | 7,244 | 3,537 | 8,917 | 7,154 | 1,032 | (1,166) |

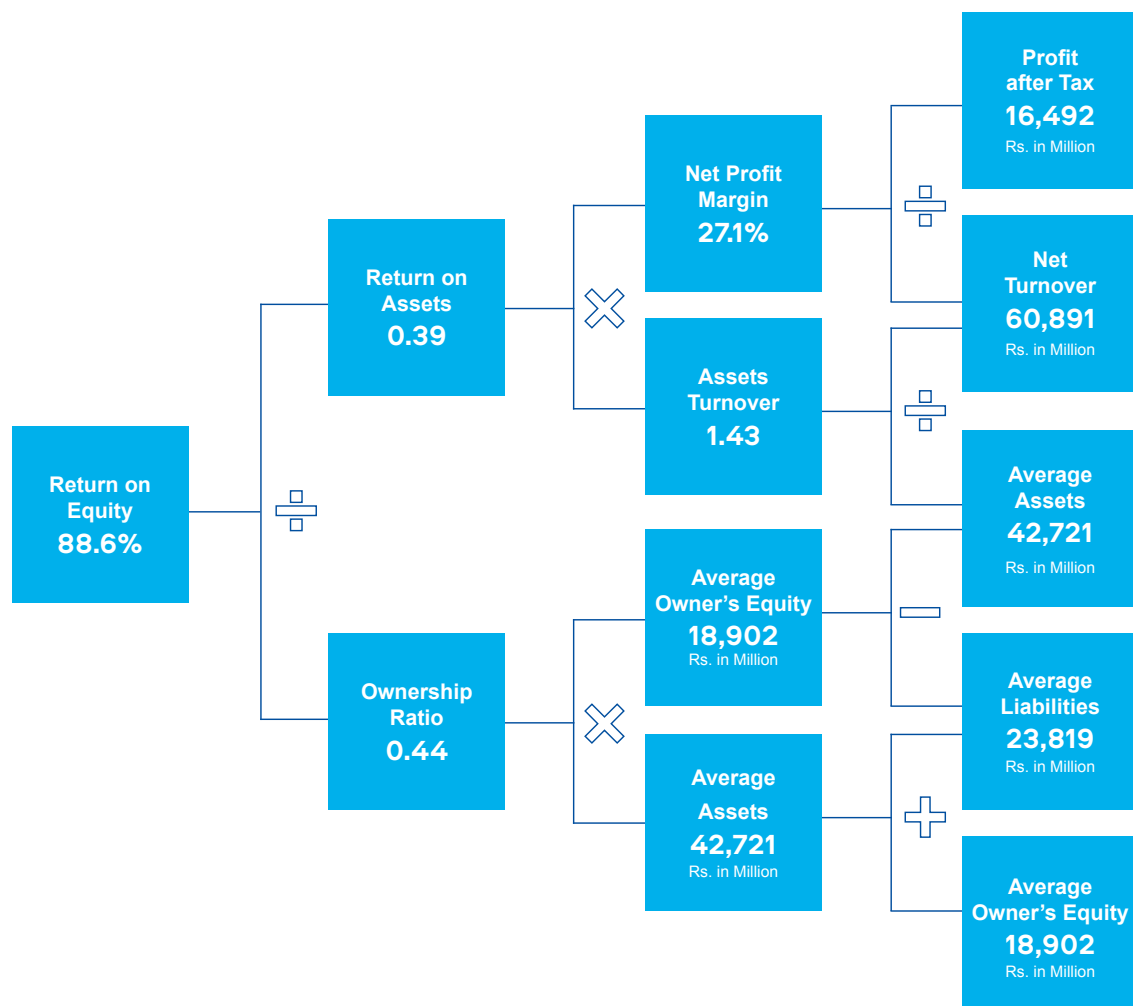
Direct Method Cash Flow

| | 2020 | 2019 |
|---|-----------|-----------|
| Cash flows from operating activities | | |
| Cash receipts from customers | 166,257 | 149,037 |
| Cash paid to Government & suppliers | (137,545) | (133,336) |
| Cash paid to employees and retirement funds | (5,524) | (5,462) |
| Interest paid | (259) | (182) |
| Other cash payments | (714) | (1,493) |
| | 22,215 | 8,564 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment/Advance for Capex | (4,201) | (1,947) |
| Proceeds from sale of equipment | 227 | 299 |
| Interest received | 783 | 813 |
| | (3,191) | (835) |
| Cash flows from financing activities | | |
| Dividends paid | (14,801) | (12,400) |
| Finance lease payments | (516) | (709) |
| | (15,317) | (13,109) |
| Increase / (decrease) in cash and cash equivalents | | |
| Cash and cash equivalents at beginning of year | 3,707 | (5,380) |
| Cash and cash equivalents at end of year | 7,244 | 3,537 |
| Cash and cash equivalents comprise: | | |
| Cash and bank balances | 842 | 536 |
| Short term investment | 6,402 | 3,001 |
| | 7,244 | 3,537 |

Free Cash Flows

| | 2020 | 2019 |
|----------------------------|---------|---------|
| Free cash flows | | |
| Profit before tax | 22,388 | 18,285 |
| Adjustment non-cash items | 1,819 | 1,354 |
| Changes in working capital | 3,717 | (5,293) |
| | 27,924 | 14,346 |
| Capital expenditure | (4,201) | (1,947) |
| Free Cash flows | 23,723 | 12,399 |

DUPONT ANALYSIS 2020



Dupont Analysis Summary

The Company's net profit registered healthy growth trend of 28% in comparison to previous year.

Asset turnover increased from 1.29 to 1.43 as net turnover increased by a higher margin than the increase in average assets in comparison to previous year. The additions in non-current asset during the year are primarily attributable to the recognition of new Right-of-Use Assets in accordance with IFRS 16 - Leases and additions in capital work in progress relating to enhancement of already installed machinery and construction of VELO factory. Further the current assets also increased due to increase in short term investments as compared to the previous period.

Ownership ratio reduced from 0.45 to 0.44 because increase in owner's equity was less than proportional increase in average assets.

LIQUIDITY, CASH FLOWS AND CAPITAL STRUCTURE

The Company's Treasury function is responsible for raising the finances required by the Company, managing its liquid resources and mitigating the financial risks that arise during its business operations. Clear policies and procedures, including levels of authority as well as the type and use of financial instruments, have been defined and documented. All treasury related transactions are executed as per the defined policies and procedures. These policies are reviewed and approved by the Board of Directors or its delegated authority to the Finance Director/Treasury Committee.

Cash Flow Analysis

The cashflows of the Company demonstrate the strength and efficiency of its operations and particularly, its highly efficient working capital management systems and processes.

1. Net Cash Generated from Operating Activities

Cash flows from operating activities followed a healthy trend over the years, improving from Rs. 5.2 billion in 2015 to Rs. 22.2 billion in 2020 (CAGR of 33.8%). This was primarily driven by increase in turnover, improved profitability and effective cash management. In its journey towards working capital improvement, the Company has been able to reduce its cash generation cycle from around 153 days in 2019 to 90 days in 2020.

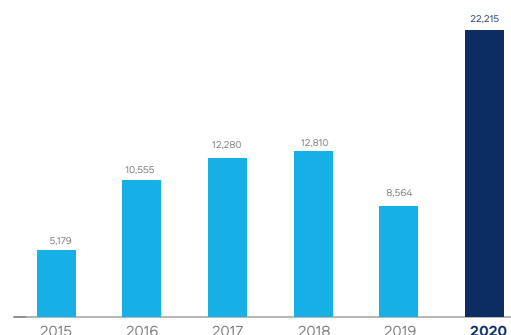
2. Net Cash Generated from Investing Activities

Cash utilized on investing activities has increased from Rs. 0.8 billion in 2019 to Rs. 3.2 billion in 2020. This is primarily due to increase of Rs 2.2 billion in capital expenditure to support innovations and fund installation and commissioning of new VELO plant and machinery. Further, lower inflows from proceeds from disposal of fixed assets and interest income have also contributed to higher cash utilization in 2020.

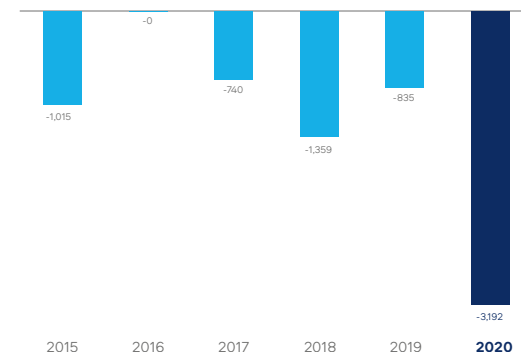
3. Net Cash Generated from Financing Activities

Cash outflow on financing activities increased from Rs 13.1 billion in 2019 to Rs 15.3 billion in 2020, as the Company paid out dividends of Rs 58/share totaling Rs 14.8 billion during the year compared to Rs 48/share totaling Rs 12.4 billion in 2019. This is a testament of Company's ability to generate sustainable value for its shareholders.

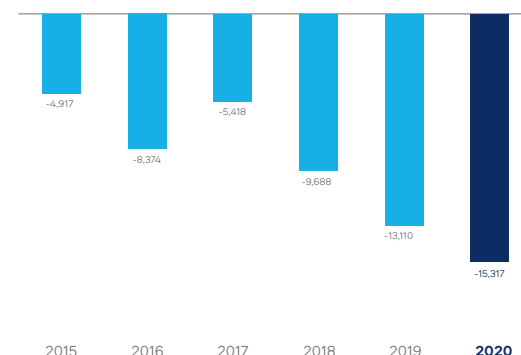
Cash Flow from Operating Activities (Rs. in Million)



Cash Flow from Investing Activities (Rs. in Million)



Cash Flow from Financing Activities (Rs. in Million)



Adequacy of Capital Structure

The Company has an adequate capital structure comprising mainly of equity with a minimal portion of non-current liabilities. Over the years, share capital has remained the same at Rs. 2.6 billion, however, revenue reserves have increased from Rs. 7.8 billion in 2015 to Rs. 16.9 billion in 2020, primarily due to growing profitability over the years. Sales growth, higher profitability and improved liquidity position has enabled the Company to support its financing needs including those for capital expenditure from internally generated cash.

Financing Arrangements

With a view to maximize shareholders' returns, the Company places high priority on internal generation of funds. Exhaustive rolling cash flow forecasting is conducted keeping in view the various requirements of the business. Healthy operating cash flows allow Company to avail external financing only on short term basis. The Company has running finance facilities with multiple banks to draw down funds in time of need.

Liquidity and Cash Flow Management Strategy to Overcome Liquidity Problems

1. Effective Working Capital Management

The Company has an elaborate and effective working capital management process, which largely centres around its cash advance sales approach. Additionally, the Company follows an elaborate supplier management process, which enables it to extract the best commercial terms from its suppliers, including favourable credit terms. Over the years our cash conversion cycle has not only improved significantly but has also enabled us to finance all our liquidity requirements, including those required for business expansion, through internally generated cash.

2. Cash Flow Monitoring

The Company continuously monitors both its cash inflows and outflows, regularly and takes commercial decisions to manage its liquidity. This process of regular monitoring enables the Company to get the visibility of future liquidity requirements and accordingly, bridge the gaps by arranging financing facilities, if required.

3. Investment of Surplus Funds

The Company manages its surplus funds by investing them in short term low risk financial instruments. At a time, when interest rates are on the rise, the Company is able to invest its excess liquidity at higher rates and avoid interest expense charged at higher rates.

4. Effective Control Environment

The Company is equipped with highly efficient systems and applications that allow for speedy cash collections and disbursements, while ensuring operation of robust controls.

Repayment of Debts and Recovery of Losses

The Company has running finance facilities arrangement with multiple banks, however healthy operating cash flows allows the Company to keep the utilization of these facilities to a minimum.

The Management believes that the Company's operations can generate sufficient cash to meet the liquidity requirements of the Company and thus, does not foresee any liquidity problems in the future. Considering the amount of unutilized borrowing facilities, availability of short-term assets and ongoing ability to generate cash, the Company will be able to meet its cash needs for the future.

PERFORMANCE INDICATORS RATIOS FOR 6 YEARS

| | | | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|-----------------------------|----------------------------|-------|------|------|------|------|-------|------|
| Profitability Ratios | | | | | | | | |
| 1 | *Gross Profit ratio | % | 51.8 | 50.4 | 43.8 | 46.7 | 50.8 | 43.2 |
| 2 | *Net Profit to Sales | % | 27.1 | 24.8 | 19.5 | 22.1 | 23.1 | 16.4 |
| 3 | *EBITDA Margin to Sales | % | 38.3 | 36.6 | 29.2 | 32.2 | 35.9 | 26.4 |
| 4 | Operating leverage ratio | Times | 2.0 | 2.5 | 0.6 | 1.0 | 13.2 | 2.8 |
| 5 | Return on Equity | % | 87.3 | 71.5 | 59.6 | 64.1 | 88.8 | 76.7 |
| 6 | Return on Capital employed | % | 99.4 | 87.2 | 78.2 | 70.2 | 104.0 | 87.4 |

*Gross revenue figure has been adjusted as per IFRS-15 methodology from 2017 and onwards. Certain marketing costs have been deducted from total revenues

| | | | | | | | | |
|--|--|-------|------|------|------|------|------|-----|
| Liquidity Ratios | | | | | | | | |
| 1 | Current ratio | Times | 1.3 | 1.4 | 1.4 | 1.7 | 1.5 | 1.2 |
| 2 | Quick / Acid Test Ratio | Times | 0.4 | 0.3 | 0.5 | 0.6 | 0.3 | 0.1 |
| 3 | **Cash and cash equivalents to Current Liabilities | % | 31.5 | 17.5 | 41.2 | 51.6 | 10.3 | 0.4 |
| 4 | Cash flow from operations to Sales | % | 13.4 | 5.7 | 9.3 | 11.0 | 8.2 | 4.1 |
| **This includes short term investments as well | | | | | | | | |

| | | | | | | | | |
|-----------------------------------|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| Activity / Turnover Ratios | | | | | | | | |
| 1 | Inventory turnover ratio | Times | 1.5 | 1.2 | 1.6 | 1.6 | 1.6 | 1.7 |
| 2 | No. of Days in Inventory | Days | 242.5 | 303.5 | 226.2 | 228.7 | 225.0 | 210.0 |
| 3 | Debtor turnover ratio | Times | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4 | No. of Days in Receivables | Days | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5 | Creditor turnover ratio | Times | 2.4 | 2.4 | 2.0 | 2.4 | 2.9 | 3.1 |
| 6 | No. of Days in Payables | Days | 152.7 | 150.9 | 179.6 | 149.5 | 124.8 | 116.6 |
| 7 | Total Assets turnover ratio | Times | 3.7 | 3.7 | 3.4 | 3.5 | 5.1 | 5.1 |
| 8 | Fixed Assets turnover ratio | Times | 10.5 | 11.9 | 13.6 | 12.9 | 15.0 | 13.6 |
| 9 | Operating cycle | Days | 90 | 153 | 47 | 79 | 100 | 93 |

| | | | | | | | | |
|----------------------------------|---|-------|-------|-------|-------|---------|---------|-------|
| Investment /Market Ratios | | | | | | | | |
| 1 | Earnings per share After Tax(EPS) and diluted EPS | Rs | 64.6 | 50.4 | 40.5 | 37.5 | 40.6 | 27.6 |
| 2 | Price-Earning Ratio | Times | 24.9 | 48.4 | 71.7 | 57.3 | 35.3 | 40.4 |
| 3 | Dividend Yield ratio | % | 3.6 | 2.0 | 1.3 | 1.4 | 1.7 | 2.2 |
| 4 | Dividend Payout ratio | % | 89.9 | 95.1 | 96.4 | 80.1 | 61.6 | 87.0 |
| 5 | Dividend Cover ratio | Times | 1.1 | 1.1 | 1.0 | 1.2 | 1.6 | 1.1 |
| 6 | Dividend Per Share | Rs | 58.0 | 48.0 | 39.0 | 30.0 | 25.0 | 24.0 |
| 7 | Stock Dividend per share | Rs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 8 | Market value per share at year end | Rs | 1,610 | 2,441 | 2,900 | 2,147.9 | 1,433 | 1,114 |
| 9 | Highest Market value per share during the year | Rs | 2,320 | 2,999 | 3,000 | 2,147.9 | 1,433.3 | 1,169 |
| 10 | Lowest Market value per share during the year | Rs | 1,450 | 2,186 | 1,692 | 1,081 | 950 | 742.9 |
| 11 | Break-up value per share | Rs | 76.4 | 71.6 | 69.5 | 66.2 | 50.8 | 40.6 |
| 12 | Breakup value per share including investment in related party at fair value and also the effect of Surplus on Revaluation of Fixed Assets | Rs | 76.4 | 71.6 | 69.5 | 66.2 | 50.8 | 40.6 |
| 13 | Price to Book Ratio | Times | 21.1 | 34.1 | 41.7 | 32.5 | 28.2 | 27.5 |

| | | | | | | | | |
|---------------------------------|--|-------|------|------|-------|-------|-------|-------|
| Capital Structure Ratios | | | | | | | | |
| 1 | Financial leverage ratio | Times | 2.3 | 2.2 | 2.1 | 1.9 | 2.1 | 2.5 |
| 2 | ***Weighted average cost of debt | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 3 | ***Debt to Equity ratio (as per book value/market value) | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4 | Interest Cover/Time interest earned ratio | Times | 94.0 | 91.3 | 452.7 | 232.0 | 336.6 | 148.2 |

***The company does not have any long term financing arrangement

ANALYSIS OF PERFORMANCE INDICATORS

Profitability Ratios

Over the years, our profitability ratios have followed an improving trend. This has been attributable to a growth in gross profit coupled with effective cost management. Gross turnover recorded an increase of 11.6% in 2020 which was primarily driven by the June-19 excise led price increase and premium portfolio price increase in second half of 2020. The gross profit ratio increased by 3% whereas net profit ratio increased by 9%. The increase in net profit ratio is clearly indicating that of our effective cost management, productivity savings and greater efficiency in operations.

Liquidity Ratios

Our liquidity ratios present a healthy position over the years. Our cash advance sales model coupled with effective resource allocation enables us to meet our liquidity requirements including capital expenditures. In 2020, a slight deviation in this trend has been witnessed with current ratio deteriorating slightly compared to 2019 due to lower inventory position as compared to 2019. However, the quick ratio increased in 2020 due to more availability of cash and cash equivalents at year end.

Activity Ratios

The activity ratios have improved significantly over the years mainly on account of a highly effective working capital management approach followed by us. As per the business model, the inventory days remain high due to a build-up of tobacco and raw material stock essential to support higher production in the first half of next year as well as to hedge against unfavourable FX headwinds. Further due to better working capital management, we have reduced our inventory days and resultantly the cash conversion cycle decreased from 153 days to 90 days only.

Investment /Market Ratios

We aim to generate maximum value for our shareholders, both in the short and the long term. This is reflected in the consistent improvement of investment ratios over the years and in particular, the growth of EPS and increase in dividend per share, which are certainly very attractive for our shareholders. Our share price witnessed a decline of 34% from 2019 along with P/E ratio declining by 28% owing to deteriorating macroeconomic factors and under performance of Pakistan Stock Exchange in the wake of global Covid-19 pandemic.

Capital Structure Ratios

The capital structure ratios reflect our ability to meet our financing needs organically, including those related to capital investment funded primarily through cash generated from its operations. As a result, there is no requirement for long-term financing, though, we avail a relatively small lease facility for financing vehicles provided to our employees. The debt to equity ratio is zero while interest cover has seen a minor increase from 2019 owing to increase in profits during the year.

SIGNIFICANT PLANS AND DECISIONS

The Company's key business decisions in 2020 were geared towards achieving its strategic objective of sustainable growth of its business. To deliver growth, we continued with our plans to strengthen our brands by directing investment towards product innovations and marketing activities aimed at enhancing the brand equity and image of our brands among our consumers.

1. Brand Equity:

As part of its marketing activities, the following portfolio wide initiatives were undertaken during the year.

(a) Value For Money Segment

Capstan by Pall Mall retains its standing as the best performing brand in the VFM segment with a 1.8% increase in market share in 2020. Additionally, the segment witnessed reinforcement campaigns during the year to further enhance Gold Flake's equity and mix. This was a strategic intervention which has helped the brand significantly capture lost volume and market share. Embassy's franchise base was also successfully retained through its pack format change campaign allowing it to sustain and maintain its distribution and consumer base respectively.

Despite increase in the incidence of counterfeit, our anti-counterfeit drive via a unique technology enabled scanning solution in the third quarter of 2020 assisted us to gain back volume from Counterfeit brands which also resulted in positive feedback from consumers, retailers and LEAs.

(b) Aspirational Premium Segment

In the Aspirational Premium segment, post successful pilot launch of John Player, expansion campaign was carried out in Q3'20 which was further aided by successful interventions of limited-edition packs resulting in improved sales traction for the brand in Q4'20.

(c) Premium Segment

In the Premium segment, based on consumer trends and positive sales results, handlers of Dunhill were

increased at a national level resulting in positive sales growth and a larger handler base in 2020. These initiatives have further propelled the Dunhill brand to new heights in Pakistan.

2. Trade Activities:

The trade team supported the brand activities by ensuring smooth deployment of simultaneous marketing campaigns and perfection in their execution.

At the very front of Sales and Distribution, we digitized the Route to Market (RTM) and Route to Consumer (RTC) value chains which transformed local market dynamics. The company piloted a 'cashless' journey for its salesman and digitized end to end sales transactions with retailers by leveraging digital payments platform offered by one of Pakistan's largest Telecom providers. In 2020, COVID-19 pandemic triggered a growth trend in E-commerce platforms as a medium for consumer buying. We capitalized on this exciting trend and partnered with some of the biggest E-commerce players and delivered 7 Million cigarette sticks and 25,000 VELO cans via the E-commerce channel during the year.

3. Investing in Talent Development

We consider Human Capital as one of our most valuable asset and thus, continue to invest in the development of our employees. During the year, several training programs were conducted to ensure employees' skills remained abreast with evolving business requirements and especially, the leadership capabilities of its managers were further enhanced so that they are fully equipped to operate in a challenging environment and deliver our long-term objectives.

With people at the core of its delivery, the Company has a strong focus on people by attracting and retaining best talent in the country. In 2020, we were also awarded the Top Employer Award 2020 by Top Employer Institute. Moreover, for our drive and consistent focus on Diversity and Inclusion, we were also awarded the "Global Diversity & Inclusion Award 2020" in six categories.

BUSINESS RATIONALE OF PROJECTS UNDERTAKEN DURING THE YEAR

The key projects undertaken by the Company along with their rationale is given below

1. “Tobacco Harm Reduction”

During 2020, in line with BAT Group's vision of A Better Tomorrow™, we launched modern oral nicotine pouches under the VELO brand with 73 Million pouches sold in 2020. This enabled us to become the 6th biggest Modern Oral market within the BAT universe. Further, we also initiated setup of an exclusive VELO factory which is a key milestone in our ambition on becoming the primary export hub in Asia Pacific and Middle East region.

2. Simplification

A key initiative undertaken in 2020 was simplification of our processes to enable delivery of organizational objectives in a “simpler”, “faster” and “stronger” manner. This included creation of a central Company policy HUB for easy employee access and reference. Company rewards disbursement process was also revisited for greater automation with the aim of digitized recognition and quicker rewards delivery to nominated employees. Under digitization workstream, cross functional teams initiated “We Connect” project which enables digitization of secured workspaces through smart meeting rooms, secured printing and technology labs with the aim of becoming a one-stop solution platform for Company employees.

3. Operational Synergies and Product Innovations Projects

2020 was also a big year for our manufacturing operations as both factories (Jhelum and Akora Khattak) drove “Clean Energy” agenda with Jhelum site doubling its solar generation capacity to 200kW, making it the highest renewable energy generating site. Akora on the other hand achieved 2nd highest status in the BAT Group for recycling water whilst impeding CO₂ emissions footprint by 850 tons.

We take great pride in accelerating our digital transformation. IDT has now embarked on the mission to infuse the digital DNA not just within the organization but also contribute externally. In one such example, we introduced a technology enabled

solution that enables consumers to identify a genuine product at the point of sale whilst serving as an effective tool for Law Enforcement Agencies (LEAs) for on spot detection of counterfeit products. This initiative has been instrumental in curbing counterfeit incidence and has helped us retain sales and as a consequence increase Government revenues.

4. EHS and Regulatory Compliance Projects

The Company places great importance on the safety of its workplace to ensure that its operations are safe, environmentally safe and regulatory compliant. COVID-19 pandemic and its challenge to the health and safety of our employees was handled in an organized and responsible manner during the year. A dedicated ‘Crisis Management Team’ comprising of our leadership was formulated with the aim of brainstorming risk mitigation strategies for crisis scenarios. Further, comprehensive standard operating procedures and ‘Zero Tolerance Policies’ were enforced, and Company-wide awareness sessions were conducted to avoid COVID-19 contraction amongst our employees.

As a result, we have invested and will continue to invest in projects concerning improvement of our EH&S systems, processes and equipment. These include trainings on health and safety, incident reporting processes and systems, EH&S audits and maintenance programs to inculcate EH&S as a mindset and way of working across all levels within the organization.

Projects Planned for Next Year

In future, the Company will remain focused on achieving sustainable growth and creating long term value for its shareholders. We will continue to invest in our brands to further strengthen our position in the marketplace and to out perform the competition. This will be supplemented by investment in our operations to support future product innovations, increase efficiencies and deliver productivity savings, while remaining compliant to all applicable and future regulatory requirements.

STRATEGY AND RESOURCE ALLOCATION

CAPITAL



Financial Capital

Funds used to drive our strategic ambitions and support operations

Equity: Rs. 19.51 billion
Long term Debt: 0



Manufactured Capital

Facilities and other physical infrastructure used in manufacturing activities

Property, plant & equipment: Rs. 17.69 billion



Human Capital

Skills, attitude and experience of employees

Number of employees: 1,038
Factory employees: 377



Social and Relationship Capital

The stakeholder relations we have nurtured and rely on to create sustainable value.

- Loyal Consumers
- Distributors
- Retailers
- Farmers
- Suppliers



Intellectual Capital

Knowledge, systems, standards and procedures developed over the years

- Brand trademarks
- Automated systems
- Product recipes



Natural Capital

Natural resources that are used in our value creation
Local tobacco purchased in 2020: 29.4 million kgs

WHAT WE DO

OUR STRATEGY



HOW WE WIN

- Inspirational foresights
- Remarkable innovation
- Powerful brands
- People and partnerships

Our strategy is the corner stone of the value creation process and guides us to deliver sustainable value.

Our value creation model shows how we use our manufacturing facilities, people, systems and relationships to create additional value for our shareholders, employees, and other stakeholders.

OUTPUTS



Outputs

Cigarettes produced in 2020: 38.5 billion sticks



Shareholders

| | |
|----------------------|---------------------|
| Profit after Tax: | Rs. 16.49 billion |
| Earnings per share: | Rs. 64.55 |
| Dividend per share: | Rs. 58 per share |
| Highest share price: | Rs. 2,320 per share |



Employees

Salaries and Wages: Rs. 5.08 billion



Business Partners

Payments to tobacco farmers: Rs. 6.3 billion



Tax contributions

Tax, duties and other levies: Rs. 112 billion



Community Investment

| | |
|-----------------------------------|--|
| Free of cost saplings: | 9 million |
| No. of patients treated for free: | More than 50,000 |
| Water filtration plants: | 5 |
| Lift irrigation: | More than 450 farmers obtaining benefits |



MANUFACTURE



MARKET



SELL

OUR ETHOS



BOLD



FAST



EMPOWERED



DIVERSE



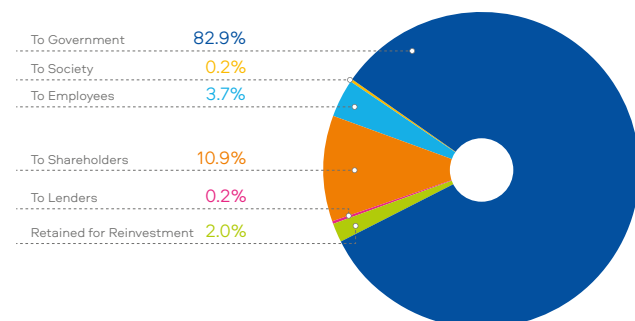
RESPONSIBLE

STATEMENT OF VALUE GENERATED AND ITS DISTRIBUTION

| | 2020 | | 2019 | |
|---|----------------|-------|----------------|-------|
| | Rs. in million | % | Rs. in million | % |
| Value Addition | | | | |
| Gross Revenues | 166,258 | | 149,025 | |
| Material, Services and Other Costs | 30,636 | | 24,406 | |
| Value added | 135,622 | | 124,618 | |
| Value Distribution | | | | |
| | Rs | | Rs | |
| To Government | | | | |
| Taxes, duties and other levies | 112,494 | 82.9% | 105,069 | 84.3% |
| To Society | | | | |
| Contribution towards health, environment & natural disaster | 266 | 0.2% | 72 | 0.1% |
| To Employees | | | | |
| Salaries, benefits and other costs | 5,080 | 3.7% | 5,119 | 4.1% |
| To Shareholders | | | | |
| Dividend to shareholders | 14,819 | 10.9% | 12,264 | 9.8% |
| To Lenders | | | | |
| Mark-up/interest expense on borrowed money | 241 | 0.2% | 203 | 0.2% |
| Retained for Reinvestment | | | | |
| Depreciation and retained profit | 2,722 | 2.0% | 1,892 | 1.5% |
| | 135,622 | 100% | 124,618 | 100% |

*Gross revenue figure has been adjusted as per IFRS-15 methodology from 2017 and onwards. Certain marketing costs have been deducted from total revenues

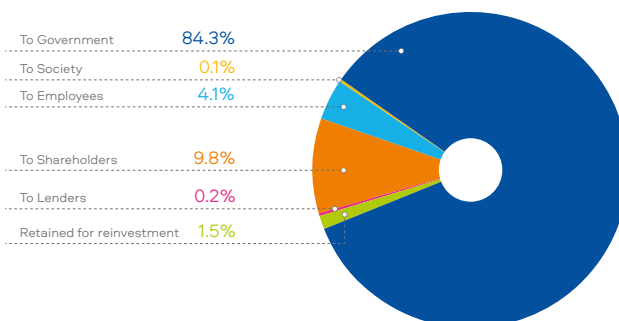
Value Distribution
2020



Economic Value Added

2020
12,051 Rs. in Million

Value Distribution
2019



Economic Value Added

2019
9,498 Rs. in Million

SHARE PRICE SENSITIVITY ANALYSIS

Our share price is primarily impacted by the performance of the Company in the marketplace, especially against the competition, and by its ability to generate value for its shareholders, both in the short and long term. Several factors influence the Company's performance, some of which are controllable as a result of management action while others are beyond its control and thus, cannot be managed. These uncontrollable factors mostly relate to the external regulatory environment in which the Company operates and has the potential to impact its performance and sustainability to a great extent. Key factors that impact the performance and resultantly, our share price are given below.

1. Duty Not Paid Sector

Not only the Company but the legal tobacco industry as a whole is impacted by the duty not paid sector, which currently forms 37.6% of the total cigarette market. This sector not only continues to sell cigarettes below the minimum legal price, as stipulated by the local tax laws but also openly violates tobacco advertising and promotion restrictions. As a result, the legal industry is placed at a serious disadvantage compared to the illicit sector, as the price stretched consumer is encouraged to down trade to cheap illicit products. This creates major sustainability issues for the legal industry and hence greatly impacts the share price of the Company.

2. Political Environment

The investors are extremely sensitive to the political environment prevalent in the country. Political instability not only jeopardizes overall economic conditions but also discourages investors from investing their capital whereas a stable political environment boosts investor confidence and persuades him to invest his capital. Thus, these conditions directly impact the share price changes.

3. Law and Order

Like any other Company, we are impacted by the overall security environment of the country. As security concerns increase, the Company must direct enormous amount of resources to ensure the protection of its assets, operations and primarily the safety of its people. The resources expended on enhancing security measures could easily be used in expanding and improving the business. This impacts profitability and hence is reflected in the share price.

4. Economy

The general state of the economy plays a major role in the performance of any Company. A flourishing economy results in more disposable income and a higher standard of living for its people. Ultimately, companies operating in such a country have better prospects of growing their businesses and delivering better returns to its shareholders. Whereas businesses operating in slow or volatile economies find it

very difficult to find opportunities for business expansion. This creates a sensitivity in share price of the Company.

5. Social

Pandemics such as the looming Covid threat also plays a major role in the overall performance of the economy of a nation. Such pandemics have the potential to cause major disruptions to the day to day operations of an economy or to bring it to a halt. As has been witnessed globally, the stock markets are sensitive to such events which in turn impacts investor confidence and causes volatility in the share prices of companies.

6. Raw Material Prices

Raw materials procured locally and internationally are dependent on international commodity prices. Any unusual spikes raise the cost of products manufactured, causing profitability to be impacted and ultimately, reflecting in the share price.

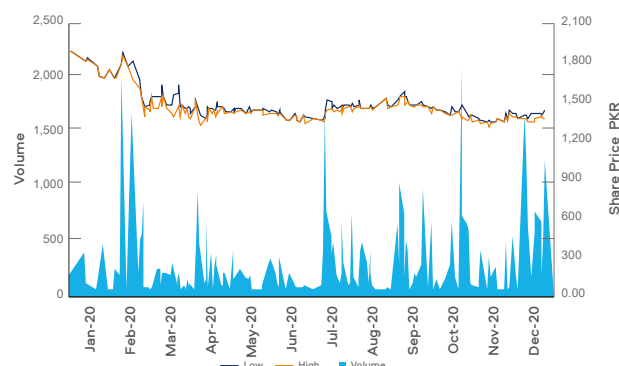
7. Local Currency Devaluation

Having dependency on imported raw materials and tobacco, the Company is greatly impacted by a steep and uncertain devaluation of the local currency. This has the potential to increase the cost base and erode operating margins. Rapid devaluation also causes inflationary pressures to increase, which impact the real buying power of the consumers, causing them to spend less on non-essential items.

8. Energy

Increase in electricity and gas tariffs increase the cost of doing business. Additionally, electricity crisis causes the Company to spend on alternative sources to generate electricity, which is more expensive. This is exacerbated by the rise in cost of oil, as its impact spans across a much broader spectrum. All these factors will ultimately be reflected in share price adjustment.

Share Price Sensitivity



FORWARD LOOKING STATEMENT

In 2020, Pakistan's economy faced high degree of uncertainty owing to the challenges posed by COVID-19 pandemic. Frequent lockdowns to control the spread of virus across the country impacted business and social activities and as a consequence, Pakistan's exports of \$22.9 Billion faced a decline of -6.8% compared to same period last year (SPLY). The Government made several targeted interventions during the year aimed at enhancing economic activity in the country. This was further augmented by State Bank of Pakistan's decision to reduce policy rates that resulted in deceleration of inflation by 4.6% from a level of 12.6% for SPLY. While addressing the economic challenges, the Government is focused towards not only stabilizing the economy but also driving economic growth.

Looking ahead, 2021 will be another challenging year for the Company as it will need to counter the challenges presented not only by a tough economic environment but also by the unique dynamics of the tobacco industry. In the future, the Company aims to drive business growth by focusing on delivering the following objectives and by countering the related challenges.

1. Drive Growth Agenda

The Company's strategic objective is to deliver sustainable growth for its shareholders. To do this, the Company will focus on increasing its volume base and market share.

Challenges:

A) Illicit Trade

The major impediment faced by the Company in driving volume growth is the high level of the illicit sector, which currently stands at 37.6%. The illicit sector thrives on the back of non-tax paid cigarettes that sell below the minimum legal price, resulting in significant revenue losses to the government exchequer and in major sustainability issues for the legitimate industry players. Therefore, it is necessary for the relevant authorities to intensify their efforts to eradicate the illicit sector and create a level playing field for the legitimate industry. This will not only enable the legal companies in driving volume growth but also result in increasing tax revenues for the government.

Besides, fiscal noncompliance, the illicit sector openly violates product advertising and promotion regulations. This not only puts the legitimate industry at a serious disadvantage compared to the illicit sector but above all adversely affects the government's regulatory agenda towards tobacco control. Thus, it is evident that the Company's outlook will greatly be impacted by the government's efforts towards enforcing fiscal and regulatory discipline on the illicit sector in the future.

It is also important for the government to drive a balanced fiscal agenda to ensure the sustainability of the legal industry. Historic data reveals that excise led price increases widen the price differential between legal industry brands and duty not paid products, which sell well below the minimum legal price. As the price differential widens, price stretched consumers down trade to cheap illicit products available in the market. Resultantly, legitimate industry starts to lose volumes to the illicit sector, creating major sustainability threats for the legitimate industry while at the same time government revenue collections start to experience a steep decline.

Strengthen Portfolio Wide Brand Equity

The Company's future actions are aligned towards further strengthening its brand portfolio. Future marketing investment will be aimed at enhancing the brand equity of the Company's brand portfolio amongst consumers of all segments. This will be achieved through product innovations developed to address the evolving consumer preferences and creation of maximum brand awareness through innovative campaigns directed at relevant and effective consumer touchpoints. This will aid the Company in building a robust brand portfolio, enabling it to continuously outperform the competition and lead in the marketplace. By adhering to this plan, the Company will be well positioned to drive volume growth and gain market share. Thus, the Company remains confident to retain its market share leadership of the industry in the future.

2. Drive Effective Resource Allocation and Cost Management

The future will challenge the Company by pressuring its large cost base due to growing inflationary pressures in the economy and thus, the Company will take effective measures to mitigate the adverse impacts on its cost base.

Challenges:

A) Currency Devaluation

It is expected that the local currency will remain weak with minimal value appreciation, if any. As the Company imports some of its raw materials including tobacco globally, thus, it will be impacted adversely by unusual currency movements, especially in the absence of currency hedging products in local financial markets. This will ultimately lead to an increase in the cost base and cause the operating margins to shrink.

Rapid devaluation also adds to inflationary pressures and dilutes the real buying power of the consumers, forcing them to spend less on non-essential items including cigarettes, impacting the overall industry sales.

Therefore, the Company will need to take effective measures to mitigate the impact of currency devaluation in the future.

3. Drive Operating and Manufacturing Efficiencies

In the future, the Company will continue to invest in enhancing its operating and manufacturing efficiencies. This will be achieved through investment in modern and upgraded equipment and machinery that not only delivers better efficiencies but is also capable of supporting future product innovations, necessary to maintain competitive advantage in the marketplace.

The Company is already geared to cater for any surge in market demand. At the same time, the Company is committed to investing in its machinery footprint to ensure compliance to any future regulatory requirements. Additionally, the operating infrastructure

is continuously being upgraded with the best EH&S equipment, systems and processes to ensure a safe working environment for all employees.

4. Support ESG Agenda

In the future, the Company will continue to support initiatives aimed at the betterment and uplift of the communities in which the Company operates. Additionally, other initiatives will also be supported to continue driving the ESG agenda of the Company.

5. Invest in Human Capital

To maintain its competitive advantage, the Company will continue investing in its people to develop a diverse and highly competitive talent pool, fully capable of managing the future challenges of the business. Attracting, developing and retaining the best talent will continue to be rooted in the organization.

Analysis of Prior Period's Forward Looking Disclosure

The Company anticipated 2020 to be a challenging year with illicit trade and currency devaluation remaining a major threat for the legitimate industry players. The illicit sector still remains very high, forming around 37.6% of the total market and continues to remain a major threat to the sustainability of the legitimate industry.

In 2020, the Company lost volumes, however, it successfully mitigated the inflationary impacts on its cost base. As a result, the Company was able to deliver a growth of 28% vs 2019 in its profits in line with the expectations.

Sources of Information

In the preparation of budgets, a detailed and comprehensive budgeting activity is carried out across the Company. Sales forecasts are prepared based on the critical analysis of the market demand. Costs are projected based on the expected commodity prices, currency devaluation and future inflation. Based on these assumptions, detailed forecasts are prepared, which are then approved by the Board of Directors. Performance of the Company is then regularly monitored against these forecasts.

FINANCIAL CALENDAR

2020

| | |
|---|-------------------|
| 1st Quarter Results issued on | May 7, 2020 |
| 2nd Quarter Results issued on | July 24, 2020 |
| 3rd Quarter Results issued on | October 23, 2020 |
| Recommendation of Annual Results by the BOD | February 23, 2021 |
| 74th Annual General Meeting scheduled for | April 22, 2021 |

2019

| | |
|---|-------------------|
| 1st Quarter Results issued on | April 22, 2019 |
| 2nd Quarter Results issued on | July 23, 2019 |
| 3rd Quarter Results issued on | October 17, 2019 |
| Recommendation of Annual Results by the BOD | February 24, 2020 |
| 73rd Annual General Meeting held on | May 8, 2020 |

MANAGEMENT RESPONSIBILITY TOWARDS FINANCIAL STATEMENTS

The management of the Company is responsible for adopting sound accounting policies, establishing and maintaining a system of internal controls and preparation and presentation of the financial statements in conformity with the approved accounting standards and the requirements of the Companies Act, 2017.

STATEMENT OF UNRESERVED COMPLIANCE

Company's financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017. In case requirements differ, the provisions or directives of the Companies Act, 2017, shall prevail.

Note 6 of the financial statements specifies the standards and interpretations which are yet to be effective in Pakistan. The Company believes that these standards and interpretations do not have any material impact on the financial statements.

STATEMENT OF ADHERENCE WITH THE INTEGRATED REPORTING FRAMEWORK

Our history of 73 years is a testament of our strong foundation, leadership and resilience. Being the legal industry market leader, our remarkable success is a reflection that we hold true to our core business values, adhere to a robust governance framework and operate through a streamlined set of systems & processes. We engage and cooperate with our employees, suppliers, valued business partners and other key stakeholders to ensure integrated functioning and effective utilization of our resources across our value chain, to generate value for the organization, key stakeholders and our shareholders.

We adopt a similar integrated approach towards corporate reporting and thus, our Annual Report presents a fair, accurate, balanced and valuable overall assessment of the company, particularly its strategy, performance, operations, brands, people and most importantly, its outlook in relation to the operating challenges faced by it. This report will enable the readers to swiftly and easily understand the material issues that impact our business and key stakeholders.

In the preparation of this report, the company has tried to adhere to the guiding principles stipulated by the integrated reporting framework. These include.

1. Strategic focus and future orientation
2. Connectivity of information
3. Stakeholder relationships
4. Materiality
5. Conciseness
6. Reliability and completeness
7. Consistency and comparability

This report endeavours to provide key information about the below critical aspects of our business, thereby, enabling the reader to easily understand the key challenges faced by the company in generating value for its shareholders and key stakeholders.

1. Organizational Overview And External Environment
2. Business Model
3. Risks and Opportunities
4. Strategy and Resource Allocation
5. Performance
6. Governance
7. Basis of Presentation
8. Outlook

Report Methodology

The compilation of data has been done on the basic scientific measurement, key finance concepts and principles and mathematical calculus methods on actual basis. In cases where actual data is unavailable or impractical to source, due to numerous reasons, different logical methodologies are used for calculations. The data measurement techniques are the same as used for the previous year.

There has been no change in the reporting period, scope and boundary of the report. There are no changes that can significantly affect the comparability of data from period to period. Previous years' figures have been regrouped/ rearranged wherever found necessary to conform to this year's classification.

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventy Fourth (74th) Annual General Meeting (“Meeting”) of Pakistan Tobacco Company Limited (“the Company”) will be held physically at the Serena Hotel, Khayaban-e- Suhrwardy, Islamabad as well as electronically on Thursday, the 22nd day of April 2021 at 10:30 am to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Company’s Audited Financial Statements for the year ended 31st day of December 2020, together with the Reports of the Directors and Auditors thereon.
2. To approve and to declare Final Dividend for the year ended 31st December 2020 on the Ordinary Shares of the Company as recommended by the Board.
3. To appoint Auditors and to fix their remuneration

BY THE ORDER OF THE BOARD



Sami Zaman COMPANY SECRETARY

Islamabad: March 30, 2021

NOTES:

1. Annual Report

A soft copy (CD) of the Annual Report for the year ended 31.12.2020 is being sent to the shareholders at their given addresses and posted for download on our website www.ptc.com.pk. Shareholders who wish to obtain a hard copy of the annual report are requested to inform us at PTC_AGM@bat.com, a hard copy of the Annual Report will be duly sent to them.

2. Closure of Share Transfer Books

Share Transfer Books of the Company will be closed from 16th April 2021 to 22nd April 2021 (both days inclusive) when no transfer of the Company's shares will be accepted for registration. Transfers in good order, received at the office of the Company's Share Registrar, FAMCO Associates (Private) Limited, 8-F, Near Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shahr-e-Faisal, Karachi-75400 (“the Share Registrar”) by the close of business on 15th

April 2021, will be treated in time to be entitled to attend and vote and for the entitlement of dividend payment.

3. Participation in the Annual General Meeting

All Members/Shareholders of the Company are entitled to attend and vote at the Meeting.

4. Attendance of Members

A. **In view of the Circular No:** 4 of 2021, dated 15th February 2021, issued by the Securities & Exchange Commission of Pakistan (SECP), the Company is convening this AGM physically as well as electronically through video link arrangements.

- i) Members can log-in through their smartphones or computer devices to the video link arrangements after completing the meeting attendance formalities that will be provided to

the Members after completing identification and verification formalities. The Members are requested to provide their name, CNIC (both sides scanned copies), folio / CDC account number, cell phone number and email address by 20th April, 2021 at the following email address: PTC_AGM@bat.com. The details of the video link arrangements of the AGM will be sent only to those Members who provide the aforementioned details by the said date and time.

- ii) In addition, if the participating Members also have any comments/suggestions for discussion on the agenda items of the AGM they should email the same at the above-mentioned email address, PTC_AGM@bat.com, by 20th April 2021. Only those comments/suggestions on the agenda items will be discussed at the AGM which have been received on the aforesaid email address by the said date and time.
- iii) The Company will ensure that comments/suggestions of the Members, submitted in accordance with clause (ii) above, will be read out at the meeting by the Company Secretary and the responses will be made part of the minutes of the meeting.

B. In Person:

- i) Individual members must bring their 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.
- ii) In the case of corporate entity, presentation of a certified copy of the Board of Directors' Resolution/Power of Attorney with specimen signatures of the nominee at the time of the Meeting.

C. Attendance Through Proxy:

A Member is entitled to appoint a proxy (who need not be a Member of the Company) who will have the right to attend, speak and vote in place of the appointing Member, physically as well as through video link. The Proxy shall be appointed in the following manner:

- i) Proxy Form. Soft copy of the proxy form has been posted on our website www.ptc.com under the section Investor Relations. The scanned copy of the filled form must be sent at the following email address: zeeshan.akhtar@famco.com.pk, not less than forty-eight (48) hours before the time of the Meeting. Proxy Form(s) received after the said forty-eight (48) hours i.e. after 10:30 am on 20th April 2021 will not be treated as valid.
- ii) Attested copies of valid CNIC or the valid Passport of the beneficial owners and the Proxy shall be furnished with the Proxy Form.
- iii) In case of a corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signatures and attested copy of valid CNIC of the person nominated by the corporate entity to represent and vote on its behalf, shall be submitted.

5. Submission Of CNIC/NTN Details Mandatory

- A. Members who have not yet submitted a copy of their valid CNIC or valid Passport to the Company, are once again reminded to send the same at the earliest either to the Company or to the Share Registrar. The CNIC number /NTN details is mandatory and is also required for checking the tax status as per the Active Taxpayers List (ATL) issued by the Federal Board of Revenue (FBR) from time to time.
- B. Individual Members (including all joint holders) holding physical share certificates of the Company are therefore requested to submit a copy of their valid CNIC to the Company or its Share Registrar if not already provided. The shareholders while sending CNIC must quote their respective folio numbers.
- C. In cases of non-receipt of the copy of a valid CNIC, the Company would be constrained under Section 243 (3) of the Companies Act, 2017 ("the Companies Act") to withhold dividend of such shareholders.

6. Dividend, Provision of IBAN, Mandatory

It is mandatory for a listed company to pay cash dividend to its shareholders only through electronic mode by making direct remittance into their respective bank account designated by the entitled shareholder(s) ("the Bank Account"), whose title must commence with the principal shareholder's name. Therefore, the Company will be remitting the dividend proceeds directly into the Bank Accounts of its Member, instead of issuing physical Dividend Warrants. In order to receive dividends directly into their Bank Account, Members holding shares in physical form are requested to submit their International Bank Account Number (IBAN) using the "Electronic Credit Mandate Form", available on Company's website i.e. www.ptc.com.pk. Please, fill and send the completed Form along with a copy of a valid CNIC to the Share Registrar of the Company at info.shares@famco.com.pk latest by 15th April 2021. Members who hold shares in CDC accounts should provide their mandate to their respective participant or CDC Investor Account Services. Shareholders already receiving direct credit of dividend in their bank account need not send the Electronic Credit Mandate Form again.

7. Deduction of Income Tax from Dividend Mandatory:

- A. Please note that withholding tax will be deducted on the basis of latest Active Taxpayers List (ATL) available at FBR website as per following rates:
1. Shareholders appearing in Active Taxpayers List (ATL): 15%
 2. Shareholders not appearing in Active Taxpayers List (ATL): 30%

To enable the Company to make tax deduction on the amount of cash dividend @ 15% instead of 30%, shareholders whose names are not appearing in the Active Tax-payers List (ATL) provided on the website

of Federal Board of Revenue (FBR), despite the fact that they are filers, are advised to immediately make sure that their names are entered in ATL, otherwise tax on their cash dividend will be deducted @ 30% instead of 15%.

- B. Withholding Tax exemption from the dividend income shall only be allowed to a corporate shareholder if a copy of valid tax exemption certificate is made available to the Company's Share Registrar, FAMCO Associates (Pvt) Ltd., by the first day of Book Closure.
- C. Further, according to clarification received from FBR, Withholding Tax will be determined separately on 'Filer/Non-Filer' status of Principal Shareholder as well as joint holder(s) based on their shareholding proportions, in case of joint accounts.

In this regard, all Members/Shareholders of the Company either holding shares in physical form or in CDC, who hold shares jointly are requested to provide shareholding proportions of Principal Shareholder and Joint-holder(s) in respect of shares held by them (only if not already provided) to our Share Registrar, in writing and in the following manner:

| Company Name | Folio/CDC Account # | Total Shares | Principal Shareholder | | Joint Shareholder | |
|--------------|---------------------|--------------|-----------------------|---|-------------------|---|
| | | | Name & CNIC # | Shareholding Proportion (No. of Shares) | Name & CNIC # | Shareholding Proportion (No. of Shares) |

The required information must reach the Company's Share Registrar within ten (10) days of this notice; otherwise it will be assumed that the shares are equally held by Principal Shareholder and Joint Holder(s).

- D. The corporate shareholders of the Company having CDC accounts are required to have their National Tax Number (NTN) updated with their respective participants or Investor Account Services of CDC, with whom their shares are placed, whereas corporate physical shareholders should send a copy of their NTN certificate to either the Company or the

Share Registrar. The shareholders while sending NTN or NTN certificates, as the case may be, must quote company name and their respective folio numbers.

8. Zakat Deduction:

To claim exemption from compulsory deduction of Zakat, shareholders are requested to submit a notarised copy of their Zakat Declaration Form "CZ-50" on NJSP of Rs. 50/- to the Share Registrar.

9. E-Voting:

Members can exercise their right to demand a poll subject to meeting requirements under Sections 143-145 of Companies Act and applicable clauses of Companies (Postal Ballot) Regulations 2018.

10. Unclaimed Dividend / Shares U/S 244 of the Companies Act, 2017:

An updated list for unclaimed dividend / shares of the Company is available on the Company's website www.ptc.com.pk. These are unclaimed dividend / shares which have remained unclaimed or unpaid for a period of three years from the date these have become due and payable.

Claims can be lodged by shareholders on Claim Forms as are available on the Company's website. Claims Forms must be submitted to the Company's Share Registrar for receipt of dividend/ shares.

11. Change of Address:


- A. Members holding shares in physical form are requested to immediately notify the Company's Share Registrar of changes in their notified address.
- B. Members holding shares in electronic form with CDC must notify change of address to their participants or CDC Investor Account Services with whom their shares are placed.

12. Contact Details:

Company Contact:

Company Secretary


Pakistan Tobacco Company Limited

 Serena Business Complex, Khayaban-e-Suhrwardy, Islamabad

 + 92 51 2083200

Share Registrar:

FAMCO Associates (Private) Limited

 8-F, Near Hotel Faran, Nursery, Block-6, P.E.C.H.S. Shahr-e-Faisal, Karachi

 + 92 21 34380101-5

 info.shares@famco.com.pk

STATEMENT OF COMPLIANCE

With the Code of Corporate Governance

Name of Company: **Pakistan Tobacco Company Limited**
 Year ended: **December 31, 2020**

The Company has complied with the requirements of the Regulations in the following manner:

1. Total number of Directors are twelve as per the following:



2. The Board's composition is as follows:

Independent Directors

Zafar Mahmood (Chairman)

Lt. Gen. M. Masood Aslam (R)

Mohammad Riaz

Asif Jooma

Non- Executive Directors

Tajamal Shah

Belinda Joy Ross

Zafar Aslam Khan

Syed Javed Iqbal

Executive Directors

Usman Zahur (Managing Director and CEO)

William Francis Pegel

Syed Asad Ali Shah

Syed Ali Akbar

Female Directors

Belinda Joy Ross

3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company;
4. 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;
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. The Board has ensured that complete record of particulars of significant policies along with their date of approval or updating is maintained by the Company;
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board / shareholders as empowered by the relevant provisions of the Act and these Regulations;
7. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of the meeting of the Board;
8. The Board have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations;
9. The board has arranged Directors' Training Program for the following:
 1. Mr. Usman Zahur
 2. Mohammad Riaz
 3. Syed Ali Akbar

10. The Board has approved appointment of Chief financial officer, company secretary and head of internal audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations;

11. Chief Financial Officer and Chief Executive Officer duly endorsed the financial statements before approval of the Board;

12. The Board has formed Committees comprising of members given below:

a) Audit Committee

| | |
|------------------------------|-------------------|
| Mohammad Riaz | Member & Chairman |
| Lt. Gen. M. Masood Aslam (R) | Member |
| Belinda Joy Ross | Member |
| Tajamal Shah | Member |
| Asif Jooma | Member |

b) HR and Remuneration Committee

| | |
|------------------------------|-------------------|
| Lt. Gen. M. Masood Aslam (R) | Member & Chairman |
| Usman Zahur | Member |
| Asif Jooma | Member |

13. The terms of reference of the aforesaid Committees have been formed, documented and advised to the Committees for compliance;

14. The frequency of meetings (quarterly/half yearly/ yearly) of the Committees were as per the following:

- a) The Audit Committee: Four (4) quarterly meetings were held during the year ended 31 December 2020

- b) HR and Remuneration Committee: One (1) meeting was held during the year ended 31 December 2020.

15. The Board has set up an effective internal audit function staffed with members who are suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company;
16. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the chief executive officer, chief financial officer, head of internal audit, company secretary or director of the Company;

17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard;

18. We confirm that all requirements of regulations 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with.



Zafar Mehmood Chairman **Usman Zahur** MD/CEO

Dated: 24 February 2021

INDEPENDENT AUDITORS' REVIEW REPORT

To the members of Pakistan Tobacco Company Limited Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2019

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of Pakistan Tobacco Company Limited for the year ended December 31, 2020 in accordance with the requirements of regulation 36 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. 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 Regulations.

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

The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee.

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 requirements contained in the Regulations as applicable to the Company for the year ended December 31, 2020.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.

Chartered Accountants

Islamabad

29th March 2021



📍 | Pakistan Tobacco Company Limited
Serena Business Complex,
Khayaban-e-Suhrwardy, Islamabad, Pakistan

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📠 | Fax: +92 (51) 2604516

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This Annual Report is a testament to our ESG agenda of minimizing our carbon footprint. A major part of this report has been printed on recycled paper.