



PHILIP MORRIS  
(PAKISTAN) LIMITED

## HALF YEARLY REPORT

For the half year ended June 30, 2018  
(Un-audited)



# HALF YEARLY REPORT

For the half year ended June 30, 2018  
(Un-audited)



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## COMPANY INFORMATION

### BOARD OF DIRECTORS

KAMRAN Y. MIRZA	(Chairman)
ALEXANDER REISCH	(Chief Executive)
SHARMEN KARTHIGASU	
JOAO MANUEL	
ANTON STANKOV	
EE WON CHEN	
LT. GEN. (R) TARIQ KHAN	

### COMPANY SECRETARY

MUSTAFA KAMAL ZUBERI

### AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN	(Chairman)
SHARMEN KARTHIGASU	
EE WON CHEN	

### HUMAN RESOURCE & REMUNERATION COMMITTEE

KAMRAN Y. MIRZA	(Chairman)
ALEXANDER REISCH	
JOAO MANUEL	

### AUDITORS

A. F. FERGUSON & CO.  
Chartered Accountants

### BANKERS

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

### REGISTERED OFFICE

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

### FACTORIES

1. E/15, S.I.T.E., KOTRI, DISTRICT: DADU (SINDH)
2. G.T ROAD, QUADIRABAD, DISTRICT: SAHIWAL (PUNJAB)
3. LEAF DIVISION COMPLEX, 22ND KM, MARDAN SWABI ROAD, MARDAN (KPK)
4. PLOT NO. 14-17, EXPORT PROCESSING ZONE, WEST SITE TOWN, KARACHI (NON-OPERATIONAL)

### SHARE REGISTRAR

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

Website : [www.philipmorriskpakistan.com.pk](http://www.philipmorriskpakistan.com.pk)

Email : [pmpk.info@pmi.com](mailto:pmpk.info@pmi.com)



## DIRECTORS' REVIEW

The Directors of the Company would like to report on the Company's performance for the six months period ended June 30, 2018.

During the period, the Company's gross turnover increased by 53% compared to the same period of 2017, mainly attributable to normalization of trade inventory movements and partial recovery of sales volumes after the introduction of the third excise tax tier in the 2017/18 federal budget.

The introduction of the third excise tier arrested the exponential growth of non-tax paid cigarette segment ("Illicit trade"), providing a more level playing field by narrowing the price gap between duty paid and duty non-paid cigarettes. There is a gradual shift in volumes from the illicit cigarette segment towards tax paid products while the overall cigarette consumption has remained relatively static.

The Company continued to invest in marketing activities to promote its brand portfolio to legal age consumers. The Company expanded the launch geographies of L&M, a world renowned brand, and introduced a new pack upgrade for Marlboro. Moreover, targeted activities for Morven by Chesterfield and Red & White were executed among Legal Age Smokers. The Company recorded an Operating Profit before tax of PKR 1,010 million for the six months period ended June 30, 2018, compared to an Operating Loss before tax of PKR 413 million for the same period of 2017.

During the period, the Company's contribution to the National Exchequer, in the form of excise tax, sales tax and other government levies, was PKR 9,186 million, as compared to PKR 6,644 million for the same period in 2017. The third excise tax tier has provided a wider and more sustainable base for the growth of government revenues which would have seen a significant decline had the third excise tax tier not been introduced.

The company is actively supporting all Government policies and actions to address the issue of smuggled and non-tax paid cigarettes including enhanced enforcement through the Inland Revenue Force of the Federal Board of Revenue ("FBR"). During 2017, the force have successfully seized large quantity of non-duty paid cigarettes and raw materials.

The management team continues to be committed to improving the overall performance of the Company by leveraging the new fiscal structure, utilizing global resources, pursuing initiatives, such as new strategic marketing activities, continuous improvements in product quality, process and operational efficiency, and resource utilization and allocation. Growing our gross margin and controlling the cost base remain key objectives for improving the Company's profitability in a continuously challenging environment.

On behalf of the Board of Directors, we would like to express our gratitude and appreciation to all our employees, shareholders, business partners and other institutions for their continued trust and support.

On behalf of the Board of Directors,

**ALEXANDER REISCH**  
Chief Executive

**KAMRAN Y. MIRZA**  
Chairman

Karachi: August 16, 2018



## ڈائریکٹرز رپورٹ

کینیڈا کے ڈائریکٹرز 30 جون 2018 کو اختتام پذیر ہونے والے 6 ماہ کے عرصے میں کینیڈا کی کارکردگی کی رپورٹ پیش کر رہے ہیں۔

اس عرصے کے مجموعی کاروباری حجم میں گزشتہ سال کے اسی عرصہ کے مقابلے میں 53 فیصد کا اضافہ دیکھنے میں آیا ہے۔ اس کی بڑی وجہ ٹریڈ انونٹری کا معمول پر آنا اور وفاقی بجٹ 2017/18 میں متعارف کروایا جانے والا تیسرے درجے کا ایکسائزنگس ہے جس کی وجہ سے سلاز حجم میں جزوی اضافہ دیکھنے میں آیا۔

تیسرے درجے کا ایکسائزنگس متعارف کرنے سے غیر ٹیکس ادا شدہ سگریٹوں کے تیزی سے بڑھتے ہوئے کاروباری حجم (غیر قانونی تجارت) پر قابو پانے میں مدد ملی۔ اس سے ٹیکس ادا شدہ اور غیر ٹیکس ادا شدہ سگریٹوں کے درمیان قیمتوں میں فرق کم ہوا اور کاروبار کیلئے سازگار ماحول بنیوسا۔ غیر قانونی سگریٹ کی صنعت کا تجارتی حجم قانونی سگریٹ بنانے والوں کی جانب بدمرتج منتقل ہو رہا ہے تاہم سگریٹ کے استعمال کا مجموعی حجم اپنی جگہ قائم ہے۔

کینیڈا نے بالغ صارفین کیلئے اپنے براؤنڈ پوٹنٹو لیوکی تھیریبل متعدد مارکیٹنگ ذرائع کا استعمال جاری رکھا جس کیلئے اس ضمن میں سرمایہ کاری کی جاتی رہی ہے۔ کینیڈا نے دنیا کے مشہور و معروف برانڈ L & M کی لانچ کے دائرہ کار کو وسیع کیا اور marlboro کا نیا پیک متعارف کیا۔ اس کے علاوہ بالغ صارفین کیلئے Morven by Red & White Chesterfield کی مخصوص سگریٹوں کی تکمیل کی۔ کینیڈا نے 30 جون 2018 کو اختتام پذیر ہونے والے 6 ماہ کے عرصے میں قبل از ٹیکس 1,010 ملین روپے کا آپریٹنگ منافع ریکارڈ کیا جس کا موازنہ گزشتہ سال کے اسی عرصے سے کیا جائے تو معلوم ہوتا ہے کہ اُس دوران قبل از ٹیکس 413 ملین روپے کا آپریٹنگ نقصان ریکارڈ کیا گیا تھا۔

اس عرصے کے دوران کینیڈا نے قومی خزانہ میں ایکسائزنگس، ہیلتھ ٹیکس اور دیگر حکومتی محصولات کی مد میں 9,186 ملین روپے جمع کرائے جو کہ 2017 کے اسی عرصے کے دوران 6,644 ملین روپے تھے۔ تیسرے درجے کا ایکسائزنگس سے حکومتی محصولات میں اضافے کیلئے وسیع اور مزید پائیدار بنیاد بنیوسا ہوئی۔ تیسرے درجے کے ایکسائزنگس کے نہ ہونے کی صورت میں حکومتی محصولات میں واضح کمی دیکھنے میں آسکتی تھی۔

کینیڈا میں اسی عرصے کے دوران ایکسائزنگس ادا شدہ سگریٹوں کے مسئلے پر حکومت کی تمام پالیسیوں کی بھرپور حمایت جاری رکھے ہوئے ہے۔ کینیڈا فیڈرل بورڈ آف ریونیو (ایف بی آر) کی ان لیڈر ریونیو فورس کی اضافی اور موثر کاروائیوں کی بھی بھرپور حمایت کرتی ہے۔ 2017 کے دوران اس فورس نے ملک بھر کے مختلف شہروں میں کامیاب کاروائیاں کرتے ہوئے غیر ٹیکس ادا شدہ سگریٹوں کی بڑی کھپ اور عام مال قبضہ میں لے لیا تھا۔

دستیاب عالمی وسائل کو بروئے کار لاتے ہوئے مینجمنٹ ٹیم کینیڈا کی مجموعی کارکردگی کو مزید بہتر بنانے، مارکیٹنگ کی جدید حکمت عملی سمیت مزید مواقع کی تلاش، مصنوعات کی بہتر کوالٹی کے حصول، مستحکم طریقہ کار اور آپریٹنگس کا کارکردگی کے ساتھ وسائل کے بہتر استعمال اور موثر تقرری کیلئے پُر عزم ہے۔ کئیں حالات کے باوجود اپنے مجموعی منافع کو بڑھانا اور اخراجات پر قابو پانا کینیڈا کے منافع میں اضافہ کے بنیادی عوامل رہیں گے۔

بورڈ آف ڈائریکٹرز کی جانب سے ہم اپنے تمام ملازمین، شیئرز، ہولڈرز، کاروباری شراکت داروں اور دیگر اداروں کا ان کے مسلسل اعتماد اور حمایت پر تہ دل سے مشکور ہیں۔

بورڈ آف ڈائریکٹرز کی جانب سے

الیکٹرینڈر رائٹ  
سی ای او

کامران یوسف مرزا  
چیئرمین

تاریخ: کراچی، 16 اگست 2018ء



## AUDITORS' REPORT

### INDEPENDENT AUDITOR'S REVIEW REPORT

#### TO THE MEMBERS OF PHILIP MORRIS (PAKISTAN) LIMITED REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

##### Introduction

We have reviewed the accompanying condensed interim statement of financial position of Philip Morris (Pakistan) Limited as at June 30, 2018 and the related condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows and notes to the financial statements for the six months period then ended (here-in-after referred to as the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

The figures of the condensed interim statement of profit or loss and other comprehensive income for the quarters ended June 30, 2018 and 2017 have not been reviewed, as we are required to review only the cumulative figures for the six months period ended June 30, 2018.

##### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

##### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the review resulting in this independent auditor's report is Khurshid Hasan.

**A.F. FERGUSON & CO.**

Chartered Accountants

Audit Engagement Partner: Khurshid Hasan

Karachi: August 27, 2018



## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2018

	Note	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited)
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant and equipment	4	7,316,289	7,798,935
Intangibles		22,706	20,023
		<u>7,338,995</u>	<u>7,818,958</u>
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments		47,607	45,825
Deferred taxation	6	497,208	678,585
		<u>7,883,811</u>	<u>8,543,369</u>
<b>CURRENT ASSETS</b>			
Stores and spares - net		247,531	238,690
Stock in trade - net	7	5,278,088	6,204,581
Trade debts - net		17,493	36,458
Advances		62,805	35,160
Prepayments	8	1,123,005	63,715
Other receivables	9	26,352	312,729
Income tax - net		639,764	614,001
Staff retirement benefits		70,149	97,048
Cash and bank balances		138,369	256,100
		<u>7,603,556</u>	<u>7,858,482</u>
<b>TOTAL ASSETS</b>		<u><b>15,487,367</b></u>	<u><b>16,401,851</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital		<u>12,000,000</u>	<u>12,000,000</u>
Issued, subscribed and paid-up capital			
- Ordinary shares		615,803	615,803
- Preference shares		<u>10,464,000</u>	<u>10,464,000</u>
		<u>11,079,803</u>	<u>11,079,803</u>
Transaction cost on issuance of preference shares - net of tax		<u>(33,911)</u>	<u>(33,911)</u>
		<u>11,045,892</u>	<u>11,045,892</u>
Reserves		4,473,792	5,230,330
Accumulated loss		<u>(2,650,806)</u>	<u>(3,374,946)</u>
<b>TOTAL EQUITY</b>		<u><b>12,868,878</b></u>	<u><b>12,901,276</b></u>
<b>CURRENT LIABILITIES</b>			
Short term running finance		82,421	-
Trade and other payables		2,465,204	3,155,873
Accrued mark-up on short running finance		70	33
Sales tax and federal excise duty payable		<u>70,794</u>	<u>344,669</u>
		<u>2,618,489</u>	<u>3,500,575</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>15,487,367</b></u>	<u><b>16,401,851</b></u>

### CONTINGENCIES AND COMMITMENTS

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The annexed notes from 1 to 20 form an integral part of these condensed interim financial statements.

Karachi: August 16, 2018

  
KAMRAN Y. MIRZA  
Chairman

  
ALEXANDER REISCH  
Chief Executive

  
ANTON STANKOV  
Chief Financial Officer



## CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### FOR THE QUARTER AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

	Note	Quarter ended		Six months period ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
----- (Rupees in thousand) -----					
Turnover - net	11	<b>3,868,925</b>	2,450,053	<b>7,654,337</b>	4,185,515
Cost of sales	12	<b>2,269,973</b>	1,520,901	<b>4,163,808</b>	2,843,416
Gross profit		<b>1,598,952</b>	929,152	<b>3,490,529</b>	1,342,099
Distribution and marketing expenses		<b>766,817</b>	582,866	<b>1,682,379</b>	1,160,981
Administrative expenses		<b>340,124</b>	337,042	<b>658,600</b>	614,563
Other expenses	13	<b>149,671</b>	25,121	<b>251,254</b>	35,094
Other income		<b>(48,276)</b>	(51,576)	<b>(111,521)</b>	(55,814)
		<b>1,208,336</b>	893,453	<b>2,480,712</b>	1,754,824
Operating profit / (loss)		<b>390,616</b>	35,699	<b>1,009,817</b>	(412,725)
Finance cost and bank charges		<b>4,135</b>	32,501	<b>9,299</b>	65,071
Profit / (loss) before taxation		<b>386,481</b>	3,198	<b>1,000,518</b>	(477,796)
Taxation charge / (reversal)	14	<b>67,438</b>	166,214	<b>276,378</b>	(14,346)
Profit / (loss) after taxation		<b>319,043</b>	(163,016)	<b>724,140</b>	(463,450)
----- (Rupees) -----					
(Loss) / earnings per share					
- Basic and diluted	15	<b>(1.96)</b>	(2.65)	<b>4.62</b>	(7.53)

The annexed notes from 1 to 20 form an integral part of these condensed interim financial statements.

Karachi: August 16, 2018

**KAMRAN Y. MIRZA**  
Chairman

**ALEXANDER REISCH**  
Chief Executive

**ANTON STANKOV**  
Chief Financial Officer



# CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2018

	Issued, subscribed and paid-up capital	Transaction cost on issuance of preference shares -net of tax	General reserve	Reserve for share based payments	Re-measurement of staff retirement gratuity plan-net of tax	Sub-total Reserves	Accumulated (Loss)	Total	
	Ordinary shares	Preference shares							
----- (Rupees in thousand) -----									
<b>Balance as at January 1, 2017</b>	615,803	10,464,000	(33,911)	6,347,000	6,498	(216,183)	6,137,315	(3,593,171)	13,590,036
<i>Transactions with owners</i>									
<i>Share based payments</i>									
- expense	-	-	-	-	9,339	-	9,339	-	9,339
- recharge	-	-	-	-	(22,552)	-	(22,552)	-	(22,552)
	-	-	-	-	(13,213)	-	(13,213)	-	(13,213)
Reversal of unclaimed dividend	-	-	-	-	-	-	27,217	-	27,217
<i>Total comprehensive loss</i>									
Loss after taxation for the six months period ended June 30, 2017	-	-	-	-	-	-	(463,450)	-	(463,450)
	-	-	-	-	-	-	(463,450)	-	(463,450)
<b>Balance as at June 30, 2017</b>	615,803	10,464,000	(33,911)	6,347,000	(6,715)	(216,183)	6,124,102	(4,029,404)	13,140,590
<b>Balance as at January 1, 2018</b>	615,803	10,464,000	(33,911)	5,424,000	4,954	(198,624)	5,230,330	(3,374,946)	12,901,276
<i>Transactions with owners</i>									
- Final cash dividend for the Year ended December 31, 2017	-	-	-	(747,390)	-	-	(747,390)	-	(747,390)
<i>Share based payments</i>									
- expense	-	-	-	-	8,938	-	8,938	-	8,938
- recharge	-	-	-	-	(18,086)	-	(18,086)	-	(18,086)
	-	-	-	-	(9,148)	-	(9,148)	-	(9,148)
<i>Total comprehensive income</i>									
Profit after taxation for the six months period ended June 30, 2018	-	-	-	-	-	-	724,140	-	724,140
	-	-	-	-	-	-	724,140	-	724,140
<b>Balance as at June 30, 2018</b>	615,803	10,464,000	(33,911)	4,676,610	(4,194)	(198,624)	4,473,792	(2,650,806)	12,868,878

The annexed notes from 1 to 20 form an integral part of these condensed interim financial statements.

Karachi: August 16, 2018

  
**KAMRAN Y. MIRZA**  
 Chairman

  
**ALEXANDER REISCH**  
 Chief Executive

  
**ANTON STANKOV**  
 Chief Financial Officer



## CONDENSED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2018

	Note	Six months period ended	
		June 30, 2018	June 30, 2017
(Rupees in thousand)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	17	<b>842,732</b>	(1,025,946)
Staff retirement gratuity paid		<b>(28,300)</b>	(36,745)
Finance cost paid		<b>(9,262)</b>	(64,389)
Income taxes paid		<b>(120,764)</b>	(53,895)
Long term deposits and prepayments		<b>(1,782)</b>	(7,031)
Net cash generated from / (used in) by operating activities		<b>682,624</b>	(1,188,006)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure		<b>(232,064)</b>	(180,103)
Acquisition of intangibles		<b>(7,275)</b>	(2,892)
Proceeds from disposal of items of property, plant and equipment		<b>70,716</b>	12,679
Profit received on savings accounts		<b>36,713</b>	865
Net cash used in investing activities		<b>(131,910)</b>	(169,451)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		<b>(750,866)</b>	-
Proceeds of loans obtained from associated undertaking		-	2,097,000
Repayment of loans to associated undertaking		-	(2,097,000)
Net cash paid for financing activities		<b>(750,866)</b>	-
Net decrease in cash and cash equivalents during the period		<b>(200,152)</b>	(1,357,457)
Cash and cash equivalents at the beginning of the period		<b>237,239</b>	(1,230,464)
Cash and cash equivalents at the end of the period	18	<b>37,087</b>	(2,587,921)

The annexed notes from 1 to 20 form an integral part of these condensed interim financial statements.

**KAMRAN Y. MIRZA**  
Chairman

**ALEXANDER REISCH**  
Chief Executive

**ANTON STANKOV**  
Chief Financial Officer

Karachi: August 16, 2018



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

### FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2018

#### 1. THE COMPANY AND ITS OPERATIONS

- 1.1 Philip Morris (Pakistan) Limited (the Company) was incorporated in Pakistan on February 10, 1969 as a public limited company under the Companies Act, 1913 (now the Companies Act, 2017). The Company is listed on the Pakistan Stock Exchange. The principal activity of the Company is manufacturing and sale of cigarettes and tobacco products. Its registered office is situated at the 19th Floor, The Harbour Front, Dolmen City, HC - 3, Block 4, Clifton, Karachi, Pakistan.
- 1.2 In view of exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002-549 dated March 12, 2018 from the requirement of section 228(7) of the Companies Act, 2017, the consolidated financial statements of the group comprising the Company and its subsidiary, Laksonpremier Tobacco Company (Private) Limited, have not been prepared. The exemption is, however, subject to the condition that any material and relevant details of the aforesaid subsidiary shall be prominently disclosed by the Company.

In accordance with the requirements of the said exemption, financial highlights of the subsidiary are stated in note 5.

#### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

- 2.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:
- (a) International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board as notified under the Companies Act, 2017; and
  - (b) Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

- 2.2 These condensed interim financial statements include the condensed interim statement of financial position as at June 30, 2018, the condensed interim statement of profit or loss and other comprehensive income, the condensed interim statement of changes in equity, the condensed interim statement of cash flows and notes thereto for the six months period then ended which have been subjected to a review and have not been audited. These condensed interim financial statements also include the condensed interim statement of profit or loss and other comprehensive income and notes thereto for the quarter ended June 30, 2018 which was not subjected to review.
- 2.3 The comparative statement of financial position presented in these condensed interim financial statements as at December 31, 2017 has been extracted from the audited



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

financial statements of the Company for the year then ended (December 2017 financial statements). The comparative statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period ended June 30, 2017 have been extracted from the condensed interim financial statements of the Company for the six months period then ended, which were subjected to review but were not audited. The comparative statement of profit or loss and other comprehensive income for the quarter ended June 30, 2017 is also included in these condensed interim financial statements which was not subjected to review.

### 2.4 New standards, amendments to approved accounting and reporting standards and new interpretations:

#### 2.4.1 New standards, amendments to approved accounting and reporting standards and new interpretations which become effective during the six months period ended June 30, 2018:

During the period, the SECP has adopted IFRS 15 'Revenue from contracts with customers' which shall be effective for periods beginning on or after July 1, 2018. However, the Company has early adopted IFRS 15 as of April 1, 2018 and applied with effect from the current period. The adoption does not impact the accounting policies of the Company nor did it have a material impact to its financial position, results of earnings or cashflows.

The third and fourth schedule to the Companies Act 2017 will become applicable on the Company for the first time for the preparation of the financial statements for the year ending December 31, 2018. The Companies Act, 2017 (including its third and fourth schedules) forms an integral part of the statutory financial reporting framework applicable on the company and amongst others, prescribes the nature and content of disclosures in relation to various elements of financial statements.

There were certain amendments and an interpretation to the approved accounting and reporting standards which became effective during the period but are considered not to be relevant or have any significant effect on the Company's financial reporting and are, therefore, have not been disclosed in these condensed interim financial statements.

#### 2.4.2 New standard and amendments of published approved accounting and reporting standards that are not yet effective:

There are certain new standards, amendments and an interpretation to the approved accounting and reporting standards that will be mandatory for the Company's annual accounting periods beginning on or after January 1, 2019. However, these amendments will not have a significant impact on the financial reporting of the Company and, therefore, have not been disclosed in these condensed interim financial statements. During the current period, the SECP has adopted IFRS 9 'Financial Instruments' and IFRS 16 'Leases' which will not have a significant impact to the financial position, results of operations or cashflows. IFRS 17 'Insurance Contracts' is yet to be adopted by the SECP.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

- 2.5 The accounting policies adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the December 2017 financial statements. These condensed interim financial statements should be read in conjunction with the December 2017 financial statements as they provide an update of previously reported information.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

- 3.1 The preparation of these condensed interim financial statements in conformity with approved accounting and reporting standards require the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.
- 3.2 During the preparation of these condensed interim financial statements, significant judgments made by management in applying the Company's accounting policies and key sources of estimation were the same as those applied in the Company's December 2017 financial statements.
- 3.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2017 financial statements.

### 4. PROPERTY, PLANT AND EQUIPMENT

	Note	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited)
Operating property, plant and equipment	4.1 to 4.4	6,853,444	7,260,775
Capital work-in-progress (CWIP)	4.5	460,469	538,160
Major capital spares and stand-by equipment		2,376	-
		<u>7,316,289</u>	<u>7,798,935</u>
4.1 Operating property, plant and equipment			
Book value at the beginning of the period / year		7,260,775	7,657,261
Transfers from CWIP during the period / year	4.2	301,641	937,179
		<u>7,562,416</u>	<u>8,594,440</u>
Disposals during the period / year - net book value	4.3	(34,641)	(43,994)
Write offs during the period / year - net book value		(13,981)	(105,876)
Impairment during the period / year - net book value		(58,605)	(83,765)
Depreciation charge during the period / year	4.4	(601,745)	(1,100,030)
		<u>(708,972)</u>	<u>(1,333,665)</u>
Book value at the end of the period / year		<u>6,853,444</u>	<u>7,260,775</u>



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

	<b>Six months period ended</b>	
	<b>June 30, 2018 (Un-audited) (Rupees in thousand)</b>	<b>June 30, 2017 (Un-audited) (Rupees in thousand)</b>
4.2 Transfers from CWIP during the period:		
Buildings on freehold land	15,381	79,841
Leasehold improvements	-	47,069
Plant and machinery	188,132	224,239
Furniture and fixtures	5,159	22,799
Vehicles	62,880	1,470
Power and other installations	21,552	109,365
Computer equipment	8,537	79,517
	<u>301,641</u>	<u>564,300</u>
4.3 Disposals during the period - net book value		
Freehold land	13,221	-
Buildings on freehold land	10,958	-
Vehicles	10,462	4,328
Buildings on leasehold land	-	6,775
	<u>34,641</u>	<u>11,103</u>
4.4 Depreciation charge during the period	<u>601,745</u>	<u>494,398</u>
	<b>June 30, 2018 (Un-audited) (Rupees in thousand)</b>	<b>December 31, 2017 (Audited)</b>
4.5 Capital work-in-progress		
Civil works	12,002	14,190
Plant and machinery	145,242	163,683
Power and other installations	146,564	202,285
Furniture and fixtures	8,409	73,385
Computer equipment pending installations	413	7,137
Advance to suppliers and contractors	147,839	77,480
	<u>460,469</u>	<u>538,160</u>

### 5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in Laksonprem Tobacco Company (Private) Limited. Out of such 103 shares, two shares are in the name of the nominees. The statement of profit or loss and other comprehensive income of the subsidiary company for the six months period ended June 30, 2018 amounted to Nil resulting in an accumulated loss of Rs 1,030 as at that date. The net assets of the subsidiary company as at June 30, 2018 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the six months period ended June 30, 2018.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

The auditors of the subsidiary company have expressed an unmodified audit opinion on the financial statements of the subsidiary company for the year ended December 31, 2017.

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

### 6. DEFERRED TAXATION

	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	1,229	2,472
Unutilised tax losses and credits	1,078,860	1,336,497
Provision for spares	27,513	25,149
Provision for obsolete stocks	451	11,400
Provision for doubtful debts	778	834
Worker's welfare fund	13,441	8,276
	<u>1,122,272</u>	<u>1,384,628</u>
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	<u>(625,064)</u>	<u>(706,043)</u>
Deferred tax asset	<u>497,208</u>	<u>678,585</u>

- 6.1 The accumulated tax loss of the Company as at June 30, 2018 aggregated Rs 3,853.072 million (December 31, 2017: Rs 4,454.990 million), in respect of which the Company has recognised deferred tax asset amounting to Rs 1,078.860 million (December 31, 2017: Rs 1,336.497 million). The existing unutilised tax loss mainly attributable to tax depreciation can be utilised for an indefinite period against future profits. The Company carries out periodic assessment to determine the benefit of the loss that the Company would be able to set off against the taxable profits in future years. The amount of this benefit has been determined based on the projected taxable profits of the Company for future years and the expected applicable tax rate. The determination of projected taxable profits are most sensitive to certain key assumptions such as volume of cigarettes, gross margin percentage and inflation rates which have been considered in the preparation of these projected taxable profits.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

### 7. STOCK IN TRADE - net

	Note	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited) (Rupees in thousand)
Raw and packing materials	7.1 to 7.3	4,443,344	5,747,841
Work-in-process		108,376	107,962
Finished goods	7.3	<u>727,980</u>	<u>386,779</u>
		<u>5,279,700</u>	<u>6,242,582</u>
Provision for obsolete stocks	7.3	<u>(1,612)</u>	<u>(38,001)</u>
		<u>5,278,088</u>	<u>6,204,581</u>

7.1 Includes impact of seasonal purchases on account of harvest of tobacco crop during the months of July to September.

7.2 Include raw & packing materials in transit aggregating Rs 87.756 million (December 31, 2017: Rs 181.608 million).

7.3 During the period, the Company has written off provision against raw and packing materials aggregating Rs Nil (December 31, 2017: Rs 33.073 million) and finished goods aggregating Rs 36.389 million (December 31, 2017: Rs 0.823 million).

### 8. PREPAYMENTS

	Note	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited) (Rupees in thousand)
Federal Excise Duty	8.1	952,881	-
Others		<u>170,124</u>	<u>63,715</u>
		<u>1,123,005</u>	<u>63,715</u>

8.1 This represents advance payments made in respect of Federal Excise Duty.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

### 9. OTHER RECEIVABLES

	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited) (Rupees in thousand)
Receivables from 'associated undertakings'	16,008	302,576
Others	10,344	10,153
	<u>26,352</u>	<u>312,729</u>

### 10. CONTINGENCIES AND COMMITMENTS

#### 10.1 Guarantees

Indemnities given to banks for guarantees issued by it in the normal course of business aggregated Rs 69.565 million (December 31, 2017: Rs 69.565 million).

#### 10.2 Commitments

	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited)
Capital expenditure contracted for but not incurred	324,695	547
Post dated cheques	28,445	-
Letters of credit	8,131	-

#### 10.3 Contingencies

10.3.1 There is no significant change in the status of the cases set out in notes 19.3, 19.5, 19.6 and 19.7 to the December 2017 financial statements.

10.3.2 While reviewing the tax return of the Company for the tax year 2015 (accounting year ended December 31, 2014), the Deputy Commissioner Inland Revenue passed an order dated June 27, 2018 under section 122(1) of the Income Tax Ordinance, 2001 disallowing certain deductions aggregating Rs 154.078 million having a tax impact of Rs 49.305 million. The Company has filed an appeal against the order before the Commissioner Inland Revenue Appeals dated July 6, 2018 which is pending adjudication.

Management is confident that the ultimate decision will be decided in the Company's favour and accordingly no provision has been made in these condensed interim financial statements.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

### 11. TURNOVER - net

	Quarter ended		Six months period ended	
	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)
	(Rupees in thousand)			
Gross turnover	8,737,731	6,419,845	17,019,897	11,101,499
Less: Trade discount	273,271	251,672	507,995	448,498
Sales tax	1,333,937	990,205	2,605,687	1,645,525
Excise duty	3,261,598	2,727,915	6,251,878	4,821,961
	4,868,806	3,969,792	9,365,560	6,915,984
	3,868,925	2,450,053	7,654,337	4,185,515

### 12. COST OF SALES

	Quarter ended		Six months period ended	
	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)
	(Rupees in thousand)			
<b>Raw and packing materials consumed</b>				
Opening stock	5,107,948	6,436,089	5,747,841	6,992,580
Purchases, redrying and related expenses	884,680	532,225	2,062,091	1,217,889
	5,992,628	6,968,314	7,809,932	8,210,469
Closing stock	(4,443,344)	(6,099,555)	(4,443,344)	(6,099,555)
	1,549,284	868,759	3,366,588	2,110,914
Government levies	8,649	5,362	19,301	9,035
Manufacturing expenses	596,301	485,635	1,122,694	1,011,139
	2,154,234	1,359,756	4,508,583	3,131,088
<b>Work-in-process</b>				
Opening stock	110,432	277,762	107,962	124,732
Closing stock	(108,376)	(128,242)	(108,376)	(128,242)
Sale of waste	(1,705)	(265)	(3,160)	(600)
	351	149,255	(3,574)	(4,110)
Cost of goods manufactured	2,154,585	1,509,011	4,505,009	3,126,978
<b>Finished goods</b>				
Opening stock	843,368	504,968	386,779	209,516
Closing stock	(727,980)	(493,078)	(727,980)	(493,078)
	115,388	11,890	(341,201)	(283,562)
	2,269,973	1,520,901	4,163,808	2,843,416



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

### 13. OTHER EXPENSES

	Note	Quarter ended		Six months period ended	
		June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)
————— (Rupees in thousand) —————					
Employee separation cost		-	14,800	-	14,800
Impairment charge on items of property, plant and equipment	4.1	<b>39,219</b>	-	<b>58,605</b>	-
Property, plant and equipment written off		<b>13,981</b>	-	<b>13,981</b>	-
Loss on disposal of Property, plant and equipment		-	-	<b>1,633</b>	2,769
Capital work-in-progress written off		<b>917</b>	-	<b>5,738</b>	-
Worker's Profit Participation Fund		<b>44,062</b>	-	<b>53,734</b>	-
Worker's Welfare Fund		<b>16,549</b>	-	<b>20,418</b>	-
Exchange loss - net		<b>30,025</b>	7,546	<b>82,344</b>	9,730
Miscellaneous expenses		<b>4,918</b>	2,775	<b>14,801</b>	7,795
		<b>149,671</b>	25,121	<b>251,254</b>	35,094

### 14. TAXATION

	Quarter ended		Six months period ended	
	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)
————— (Rupees in thousand) —————				
Current				
- for the period	<b>48,786</b>	10,573	<b>95,001</b>	12,169
- for the prior period	-	99,400	-	99,400
	<b>48,786</b>	109,973	<b>95,001</b>	111,569
Deferred	<b>18,652</b>	56,241	<b>181,377</b>	(125,915)
	<b>67,438</b>	166,214	<b>276,378</b>	(14,346)



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS continued

### 15. EARNINGS / (LOSS) PER SHARE – BASIC

	Quarter ended		Six months period ended	
	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2017 (Un-audited)
	(Rupees in thousand)			
15.1 Basic (loss) / earnings per share				
Profit / (Loss) for the period				
after taxation	319,043	(163,016)	724,140	(463,450)
Less: dividend on non-cumulative				
preference shares paid during				
the period	(439,488)	-	(439,488)	-
(Loss) / profit attributable to				
ordinary shareholders	<u>(120,445)</u>	<u>(163,016)</u>	<u>284,652</u>	<u>(463,450)</u>
	(Number of shares)			
Weighted average number of				
ordinary shares	<u>61,580,341</u>	<u>61,580,341</u>	<u>61,580,341</u>	<u>61,580,341</u>
	(Rupees)			
(Loss) / earnings per share – basic	<u>(1.96)</u>	<u>(2.65)</u>	<u>4.62</u>	<u>(7.53)</u>

15.2 The 1,046,400,000 preference shares are not included in the calculation of diluted earnings per share because they are antidilutive for both the periods ended June 30, 2018 and June 30, 2017. These preference shares could potentially dilute basic earnings per share in the future.

### 16. RELATED PARTIES DISCLOSURES

16.1 Related parties comprise of Philip Morris Investments B.V., (the parent company) and Philip Morris Brands S.à.r.l., related group undertakings, subsidiary company - Laksonpremier Tobacco Company (Private) Limited, staff retirement funds and members of the key management personnel. Transactions with related parties are as follows:



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

Relationship	Nature of transaction	Six months period ended	
		June 30, 2018 (Un-audited) (Rupees in thousand)	June 30, 2017 (Un-audited)
Associated undertakings	Sale of goods and services	19,068	486,680
	Purchase of goods and services	123,109	76,751
	Loans received	-	2,097,000
	Loans repaid / adjusted	-	2,097,000
	Mark-up on short term running finance	-	3,197
	Royalty charges	49,656	29,324
	Share based payment expense	8,938	9,339
	Share based payment recharge	18,086	22,552
	Staff retirement benefit plans	Contribution to gratuity fund	28,300
	Contribution to provident fund	36,749	36,286
Key management personnel	Remuneration and benefits - note 16.1.1 to 16.1.4	3,988	3,430

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

- 16.1.1 The Company considers its chief executive and directors as key management personnel.
- 16.1.2 The chief executive and executive directors are provided with free use of the company maintained cars.
- 16.1.3 Certain executives are on secondment from the group undertakings and no remuneration is charged to the Company in respect of those executives.
- 16.1.4 The independent directors were paid director's fee of Rs 1.76 million during the period (June 30, 2017: 1.6 million).
- 16.2 Balance outstanding with related parties are as follows:

	June 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited)
<b>Current assets</b>		
Associated undertakings - Other receivables	16,008	302,576
Staff retirement benefits	70,149	97,048
	<u>86,157</u>	<u>399,624</u>
<b>Current Liabilities</b>		
Group payables	179,398	140,424
Provident fund payable	17,222	-
	<u>196,620</u>	<u>140,424</u>

- 16.3 Investment in a subsidiary company

See note 5



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS continued

### 17. CASH GENERATED FROM OPERATIONS

	Notes	Six months period ended	
		June 30, 2018 (Un-audited) (Rupees in thousand)	June 30, 2017 (Un-audited)
Profit / (loss) before taxation		1,000,518	(477,796)
Adjustments for:			
- Depreciation		601,745	494,398
- Amortisation		4,592	7,257
Staff retirement gratuity expense		55,199	29,743
Expenses arising from equity-settled share-based payment plan		8,938	9,339
Liabilities written back		(11,017)	(44,919)
Stock in trade written down to net realisable value		1,276	-
Impairment charge on items of property, plant and equipment		58,605	-
Profit on savings accounts		(36,713)	(865)
Unrealised exchange gain - others		58,922	10,363
Exchange loss on loans from an associated undertaking - net		-	5,200
Profit on disposal of items of property, plant and equipment - net		(36,075)	(1,576)
Property, plant and equipment written off		13,981	15,976
Capital work-in-progress written off		5,738	-
Intangibles written off		-	1,262
Finance cost other than exchange loss on loans from an associated undertaking		9,299	59,871
Working capital changes	17.1	(892,276)	(1,134,199)
		<u>842,732</u>	<u>(1,025,946)</u>

#### 17.1 Working capital changes

(Increase) / Decrease in current assets

Stores and spares - net	(8,841)	6,893
Stock in trade - net	925,217	586,492
Trade debts - net	18,965	1,523
Advances	(27,645)	(9,141)
Prepayments	(1,059,290)	(1,280,630)
Other receivables	286,377	174,848
	<u>134,783</u>	<u>(520,015)</u>

(Decrease) in current liabilities

Trade and other payables	(753,184)	(166,375)
Sales tax and excise payable	(273,875)	(447,809)
	<u>(1,027,059)</u>	<u>(614,184)</u>
	<u>(892,276)</u>	<u>(1,134,199)</u>



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS continued

### 18. CASH AND CASH EQUIVALENTS

	Six months period ended	
	June 30, 2018 (Un-audited) (Rupees in thousand)	June 30, 2017 (Un-audited)
Cash and bank balances	138,369	53,704
Short term running finance	(82,421)	(2,641,625)
Less: Amount held as security	(18,861)	-
	<u>37,087</u>	<u>(2,587,921)</u>

### 19. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on August 16, 2018 by the Board of Directors of the Company.

### 20. GENERAL

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

Karachi: August 16, 2018

**KAMRAN Y. MIRZA**  
Chairman

**ALEXANDER REISCH**  
Chief Executive

**ANTON STANKOV**  
Chief Financial Officer



**Philip Morris (Pakistan) Limited**  
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