

FIRST QUARTER REPORT 2013

BEYOND HEALTHCARE

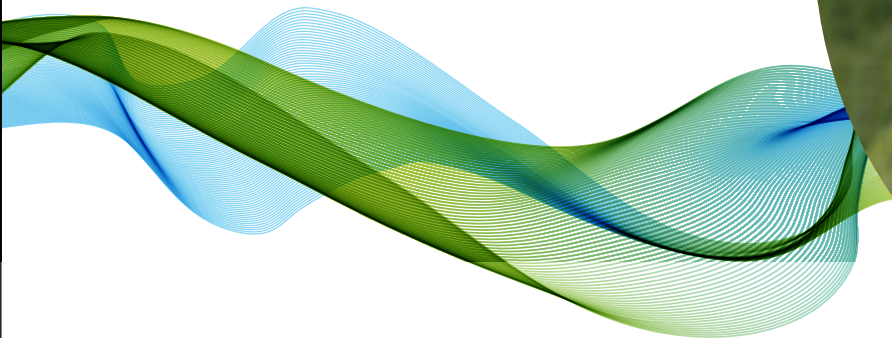


BEYOND HEALTHCARE

At GSK we strive to achieve the best results in order to satisfy specific consumer needs. With our eye on tomorrow, we strive to build a legacy of quality products that enables people to

DO MORE
FEEL BETTER
LIVE LONGER

Our enthusiasm for the value of human life is at the heart of everything we do. Our efforts go beyond just healthcare ... they reach out to change lives, for the better.



CORPORATE INFORMATION

Board of Directors

Mr. M. Salman Burney
Chairman / Chief Executive

Mr. Rafique Dawood
Non-Executive Director

Mr. Husain Lawai
Non-Executive Director

Mr. Mehmood Mandviwalla
Non-Executive Director

Ms. Fariha Salahuddin
Non-Executive Director

Mr. Shahid Mustafa Qureshi
Legal, Corporate Affairs, Industrial
Relations, Administration &
Regulatory Affairs Director /
Company Secretary

Ms. Erum S. Rahim
Director Marketing and Business
Development

Mr. Maqbool ur Rehman
Sales Director

Mr. Yahya Zakaria
Director Finance

Dr. Muzaffar Iqbal
Non-Executive Director

Audit Committee
Mr. Rafique Dawood
Chairman

Mr. Husain Lawai
Member

Mr. Mehmood Mandviwalla
Member

**Human Resource and
Remuneration Committee**
Mr. Husain Lawai
Chairman

Mr. Rafique Dawood
Member

Mr. Mehmood Mandviwalla
Member

Mr. M. Salman Burney
Member

Ms. Fariha Salahuddin
Member

Management Committee

Mr. M. Salman Burney
Chairman / Chief Executive

Mr. Shahid Mustafa Qureshi
Legal, Corporate Affairs,
Industrial Relations,
Administration & Regulatory
Affairs Director / Company
Secretary

Mr. Shoaib Pasha
Technical Director

Mr. Yahya Zakaria
Director Finance

Ms. Erum S. Rahim
Director Marketing and
Business Development

Mr. Maqbool ur Rehman
Sales Director

Mr. Pervaiz I. Awan
Sales Director

Mr. Sohail Matin
Country Manager - Consumer
Healthcare

Ms. Pouruchisty Sidhwa
Director Human Resources

Dr. Khawar Saeed Khan
Director Medical Affairs

Company Secretary

Mr. Shahid Mustafa Qureshi

Chief Financial Officer

Mr. Yahya Zakaria

Chief Internal Auditor

Ms. Ayesha Muharram

Bankers

Citibank NA
Standard Chartered Bank
(Pakistan) Limited
HSBC Bank Middle East Limited
Habib Bank Limited
Deutsche Bank A.G.
Barclays Bank PLC Pakistan

Auditors

A. F. Ferguson & Co.
Chartered Accountants

Legal Advisors

Rizvi, Isa, Afridi & Angell
Mandviwalla & Zafar
Orr, Dignam & Co.
Surridge & Beecheno
Vellani & Vellani

Registered Office

35 - Dockyard Road, West
Wharf,
Karachi - 74000.
Tel: 92-21-111-475-725
(111-GSK-PAK)
Fax: 92-21-32314898, 32311122
Website: www.gsk.com.pk



CHAIRMAN / CHIEF EXECUTIVE'S REVIEW



I am pleased to present the un-audited financial information of your Company for the period ended March 31, 2013. This financial information is submitted in accordance with Section 245 of the Companies Ordinance, 1984.

Review of Operating Results

Your Company continued to deliver steady growth in the period under review despite the challenging economic and businesses environment in the country. Net sales for the quarter were recorded at Rs 6,352 million, an increase of Rs 519 million (9%) over the corresponding period last year. Underlying Pharma performance evidenced growth of around 8% driven mainly by the portfolios such as Analgesics, Cough/Cold, Eye/Ear, Haematinics and Systemic Steroids segments as well as the re-introduction of some products which were supply constrained last year. However supply shortages for a number of products diluted this growth down to 4%.

The Consumer Health Care business continued to deliver a robust performance with sales growing to Rs 949 million, which was Rs 292 million (45%) higher than the corresponding quarter last year. The business continued to focus and invest on key brands i.e. Horlicks, Sensodyne and Panadol with a view to further increasing market share and establishing a strong base for further growth in the future.

Export sales of your Company also continued to perform well and achieved net sales of Rs 169 million.

Gross margins have undergone constant attrition over the few years mainly due to inflation, increasing raw and packing material prices, escalating costs of utilities, fuel and power coupled with constant currency devaluation. This depletion in margin reflects the inability of the pharmaceutical industry to offset cost increases due to the governments' continuing price freeze, and poses a serious concern for the future.

Selling, marketing and distribution expenses were recorded at Rs 867 million, increasing by Rs 224 million over the corresponding period last year. This is mainly due to higher spending on promotion in the Nutrition

and Oral categories in the Consumer business as well as increased freight costs due to escalating oil prices and rising sales volumes.

Administrative expenses rose by 9% over the corresponding quarter to Rs 215 million in the current period. The cost curtailment measures over the last two years have helped in keeping a control on our non-core expenses through simplification and rationalization.

Other operating income decreased by Rs 11 million (13%) over the same period last year due to the lower discount rate as compared to the previous year.

The Company earned Net profit after tax for the period of Rs 404 million due to factors highlighted in preceding paragraphs.

Capital expenditure of Rs 71 million (March 31, 2012: Rs 205 million) was lower than that of first quarter last year. During 2012 the Company invested primarily on up-gradation and extension of manufacturing / warehousing facilities, the benefits of which are expected to crystallize in the forthcoming years.

The surplus funds of the Company increased by Rs 576 million compared to year end balance at December 31, 2012, to Rs 2,892 million due to improvement in cash generated from operations.

Future outlook and Challenges

With the Country going to elections in May 2013, the current political and economic instability is likely to persist for the next quarter. Although, Federal Drug Regulatory Authority (DRA) has now been functional for several months, the Drug Pricing Policy developed by the Ministry of Health has remained in abeyance for almost a year and the critical issue of formulation of a transparent and formal pricing policy is still unresolved. It is feared that in the event it remains unattended, the company's pharmaceutical business will face further erosion of gross margins, creating an unfavorable business environment and also a serious threat of continuity of supply of many very low priced essential medicines.

Despite these tough operating conditions, we are endeavoring to deliver our best through optimizing the product mix of our legacy as well as new products, simplifying our operational processes and introducing new, innovative and improved products. The Company also continues to invest in the Consumer Health Care Business and our leading Consumer brands in line with this growth diversification strategy.

Acknowledgment

Throughout the period the industrial relations climate has remained congenial and all employees showed great

dedication towards achievement of Company's objectives. On behalf of the Board, I would take this opportunity to record our appreciation for the passion and commitment shown by all the staff and our stakeholders for their continuing support.



M. Salman Burney
Chairman / Chief Executive
Karachi
April 18th, 2013

CONDENSED INTERIM BALANCE SHEET

AS AT MARCH 31, 2013

	Note	(Un-audited) March 31, 2013	(Audited) December 31, 2012 (Re-stated)	(Audited) December 31, 2011 (Re-stated)
			Rupees '000	
NON-CURRENT ASSETS				
Fixed assets - property, plant and equipment	5	5,730,294	5,784,694	4,771,175
Intangible - goodwill		955,742	955,742	955,742
Long-term loans to employees		79,550	81,959	82,005
Long-term deposits		11,699	16,761	11,780
		6,777,285	6,839,156	5,820,702
CURRENT ASSETS				
Stores and spares		177,529	170,501	159,268
Stock-in-trade		5,206,467	5,080,220	5,602,526
Trade debts		531,342	350,362	343,404
Loans and advances		338,262	243,070	163,378
Trade deposits and prepayments		307,658	92,542	54,657
Interest accrued		19,952	12,205	30,372
Refunds due from government		55,132	40,759	17,104
Other receivables		336,330	445,872	331,498
Taxation - payments less provision		606,507	660,092	600,742
Investments	6	198,487	198,118	196,706
Cash and bank balances		2,693,107	2,117,626	2,128,926
		10,470,773	9,411,367	9,628,581
		17,248,058	16,250,523	15,449,283
SHARE CAPITAL AND RESERVES				
Share capital		2,631,960	2,631,960	2,392,691
Reserves		9,165,670	8,761,478	8,594,700
		11,797,630	11,393,438	10,987,391
NON-CURRENT LIABILITIES				
Staff retirement benefits		199,554	175,280	213,906
Deferred taxation		545,032	530,750	366,975
		744,586	706,030	580,881
CURRENT LIABILITIES				
Trade and other payables		4,528,805	3,950,339	3,663,772
Provisions		177,037	200,716	217,239
		4,705,842	4,151,055	3,881,011
		5,450,428	4,857,085	4,461,892
CONTINGENCIES AND COMMITMENTS				
	7	17,248,058	16,250,523	15,449,283

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



M. Salman Burney
Chairman / Chief Executive



Yahya Zakaria
Chief Financial Officer

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE QUARTER ENDED MARCH 31, 2013 (UN-AUDITED)

	Note	March 31, 2013 Rupees '000	March 31, 2012 Rupees '000
Net sales		6,351,931	5,833,327
Cost of sales		(4,591,379)	(4,102,030)
Gross profit		1,760,552	1,731,297
Selling, marketing and distribution expenses		(866,974)	(643,457)
Administrative expenses		(214,689)	(197,136)
Other operating expenses		(56,393)	(72,150)
Other operating income		71,830	82,983
Operating profit		694,326	901,537
Financial charges		(9,852)	(4,413)
Profit before taxation		684,474	897,124
Taxation		(280,282)	(412,000)
Profit after taxation		404,192	485,124
Other comprehensive income			
Recognition of actuarial (losses)/gains		-	-
Deferred tax on actuarial losses		-	-
		-	-
Total comprehensive income		404,192	485,124
Earnings per share - basic and diluted	8	Rs. 1.54	Rs. 1.84

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



M. Salman Burney
Chairman / Chief Executive



Yahya Zakaria
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CASH FLOWS

FOR THE QUARTER ENDED MARCH 31, 2013 (UN-AUDITED)



	Note	March 31, 2013 Rupees '000	March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	9	837,053	582,167
Staff retirement benefits paid		-	-
Taxes paid		(212,415)	(195,756)
Decrease/(increase) in long-term loans to employees		2,409	(5,886)
Decrease in long-term deposits		5,062	-
Net cash generated from operating activities		632,109	380,525
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(70,667)	(204,920)
Proceeds from sale of operating assets		14,468	6,607
Net cash used in investing activities		(56,199)	(198,313)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(60)	(4,278)
Net increase in cash and cash equivalents		575,850	177,934
Cash and cash equivalents at beginning of the year		2,315,744	2,325,632
Cash and cash equivalents at the end of the period	10	2,891,594	2,503,566

The annexed notes I to I4 form an integral part of this condensed interim financial information.



M. Salman Burney
Chairman / Chief Executive



Yahya Zakaria
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE QUARTER ENDED MARCH 31, 2013 (UN-AUDITED)

	Share capital	CAPITAL Share premium	RESERVES Reserve arising on amalgamation	Issue of shares	General reserve	Unappropriated profit	Actuarial (Losses)/ Gains	Total
	Rupees '000							
Balance at January 1, 2012	2,392,691	-	2,184,238	-	3,999,970	2,531,673	-	11,108,572
Effect of retrospective application of change in accounting policy - note 4	-	-	-	-	-	5,548	(126,729)	(121,181)
Total comprehensive income for the quarter ended March 31, 2012	-	-	-	-	-	485,124	-	485,124
Balance at March 31, 2012	<u>2,392,691</u>	<u>-</u>	<u>2,184,238</u>	<u>-</u>	<u>3,999,970</u>	<u>3,022,345</u>	<u>(126,729)</u>	<u>11,472,515</u>
Balance at December 31, 2012	2,631,960	-	2,184,238	-	3,999,970	2,655,423	-	11,471,591
Effect of retrospective application of change in accounting policy - note 4	-	-	-	-	-	11,957	(90,110)	(78,153)
Total comprehensive income for the quarter ended March 31, 2013	-	-	-	-	-	404,192	-	404,192
Balance at March 31, 2013	<u>2,631,960</u>	<u>-</u>	<u>2,184,238</u>	<u>-</u>	<u>3,999,970</u>	<u>3,071,572</u>	<u>(90,110)</u>	<u>11,797,630</u>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



M. Salman Burney
Chairman / Chief Executive



Yahya Zakaria
Chief Financial Officer

SELECTED NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE QUARTER ENDED MARCH 31, 2013 (UN-AUDITED)

1. THE COMPANY AND ITS OPERATIONS

The company is incorporated in Pakistan as a limited liability company and is listed on the Karachi and Lahore Stock Exchanges. It is engaged in manufacturing and marketing of research based ethical specialties, other pharmaceutical, animal health and consumer products.

The company is a subsidiary of S.R. One International B.V., Netherlands, whereas its ultimate parent company is GlaxoSmithKline plc, UK.

2. BASIS OF PREPARATION

This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34, Interim Financial Reporting and provisions of or directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2012.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year ended December 31, 2012, except as detailed below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the full financial year.

3.1 Staff retirement benefits

The Company operates the following defined benefit plans:

- Approved funded gratuity schemes for its permanent employees; and
- Approved funded pension scheme only for management employees of former GlaxoSmithKline Pharmaceuticals (Private) Limited.

Previously, Cumulative net unrecognised actuarial gains and losses at the beginning of the year which exceeded 10% of the greater of the present value of the obligations and the fair value of respective fund's assets were amortised over the average remaining working life of the employees. However, effective January 1, 2013 the Company has adopted IAS-19 (Revised) 'Employee Benefits' whereby actuarial gains / losses are now being recognised directly to equity through the Statement of Other Comprehensive Income. The description and the impacts of the change in accounting policy have been detailed in note 4.

4. CHANGE IN ACCOUNTING POLICY

With effect from January 1, 2013, the Company has adopted IAS 19, (Revised) 'Employee Benefits'. The amendments in the revised standard require the Company to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur, immediately recognize all past service costs and replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset.

This change in accounting policy has been accounted for retrospectively as required under International Accounting Standard - 8 'Accounting Policies, Changes in Accounting Estimates and Errors', and the comparative financial statements have been re-stated.

The effects of the retrospective application of the change in accounting policies are as follows:

	December 31, 2012			December 31, 2011		
	As previously Reported	Restatement	As re-stated	As previously Reported	Restatement	As re-stated
	(Rupees '000)			(Rupees '000)		
Effect on Balance Sheet						
Staff retirement benefits	50,381	124,899	175,280	19,706	194,200	213,906
Other receivables	438,674	7,198	445,872	319,800	11,698	331,498
Deferred Taxation	570,298	(39,548)	530,750	428,296	(61,321)	366,975
Reserves	8,839,631	(78,153)	8,761,478	8,715,881	(121,181)	8,594,700

Re-measurement of actuarial valuation has not been performed at the interim dates, the effect of which will be taken into account at the actuarial valuation date, i.e. December 31.

	March 31, 2013	December 31, 2012
	Rupees '000	
5. FIXED ASSETS - PROPERTY, PLANT AND EQUIPMENT		
Operating assets - note 5.1	4,562,343	4,624,418
Capital work-in-progress	1,167,951	1,160,276
	<u>5,730,294</u>	<u>5,784,694</u>

5.1. Details of additions and disposals to operating assets during the quarter ended March 31, 2013:

	Additions (at cost)		Disposals (at net book value)	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
	Rupees '000			
Buildings	3,388	7,888	572	-
Plant and machinery	33,291	12,031	548	-
Furniture and fixture	2,395	12,239	53	-
Vehicles	20,881	39,827	9,549	4,980
Office equipments	3,797	6,411	156	32
	<u>63,752</u>	<u>78,396</u>	<u>10,878</u>	<u>5,012</u>

6. INVESTMENTS

Investment represent treasury bill which is held by company's banker for safe custody. The yield on this bill is 9.09% per annum and will mature in May 2013.

7. CONTINGENCIES AND COMMITMENTS

7.1. Contingencies

Claims against the company not acknowledged as debt as at March 31, 2013 amounted to Rs 124.35 million (December 31, 2012: Rs. 118.03 million).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7.2 Commitments

Commitments for capital expenditure outstanding as at March 31, 2013 amounted to Rs 598.59 million (December 31, 2012: Rs 598.69 million).

**March 31,
2013** **March 31,
2012**
Rupees '000

8. EARNINGS PER SHARE

Profit after taxation	404,192	485,124
Weighted average number of outstanding shares	263,196	263,196
Earnings per share - basic	1.54	1.84

A diluted earnings per share has not been presented as the company did not have any convertible instruments in issue which would have any effect on the earnings per share if the option to convert is exercised.

**March 31,
2013** **March 31,
2012**
Rupees '000

9. CASH GENERATED FROM OPERATIONS

Profit before taxation	684,474	897,124
Add / (less): Adjustments for non-cash charges and other items		
Depreciation / amortisation	114,188	91,488
Gain on disposal of operating assets	(3,589)	(1,595)
Impairment Charge	-	226
Provision for staff gratuity	24,274	28,650
	134,873	118,769
Profit before working capital changes	819,347	1,015,893
Effect on cash flow due to working capital changes		
(Increase) / decrease in current assets		
Stores and spares	(7,028)	(6,016)
Stock-in-trade	(126,247)	28,174
Trade debts	(180,980)	(85,084)
Loans and advances	(95,192)	(81,912)
Trade deposits and prepayments	(215,116)	(147,335)
Interest accrued	(7,747)	10,812
Refunds due from government	(14,373)	11,018
Other receivables	109,542	64,015
	(537,141)	(206,328)
(Decrease) / Increase in current liabilities		
Provisions	(23,679)	(5,028)
Trade and other payables	578,526	(222,370)
	554,847	(227,398)
	17,706	(433,726)
	837,053	582,167

		March 31, 2013	March 31, 2012
		Rupees '000	
10. CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,693,107	2,331,141
Short term investments - Treasury bills		198,487	172,425
		<u>2,891,594</u>	<u>2,503,566</u>
11. TRANSACTIONS WITH RELATED PARTIES			
Associated companies:			
a. Purchase of goods		1,108,637	817,470
b. Sale of goods		15,256	30,135
c. Royalty expense charged		61,348	55,469
d. Recovery of expenses		3,483	25,658
f. Service fee on clinical trial studies		280	2,119
g. Donations		83	-
h. Payment on behalf of associated company		575	-
Staff retirement funds:			
a. Expense charged for retirement benefit plans		43,524	46,404
b. Payments to retirement benefit plans		19,250	17,754
Key management personnel:			
a. Salaries and other employee benefits		44,845	38,622
b. Post employment benefits		3,814	3,952
c. Sale of assets - sales proceeds		416	-

12. SEGMENT INFORMATION

Management has determined the operating segments based on the information that is presented to the chief operating decision-maker of the company for allocation of resources and assessment of performance. Based on internal management reporting structure the company is organised into two operating segments being (i) pharmaceuticals and (ii) consumer healthcare.

Management monitors the operating results of above mentioned segments separately for the purpose of making decisions about resources to be allocated and for assessing performance.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12.1 The financial information regarding operating segments is as follows:

Segment wise operating results

	Quarter ended March 31, 2013			Quarter ended March 31, 2012		
	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total
Revenue	5,402,988	948,943	6,351,931	5,176,675	656,652	5,833,327
Cost of sales	(3,913,853)	(677,526)	(4,591,379)	(3,618,747)	(483,283)	(4,102,030)
Gross profit	1,489,135	271,417	1,760,552	1,557,928	173,369	1,731,297
Selling, marketing and distribution expenses	(654,514)	(212,460)	(866,974)	(549,188)	(94,269)	(643,457)
Administrative expenses	(197,252)	(17,437)	(214,689)	(183,942)	(9,944)	(193,886)
Segment results	637,369	41,520	678,889	824,798	69,156	893,954
Other operating expenses			(56,393)			(75,400)
Other operating income			65,638			81,566
Financial charges			(3,660)			(2,996)
Profit before taxation			684,474			897,124

12.2 There are no inter-segment sales.

12.3 Analysis of segments' assets and liabilities and their reconciliation to total assets and liabilities:

	As at March 31, 2013			As at December 31, 2012		
	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total
Segment assets	11,983,989	730,320	12,714,309	11,996,730	624,068	12,620,798
Unallocated assets			4,533,749			3,629,725
Total assets			17,248,058			16,250,523
Segment liabilities	4,301,695	283,478	4,585,173	3,363,061	135,140	3,498,201
Unallocated liabilities			865,255			1,358,884
Total liabilities			5,450,428			4,857,085

13. The Board of Directors in its meeting held on February 18, 2013 proposed a cash dividend of Rs. 4.00 per share amounting to Rs. 1.05 billion and proposed a transfer of Rs. 263.20 million from "Unappropriated profit" to "reserve for bonus shares" for issuance of ten bonus shares for every hundred shares held subject to approval by the members of the company in the annual general meeting to be held on April 18, 2013.

14. DATE OF AUTHORISATION FOR ISSUE

This financial information was approved and authorised for issue on April 18, 2013 by the Board of Directors of the Company.



M. Salman Burney
Chairman / Chief Executive



Yahya Zakaria
Chief Financial Officer

Do more, feel better, live longer



GlaxoSmithKline Pakistan Limited

35 - Dockyard Road, West Wharf, Karachi - 74000.
GlaxoSmithKline Pakistan Limited is a member of
GlaxoSmithKline group of companies.

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