

THIRD 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. Erum S. Rahim
Non-Executive Director

Ms. Fariha Salahuddin
Non-Executive Director

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

Mr. Maqbool ur Rehman
Sales Director

Mr. Yahya Zakaria
Director Finance

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. Yahya Zakaria
Director Finance

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 September 30, 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 resilient sales performance with Net Sales of Rs 18.6 billion during the period, recording a growth of 10.6% over the corresponding period. This is despite a tough economic and business environment with very significant devaluation and inflationary pressures in the period under review coupled with unpredictable regulatory and security conditions.

The Pharma business recorded underlying growth of around 10%, after adjusting for the divestment of the Animal Health business and supply issues. Within the pharmaceutical business segment the CNS, Anti-infectives and Allergy portfolios achieved good growth.

Sales of the Consumer Healthcare business grew strongly to Rs 2.6 billion; reflecting an increase of Rs 741 million (39%) over the corresponding period last year. The Company's focus on developing key Consumer healthcare brand assets i.e. Sensodyne, Horlicks and Panadol, has resulted in promising growth trends for the Consumer Healthcare business which bodes well for the future.

Export sales continued to show strong growth, increasing by Rs 213 million (42%) over the same period last year to Rs 725 million in the current year.

The Company's gross margins over the years have been adversely impacted and eroded by escalating raw and packing material prices, ever rising utility costs and significant currency devaluation. These unfavorable factors have not been compensated by way of an adequate price increase, and are now adversely impacting the Company's operations. Gross margins for the period at 25.9% declined from 26.2% over the same period last year.

The Company and the Pharma industry is striving hard to offset the impact of these adverse factors through repeated interactions with the government aimed at underlining the need for an urgent price review to maintain the viability of products and operations.

Selling, marketing and distribution expenses at Rs 2.7 billion increased by Rs 541 million in the current period. Nearly half of this increase was on account of commercial investment in the Nutrition and Oral categories of the Consumer Healthcare business to support new line introductions of Horlicks and Sensodyne.

Administrative expenses at Rs 702 million increased by Rs 86 million over the corresponding prior period; reflecting inflationary pressures and rising utility costs. The company continues to actively pursue various cost containment measures and restructuring in non-core areas.

Other income increased by Rs 97 million over the same period last year, to Rs 354 million in the current period. This was mainly contributed by the disposal of Company's Animal Health business, in line with our global strategy of focusing on our core business. Financial charges increased primarily due to exchange losses arising from significant currency devaluation during the period under review.

Net profit after tax for the period was recorded at Rs 854 million which was 8.48% lower than the corresponding period last year.

Capital expenditure of Rs 629 million was incurred during the current period (September 30, 2012: Rs 854 million). During 2012 the Company invested on up-gradation and extension of manufacturing and warehousing facilities, the benefits of which are expected to crystallize in the forthcoming years.

Due to the dividend payout of approximately Rs 1 billion for 2012 the surplus funds of the Company decreased by Rs 235 million compared to year end balance at December 31, 2012, to Rs 2,081 million.

Future outlook and Challenges

Pakistan's pharmaceutical industry continues to face unprecedented challenges in the face of significant & continued currency devaluation, rising raw material and utilities cost and a deteriorating law and order situation.

The Pharma industry has long been affected by an archaic pricing policy which has unfairly forced only this industry to unreasonably internalize all these cost pressures and resultant downward sliding margins without being awarded an adequate price adjustment. Although Federal Drug Regulatory Authority (DRA) has now been functioning for several months the critical issue of formulation and application of a transparent Drug Pricing Policy, as developed by the former Ministry of Health has remained in abeyance and this critical issue still remains largely unresolved.


It is hoped that the new government will take timely measures for addressing the very serious concerns of the pharmaceutical industry which has great potential for generating economic value to the country in terms of growth and exports, as well as providing innovative, life saving drugs at affordable prices and generating revenue for the exchequer.

Notwithstanding the daunting challenges, your company is committed to endeavoring and striving to deliver

optimum value by focusing on best product mix strategy of our legacy as well as new products, simplifying our operational processes and developing new, innovative and improved products in line with our strategic priorities. The Company also continues to invest in the Consumer Healthcare Business and in fostering our flagship Consumer brands in line with the growth diversification strategy & market potential.

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

October 28th, 2013

CONDENSED INTERIM BALANCE SHEET

AS AT SEPTEMBER 30, 2013

	Note	Unaudited September 30, 2013	Audited December 31, 2012 (Re-stated)
		Rupees '000	
NON-CURRENT ASSETS			
Property, plant and equipment	5	5,859,943	5,814,504
Intangible - goodwill		955,742	955,742
Long-term loans to employees		74,768	81,959
Long-term deposits		11,699	16,761
		<u>6,902,152</u>	<u>6,868,966</u>
CURRENT ASSETS			
Stores and spares		171,172	140,691
Stock-in-trade	6	6,283,446	5,080,220
Trade debts		516,349	350,362
Loans and advances		283,154	243,070
Trade deposits and prepayments		151,150	92,542
Interest accrued		5,654	12,205
Refunds due from government		19,009	40,759
Other receivables		419,082	445,872
Taxation - payments less provision		976,611	660,092
Investments		149,424	198,118
Cash and bank balance		1,931,432	2,117,626
		<u>10,906,483</u>	<u>9,381,557</u>
		<u>17,808,635</u>	<u>16,250,523</u>
SHARE CAPITAL AND RESERVES			
Share capital		2,895,156	2,631,960
Reserves		8,299,879	8,761,478
		<u>11,195,035</u>	<u>11,393,438</u>
NON-CURRENT LIABILITIES			
Retirement benefits obligations		213,274	175,280
Deferred taxation		570,752	530,750
		<u>784,026</u>	<u>706,030</u>
CURRENT LIABILITIES			
Trade and other payables		5,646,164	3,950,339
Provisions		183,410	200,716
		<u>5,829,574</u>	<u>4,151,055</u>
		<u>6,613,600</u>	<u>4,857,085</u>
CONTINGENCIES AND COMMITMENTS			
	7	<u>17,808,635</u>	<u>16,250,523</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



M. Salman Burney
Chairman / Chief Executive



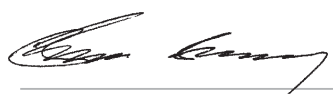
Yahya Zakaria
Chief Financial Officer

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 (UN-AUDITED)

	Note	Quarter ended		Nine months ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
		← Rupees '000 →			
Sales		6,033,773	5,159,528	18,602,308	16,820,010
Cost of sales		(4,665,072)	(3,954,459)	(13,782,523)	(12,406,029)
Gross profit		1,368,701	1,205,069	4,819,785	4,413,981
Selling, marketing and distribution expenses		(822,763)	(671,155)	(2,723,804)	(2,183,063)
Administrative expenses		(242,733)	(205,856)	(702,365)	(616,312)
Other expenses		(11,587)	(26,683)	(136,311)	(140,365)
Other income	8	29,860	127,379	354,230	257,143
Profit from operations		321,478	428,754	1,611,535	1,731,384
Finance cost (including exchange losses)	9	(107,778)	(1,539)	(127,153)	(30,822)
Profit before taxation		213,700	427,215	1,484,382	1,700,562
Taxation		(73,000)	(196,111)	(630,000)	(767,000)
Profit after taxation		140,700	231,104	854,382	933,562
Other comprehensive income		-	-	-	-
Total comprehensive income		140,700	231,104	854,382	933,562
Earnings per share	10	Rs. 0.48	Rs. 0.79	Rs. 2.95	Rs. 3.22

The annexed notes 1 to 15 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 NINE MONTHS ENDED SEPTEMBER 30, 2013 (UN-AUDITED)



	Note	September 30, 2013	September 30, 2012 (Re-stated)
		Rupees '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	11	2,248,947	1,424,078
Payment for defined benefits obligations		(34,200)	(43,000)
Taxes paid		(906,519)	(631,556)
Decrease / (increase) in long-term loans to employees		7,191	(21,104)
Decrease in long-term deposits		5,062	81
Net cash generated from operating activities		1,320,481	728,499
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(628,614)	(854,223)
Proceeds from sale of operating assets		62,389	131,798
Net cash used in investing activities		(566,225)	(722,425)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(989,144)	(899,118)
Net decrease in cash and cash equivalents		(234,888)	(893,044)
Cash and cash equivalents at the beginning of the year		2,315,744	2,325,632
Cash and cash equivalents at the end of the period	12	2,080,856	1,432,588

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



M. Salman Burney
Chairman / Chief Executive



Yahya Zakaria
Chief Financial Officer

The annexed notes 1 to 15 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 NINE MONTHS ENDED SEPTEMBER 30, 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 pharmaceutical 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 and 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 and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2012, except as detailed below.

- 3.1** 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 (now called 'remeasurements', that result from the remeasurement of defined benefits obligations and fair value of plan assets at the balance sheet date) 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 benefits 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.

Effects of this change in accounting policy have been summarised below:

**December 31,
2012
Rupees '000**

Impact on Balance Sheet

Increase in retirement benefits obligations	124,899
Decrease in deferred tax liability	39,548
Decrease in unappropriated profit	78,153
Increase in other receivables	7,198

Impact of Profit and Loss for the year ended December 31, 2012

Increase in profit before taxation	9,651
Increase in taxation expense	3,243
Increase in other comprehensive income - net of tax	36,619

- 3.2. During the year, the Securities and Exchange Commission of Pakistan has notified certain amendments in the Fourth Schedule to the Companies Ordinance, 1984, which specifically classify major parts and stand-by equipments into property, plant and equipment. Previously, these were disclosed as part of stores and spares in current assets. The change in the requirement is considered to be a change in accounting policy and has been applied retrospectively to all prior periods presented as disclosed in Note 5 to this financial information.

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

The preparation of condensed interim financial information in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgements and estimates made by the management in the preparation of this condensed interim financial information are the same as those that were applied to financial statements as at and for the year ended December 31, 2012.

The company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended December 31, 2012.

5. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets - note 5.1

Capital work-in-progress

Major spare parts and stand-by equipments

Un-audited
September 30,
2013

Audited
December 31,
2012
(Re-stated)
Rupees '000

5,026,960	4,624,418
809,592	1,160,276
23,391	29,810
<u>5,859,943</u>	<u>5,814,504</u>

- 5.1. Details of additions and disposals to operating fixed assets are as follows:

	Additions (at cost)		Disposals (at net book value)	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	Rupees '000			
Improvements on buildings	57,300	15,874	17,501	7,227
Plant and machinery	551,549	94,705	24,925	47,510
Furniture and fixture	18,879	30,573	178	1,116
Vehicles	128,102	109,780	32,047	20,994
Office equipments	46,880	54,279	2,050	1,185
	<u>802,710</u>	<u>305,211</u>	<u>76,701</u>	<u>78,032</u>

SELECTED NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

6. STOCK-IN-TRADE

During the period ended September 30, 2013 stock in trade has been written-down to net realisable value by Rs. 28.03 million (September 30, 2012: Rs. 0.34 million)

7. CONTINGENCIES AND COMMITMENTS

7.1 There has been no significant change in the status of contingencies as reported in the financial statements for the year ended December 31, 2012.

7.2 Commitments for capital expenditure outstanding as at September 30, 2013 amounted to Rs. 277.35 million (December 31, 2012: Rs. 598.69 million).

8. OTHER INCOME

This includes Rs. 179 million (September 30, 2012: Rs. NIL) in respect of gain on transfer of marketing authorisation rights and related trade marks of Animal Health products. Whereas, during the period ended September 30, 2012, an amount of Rs. 49 million was recorded as gain on disposal of a leasehold land in Faisalabad.

9. FINANCE COST

This includes exchange loss of Rs. 115 million arising on settlement and revaluation of foreign currency import bills.

10. EARNINGS PER SHARE

September 30, September 30,
2013 2012
Rupees '000

Profit after taxation

854,382

933,562

Weighted average number of outstanding shares

289,516

289,516

Earnings per share - basic

Rs. 2.95

Rs. 3.22

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.

September 30, September 30,
2013 2012
Rupees '000

11. CASH GENERATED FROM OPERATIONS

Profit before taxation 1,484,382 1,700,562

**Add: Adjustments for non-cash
charges and other items**

Depreciation / amortisation	360,197	282,777
Loss / (Gain) on disposal of operating fixed assets	14,311	(53,766)
Impairment charge / (reversal)	4,189	(37,588)
Provision for retirement benefits obligations	72,194	93,027
	450,891	284,450

Profit before working capital changes 1,935,273 1,985,012

Effect on cash flow due to working capital changes

(Increase) / decrease in current assets

Stores and spares	(30,481)	24,150
Stock-in-trade	(1,203,226)	(296,313)
Trade debts	(165,987)	(90,983)
Loans and advances	(40,084)	(146,814)
Trade deposits and prepayments	(58,608)	(93,917)
Interest accrued	6,551	24,961
Refunds due from the government	21,750	(3,264)
Other receivables	26,790	9,679
	(1,443,295)	(572,501)

Increase / (Decrease) in current liabilities

Trade and other payables	1,774,275	38,700
Provisions	(17,306)	(27,133)
	1,756,969	11,567

313,674 (560,934)

2,248,947 1,424,078

12. CASH AND CASH EQUIVALENTS

Cash and bank balances 1,931,432 1,284,468

Short term investments - Treasury bills 149,424 148,120

2,080,856 1,432,588

SELECTED NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

September 30, September 30,
2013 2012
Rupees '000

13. TRANSACTIONS WITH RELATED PARTIES

Relationship	Nature of transactions		
Holding company:	Dividend paid	810,580	736,942
Associated companies:			
	a. Purchase of goods	3,871,731	3,060,958
	b. Sale of goods	108,343	89,526
	c. Royalty expense charged	157,556	157,879
	d. Recovery of expenses	16,926	58,921
	e. Service fee on clinical trial studies	1,237	5,302
	f. Donations paid	146	207
	g. Payment on behalf of associated company	575	-
Staff retirement funds:			
	a. Expense charged for retirement benefit plans	131,235	149,153
	b. Payments to retirement benefit plans	94,866	99,127
Key management personnel:			
	a. Salaries and other employee benefits	141,002	146,924
	b. Post employment benefits	11,099	12,371
	c. proceeds from sale of fixed assets	5,484	4,140
	d. Legal / professional fee	-	60

14. 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.

14.1 The financial information regarding operating segments is as follows:

	Nine months ended September 30, 2013			Nine months ended September 30, 2012		
	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total
Revenue	15,983,609	2,618,699	18,602,308	14,942,280	1,877,730	16,820,010
Cost of sales	(11,893,808)	(1,888,715)	(13,782,523)	(10,973,346)	(1,432,683)	(12,406,029)
Gross profit	4,089,801	729,984	4,819,785	3,968,934	445,047	4,413,981
Selling, marketing and distribution expenses	(2,036,481)	(687,323)	(2,723,804)	(1,782,348)	(400,715)	(2,183,063)
Administrative expenses	(648,921)	(53,444)	(702,365)	(581,576)	(31,486)	(613,062)
Segment results	1,404,399	(10,783)	1,393,616	1,605,010	12,846	1,617,856
Other expenses			(136,311)			(143,615)
Other income			354,230			257,143
Finance cost			(127,153)			(30,822)
Profit before taxation			1,484,382			1,700,562

	Nine months ended September 30, 2013			Nine months ended September 30, 2012		
	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total
Revenue	5,212,611	821,162	6,033,773	4,575,852	583,676	5,159,528
Cost of sales	(4,050,871)	(614,201)	(4,665,072)	(3,546,288)	(408,171)	(3,954,459)
Gross profit	1,161,740	206,961	1,368,701	1,029,564	175,505	1,205,069
Selling, marketing and distribution expenses	(652,162)	(170,601)	(822,763)	(560,560)	(110,595)	(671,155)
Administrative expenses	(226,005)	(16,728)	(242,733)	(191,843)	(10,763)	(202,606)
Segment results	283,573	19,632	303,205	277,161	54,147	331,308
Other expenses			(11,587)			(29,933)
Other income			29,860			127,379
Finance cost			(107,778)			(1,539)
Profit before taxation			213,700			427,215

14.2 There are no inter-segment sales.

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

	As at September 30, 2013			As at December 31, 2012 (re-stated)		
	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total	Pharma- ceuticals	Consumer healthcare (Rupees '000)	Total
Segment assets	13,836,436	897,377	14,733,813	12,628,145	617,576	13,245,721
Unallocated assets			3,074,822			3,004,802
Total assets			17,808,635			16,250,523
Segment liabilities	5,263,950	382,214	5,646,164	3,708,848	118,127	3,826,975
Unallocated liabilities			967,436			1,030,110
Total liabilities			6,613,600			4,857,085

15. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was approved and authorised for issue by the Board of Directors of the Company on October 28, 2013.



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.
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