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Transcending Boundaries

GlaxoSmithKline Pakistan Limited
Half Yearly Report

2017

Corporate Information

Board of Directors

Mr. Dylan Jackson
Chairman

Mr. M. Azizul Huq
Chief Executive Officer

Mr. Abdul Samad
Chief Financial Officer

Mr. Husain Lawai
Independent Director

Mr. Mehmod Mandviwalla
Non-Executive Director

Mr. Nicolas Ragot
Non-Executive Director

Mr. Sohail Matin
Non-Executive Director

Audit Committee

Mr. Husain Lawai
Chairman

Mr. Mehmod Mandviwalla
Member

Mr. Nicolas Ragot
Member

Mr. Dylan Jackson
Member

Human Resource & Remuneration Committee

Mr. Mehmod Mandviwalla
Chairman

Mr. Husain Lawai
Member

Mr. M. Azizul Huq
Member

Mr. Dylan Jackson
Member

Management Committee

Mr. M. Azizul Huq
Chief Executive Officer

Mr. Abdul Samad
Chief Financial Officer

Syed Azeem Abbas Naqvi
Cluster Legal Director - Pakistan and Iran

Dr. Naved Masoom Ali
Business Unit Director - Primary Care

Dr. Tariq Farooq
Business Unit Director - Speciality

Ms. Zainab Hameed
Head of IT

Syed Muhammad Salman Haider
Director Commercial Excellence

Dr. Gohar Nayab Khan
Director Regulatory Affairs

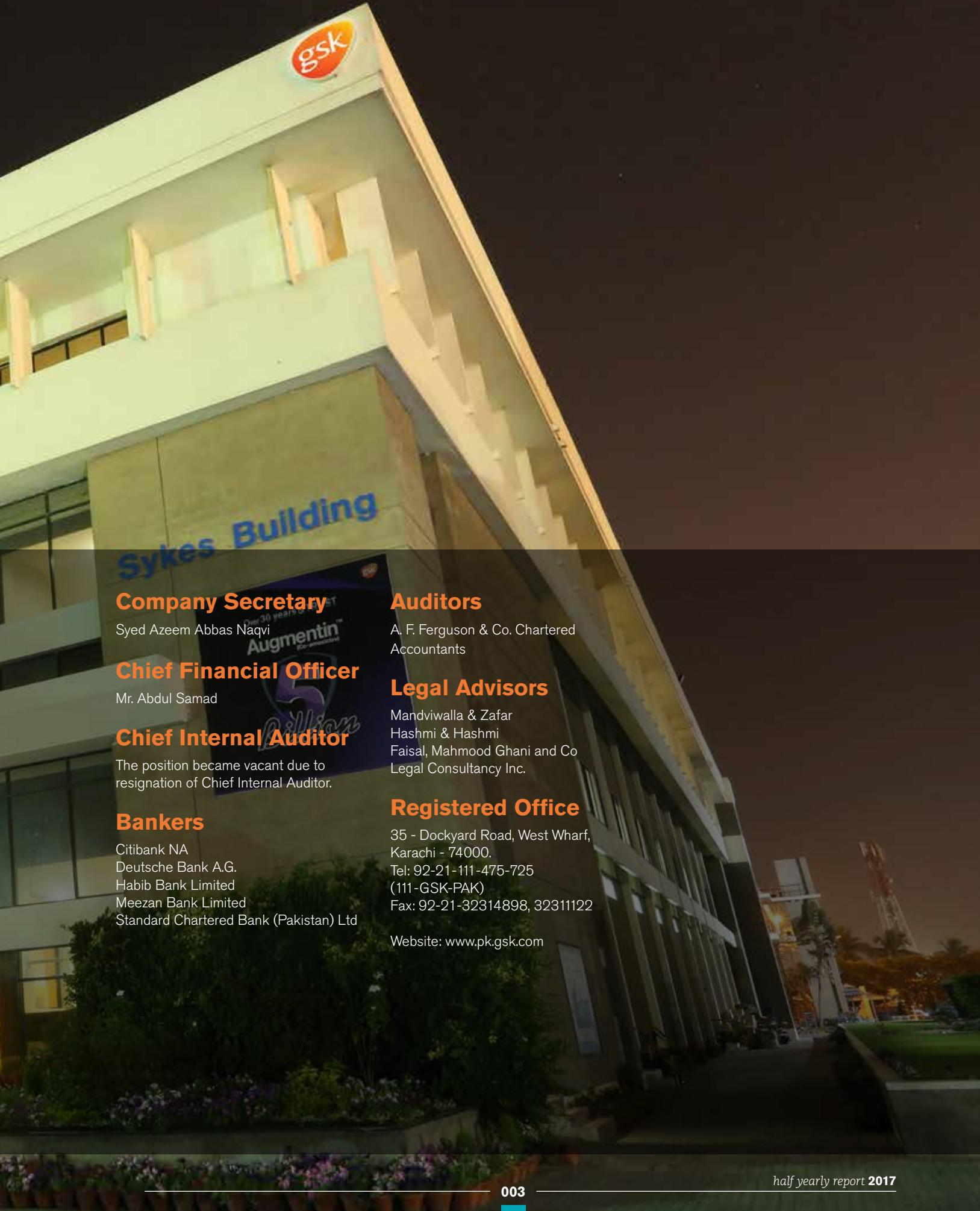
Mr. Abdul Haseeb Pirzada
Head of Corporate Affairs and Administration

Mr. Muhammad Arif Tahir
Director Commercial Trade Channel

Mr. Ahmad Ali Zia
HR Cluster Head - Pakistan and Iran

Mr. Muhammad Imran Amin
Country Compliance Officer

Dr. Yahya Jan
Director Medical



Company Secretary

Syed Azeem Abbas Naqvi

Chief Financial Officer

Mr. Abdul Samad

Chief Internal Auditor

The position became vacant due to
resignation of Chief Internal Auditor.

Bankers

Citibank NA
Deutsche Bank A.G.
Habib Bank Limited
Meezan Bank Limited
Standard Chartered Bank (Pakistan) Ltd

Auditors

A. F. Ferguson & Co. Chartered
Accountants

Legal Advisors

Mandviwalla & Zafar
Hashmi & Hashmi
Faisal, Mahmood Ghani and Co
Legal Consultancy Inc.

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.pk.gsk.com

ڈائریکٹر پورٹ

میں جون 30، 2017 کو ختم ہونے والے نصف سال کے لئے GSK پاکستان لمیٹڈ کی غیر آڈٹ شدہ مالیاتی معلومات پیش کرتے ہوئے خوشی محسوس کر رہا ہوں۔ یہ مالیاتی معلومات تکمینیز آرڈیننس، 1984 کی دفعہ 245 کی روشنی میں پیش کی جا رہی ہیں۔

مجموعی طور پر آپ کی کمپنی نے بعد از ٹیکس 1.4 بلین روپے کا خالص منافع کمایا ہے جو گزشتہ برس کی نسبت 32.9 فیصد زیادہ ہے۔

اس عرصہ کے دوران، کمپنی نے بڑھتی ہوئی کاروباری ضروریات کو پورا کرنے کے لئے پلانٹ کو اپ گریڈ کرنے اور پیداواری استعداد بڑھانے کے لئے سرمایہ کاری جاری رکھی۔ اس عرصہ کے دوران اس میں خرچ کیا جانے والا مجموعی سرمایہ 485 ملین روپے ہے۔ اس عرصہ کے دوران کمپنی کی سرپلس رقوم 844 ملین روپے سے کم ہوئی ہیں جس کی وجہ زیادہ تر ٹینڈر سیلز کے بقایا جات میں اضافہ ہے۔

مستقبل کی توقعات اور چیلنجز:

GSK نے طویل المدت ترجیحات معین کی ہیں جو جدت، کارکردگی میں اضافے اور اعتماد قائم کرنے کے لیے ہیں۔

آپ کی کمپنی ان اسٹریچیک ترجیحات پر عمل درآمد کے ذریعے کامیابی کا مکمل عزم رکھتی ہے۔ ان ترجیحات میں نئی مصنوعات کی تشکیل کے ساتھ ساتھ ان سے منافع کمانے کے لیے سرمایہ کاری شامل ہے۔ تاہم، ہماری کارکردگی درمیانی اور مختصر مدت کے لیے بڑی حد تک موجودہ پروفائل مصنوعات کے معیار کو برقرار رکھنے پر منحصر ہے۔ اس مجاز پر اپنی توجہ برقرار رکھتے ہوئے ترقی کے لیے سرمایہ کار جاری رکھیں گے۔

آپ کی کمپنی قابل رشک مقام پر ہے اور تمام اسٹیک ہولڈرز کے اعتماد کی حامل ہے۔ ہمارا قابل قدر تجارتی ماؤل ان روایتی کمپنیوں سے مختلف ہے جو فارما

عملی مقامیں کا جائزہ:

GSK پاکستان نے دوسری سہ ماہی میں بہترین مقامی فراہم کرتے ہوئے نصف سال کے لئے 16.2 بلین روپے کی خالص سیلز ریکارڈ کی ہیں، جس میں کمپنی کے مابین (intercompany) فروخت ٹکلیکسوس سمتھ کلائن کنزیومر ہیلتھ کپسٹر پاکستان لمیٹڈ کو 1.9 بلین روپے کی سیلز شامل ہیں جو مصنوعات مارکیٹ اخراج ایشیش کی وجہ سے کمپنی نے تیار کیں۔ اس سیل کو شامل نہ کیا جائے، تو ہمارے فارما سیوٹکل کاروبار نے اس مدت میں 14.3 بلین روپے کی خالص سیلز ریکارڈ کی ہیں اور فروخت میں اضافہ ڈبل ہند سے تک پہنچ گیا جو 2.2 فیصد ہے۔ جو کہ ایک مستحکم اور بھرپور اضافہ ہے۔ جس میں پرائمری اور ثانوی ہیلتھ ٹینڈر کی وجہ سے حکومت پنجاب کو کی جانے والی سیلز سے بھی مدد و معاونت ملی۔ اس عرصہ کے دوران اینٹی بیٹیکس، انچیکس، اور ڈراما ٹوجہ کے اہم پورٹ فویز میں اچھا اضافہ ہوا ہے۔

زیر جائزہ نصف سال کے اختتام کے لئے مجموعی منافع 27 فیصد رہا جو تقریباً گزر گزشتہ سال کی سطح جتنا ہی تھا علاوہ چند غیر مستقل معاملات کے اس عرصہ کے دوران مطلق قیمت کی مجموعی حد (gross margin) میں 978 ملین روپے کا اضافہ ہوا۔

فروخت، مارکیٹ اور تقسیم کاری کے اخراجات 1.5 بلین روپے ریکارڈ کئے گئے جو 123 ملین روپے اضافہ ہے اور 1.9 فیصد اضافہ ہے جو کہ اس دوران ہونے والی فروخت میں اضافے کے مطابق ہے۔ انتظامی اخراجات میں 7.9 ملین روپے کی کمی واقع ہوئی (1.6 فیصد) جس کی سب سے بڑی وجہ جاری لگت پر قابو پانے کے لئے کمپنی کے اقدامات تھے۔

اعتراف:

بورڈ کی جانب سے، میں GSK کے عملے کے جذبے اور عزم کی تعریف کرنا چاہوں گا۔ اس عرصے کے دوران ان کی عظیم کاوشوں کے نتیجے میں GSK نے اپنے مقاصد حاصل کئے۔

بھکم بورڈ
معہدہ ملکی
ایم عزیز الحق

چیف ایگزیکیوٹیو فیسر
کراچی

اگست 24، 2017

سیوٹکل صنعت میں کام کر رہی ہیں، اس کے ہمیلتھ کنیر پروفیشنلز اس کو مزید آگے لے جا رہے ہیں اور زیادہ تر اسٹیک ہولڈرز کی جانب سے نہایت ثابت پریائی اور قبولیت حاصل کر رہے ہیں۔

ہم جس مارکیٹ میں اپنا کام انجام دیتے ہیں وہ ہمیں پاکستان کی مجموعی ملکی پیداوار میں خاطر خواہ اضافہ میں کردار ادا کرنے کے لئے افزائش، روپنیو اور روزگار پیدا کرنے کے حوالے سے موقع پیش کرتی رہتی ہے۔ ملک میں جاری اس خوشحالی کے نتیجے میں ان لاکھوں پاکستانیوں کے لئے، جو بہتر طبی دیکھ بھال کے خواہش مند ہیں، معیاری ادویات اور ویکسینز کی طلب میں اضافہ ہو گا۔ وفاقی اور صوبائی حکام کی جانب سے مناسب قیتوں پر صحت کی معیاری سہولتوں کی فراہمی پر حالیہ توجہ ہماری کمپنی جیسے اعلیٰ معیاری مینوپسچر رز کے لئے ایک ثابت اشارہ ہے۔ GSK کا معیاری مصنوعات کی فراہمی کا عزم حکومتی ضروریات کو مکمل طور پر پورا کرتا ہے۔

حکومت اور ریگولیٹری اداروں کے ساتھ ادویہ ساز صنعت کے بہت سے مسائل ابھی تک حل طلب ہیں۔ ہم حکومت کی اس سوچ سے مکمل مطابقت رکھتے ہیں کہ معیاری، متوازن اور مناسب قیمت پر لوگوں کو مصنوعات فراہم ہوں۔ تاہم، اس مطابقت کی پانیداری بھی اہم ہے اور ہم مختلف اسٹیک ہولڈرز کے ساتھ کام کر رہے ہیں تاکہ ایسے حل کی طرف بڑھ سکیں جو حکومت، مریضوں اور صنعت سب کے لیے جیت کے یکساں موقع فراہم کرے۔ ہمیں امید ہے کہ تمام متعلقین ان غیر حل شدہ مسائل کے تصفیے کے لیے بہترین طریقہ کار اختیار کریں گے تاکہ ہم اعتماد کے ساتھ معیار سے توجہ ہٹائے بغیر پیداواریت اور استحکام کی جانب بڑھ سکیں۔

Directors' Report

I am pleased to present the un-audited financial information of GSK Pakistan Limited for the half year ended June 30, 2017. This financial information is being submitted in accordance with Section 245 of the Companies Ordinance, 1984.

Review of Operating Results:

GSK Pakistan delivered good quarter 2 performance with net sales for the half year recorded at Rs. 16.2 billion. This includes intercompany sales of Rs. 1.9 billion to GlaxoSmithKline Consumer Healthcare Pakistan Ltd on account of products manufactured by the company, pending transfer of market authorization. Excluding this sale, our core Pharmaceutical business delivered net sales of Rs. 14.3 billion and achieved strong double digit growth of 18.2%. Growth in this period was helped by sales to the Punjab Government on account of the primary and secondary health tender. All our major portfolios - Antibiotics, Analgesics, and Dermatology grew well during this period.

Gross profit margin for the half year under review was 27.1% which is almost at the same level as last year, excluding one off. In absolute value the gross margin increased by Rs. 978 million in this period.

Selling, marketing and distribution expenses were recorded at Rs. 1.5 billion. This represents an increase of Rs. 123 million - a growth of 9.1% which is well controlled, given the sales growth delivered during the period. Administrative expenses registered a decline of Rs. 7.9 million (1.6%) mainly attributable to company initiatives to control ongoing costs.

Over all your company reported a net profit after tax of Rs.1.4 billion an increase of 32.9% from last year.

During this period, the Company continued to invest in plant upgradation and capacity enhancement initiatives to meet growing needs of the business. The total capital expenditure incurred in this period is Rs. 485 million. Over this period the surplus funds of the company decreased by Rs. 844 million mainly due to increase in tender sales receivables.

Future outlook and Challenges:

GSK has set out new long term priorities to strengthen innovation, improve performance and built trust.

Your company is fully committed to build on its success through execution of these strategic priorities. On the innovation front, we will continue investing in development & commercialization of new products. However, our performance in the short & medium term depends a lot on maintaining the equity of our existing diverse portfolio. On that front, we will continue to maintain our focus and invest for growth.

Your company has the enviable position of enjoying the trust of the full range of stakeholders. Our value led commercialization model, a big departure from the traditional ways that pharmaceutical companies engage with health care professionals is building momentum and gaining positive recognition and acceptance from most stakeholders.

The opportunities for growth, revenue and employment generation by this sector has the potential to contribute more significantly to the GDP growth of Pakistan. With Pakistan making good progress towards economic development, the demand for quality medicines and vaccines by the millions of Pakistanis who seek good medical care will continue to increase. The recent focus of both the federal and provincial authorities to provide quality healthcare at affordable prices is a positive sign for high quality manufacturers such as your company. Our commitment to provide access to quality GSK products fully complements the needs of the government.

The pharma industry has a host of unresolved issues with various organs of the Government including the regulators. We are fully aligned with the Government's vision to provide the best balance of quality and affordability for the population who need our products. However, the sustainability of such an alignment is also critical and we continue to engage with the various stakeholders to reach a "win-win-win" solution – for the government, for the patients and for the industry. We remain optimistic that all concerned will approach the outstanding issues in a pragmatic way so that we can confidently move on the path of productivity and sustainability while maintaining an unrelenting focus on quality.

Acknowledgment:

On behalf of the Board, I would like to applaud the passion and commitment of the GSK staff. Their great efforts led to the achievement of GSK objectives for this period.

By order of the Board.



M. Azizul Huq
Chief Executive Officer
Karachi

August 24, 2017

Auditors' Report to the Members on Review of Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of GlaxoSmithKline Pakistan Limited as at June 30, 2017 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming part thereof for the half year then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended June 30, 2017 and 2016 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2017.

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 information 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 information as of and for the half year ended June 30, 2017 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.



A.F. Ferguson & Co.
Chartered Accountants
Karachi

Dated: August 29, 2017

Engagement Partner: Syed Fahim ul Hasan

Condensed Interim Balance Sheet

as at June 30, 2017

Rupees '000	Note	(Un-audited) June 30, 2017	(Audited) December 31, 2016
NON-CURRENT ASSETS			
Fixed assets	5	8,303,764	8,318,434
Intangibles	6	1,039,072	1,039,072
Long-term loans to employees		70,433	49,369
Long-term deposits		21,955	21,955
		9,435,224	9,428,830
CURRENT ASSETS			
Stores and spares		210,286	201,037
Stock-in-trade	7	5,941,971	5,548,083
Trade debts		1,553,110	530,413
Loans and advances		256,080	177,653
Trade deposits and prepayments		285,769	134,335
Interest accrued		293	12,074
Refunds due from government		35,129	54,178
Other receivables		448,047	484,945
Investments	8	249,231	793,873
Cash and bank balances	9	3,216,429	3,515,638
		12,196,345	11,452,229
Assets of disposal groups classified as held for sale / disposal	10	177,592	284,048
Total Assets		21,809,161	21,165,107
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital		3,184,672	3,184,672
Reserves		9,873,584	10,358,113
		13,058,256	13,542,785
LIABILITIES			
Non-current liabilities			
Staff retirement benefits		-	78,014
Deferred taxation		582,822	645,171
		582,822	723,185
Current liabilities			
Trade and other payables	11	7,137,882	6,246,759
Taxation - provisions less payments		824,357	391,727
Provisions	12	205,844	192,739
		8,168,083	6,831,225
Liabilities of disposal groups classified as held for sale / disposal	10	-	67,912
Total Liabilities		8,750,905	7,622,322
CONTINGENCIES AND COMMITMENTS	13		
Total equity and liabilities		21,809,161	21,165,107

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.



M. Azizul Huq
Chief Executive Officer



Abdul Samad
Chief Financial Officer



Mehmmood Mandviwalla
Director

Condensed Interim Profit and Loss Account

For the half year ended June 30, 2017 (Un-audited)

Rupees '000	Note	Quarter ended		Half year ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Continuing Operations:					
Net sales	14	7,819,237	6,804,128	16,208,185	12,916,465
Cost of sales	15	(5,689,595)	(5,206,613)	(11,824,067)	(9,510,709)
Gross profit		2,129,642	1,597,515	4,384,118	3,405,756
Selling, marketing and distribution expenses	16	(731,795)	(696,535)	(1,478,058)	(1,355,368)
Administrative expenses		(244,454)	(245,103)	(482,952)	(490,813)
Other operating expenses		(114,013)	(50,919)	(222,013)	(137,921)
Other income	17	207,906	94,714	294,599	196,516
Operating profit		1,247,286	699,672	2,495,694	1,618,170
Financial charges		(5,549)	(3,872)	(9,761)	(8,598)
Profit before taxation		1,241,737	695,800	2,485,933	1,609,572
Taxation	18	(607,937)	(333,815)	(1,027,937)	(675,049)
Profit after taxation from continuing operations		633,800	361,985	1,457,996	934,523
Discontinued operations:					
(Loss) / profit after taxation from discontinued operations	10	(26,556)	1,996	(31,721)	138,816
Other comprehensive income		-	-	-	-
Total comprehensive income		607,244	363,981	1,426,275	1,073,339
Earnings / (loss) per share	19				
- continuing operations		Rs. 1.99	Rs. 1.14	Rs. 4.58	Rs. 2.93
- discontinued operations		Re. (0.08)	Re. 0.01	Re. (0.10)	Re. 0.44
		Re. 1.91	Re. 1.15	Re. 4.48	Re. 3.37

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.



M. Azizul Huq
Chief Executive Officer



Abdul Samad
Chief Financial Officer



Mehmod Mandviwalla
Director

Condensed Interim Cash Flow Statement

For the half year ended June 30, 2017 (Un-audited)

Rupees '000	Note	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	20	711,710	999,437
Staff retirement benefits paid		(52,416)	(44,736)
Income taxes paid		(661,382)	(410,352)
Increase in long-term loans to employees		(21,064)	(602)
Net cash (used in)/generated from operating activities		(23,152)	543,747
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(484,985)	(710,842)
Proceeds from sale of operating assets		51,830	59,969
Net cash used in investing activities		(433,155)	(650,873)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(387,544)	(1,191,962)
Cash transferred to GlaxoSmithKline Consumer Healthcare Pakistan Limited		-	(768,893)
Net cash used in financing activities		(387,544)	(1,960,855)
Net decrease in cash and cash equivalents		(843,851)	(2,067,981)
Cash and cash equivalents at beginning of the period		4,309,511	3,642,198
Cash and cash equivalents at end of the period	21	3,465,660	1,574,217

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.



M. Azizul Huq
Chief Executive Officer



Abdul Samad
Chief Financial Officer



Mehmmood Mandviwalla
Director

Condensed Interim Statement of Changes in Equity

For the half year ended June 30, 2017 (Un-audited)

Rupees '000	Share capital	Capital reserves	Revenue reserves		Total
			Reserve arising on Schemes of amalgamation	General reserve	
Balance as at January 1, 2016	3,184,672	2,184,238	3,999,970	3,701,331	13,070,211
Final dividend for the year ended December 31, 2015 @ Rs. 4 per share	-	-	-	(1,273,869)	(1,273,869)
Transfer to GlaxoSmithKline Consumer Healthcare Pakistan Limited pursuant to the Scheme of Arrangement	-	(1,057,315)	-	-	(1,057,315)
Total comprehensive income for the half year ended June 30, 2016	-	-	-	1,073,339	1,073,339
Balance as at June 30, 2016	3,184,672	1,126,923	3,999,970	3,500,801	11,812,366
Balance as at January 1, 2017	3,184,672	1,126,923	3,999,970	5,231,220	13,542,785
Final dividend for the year ended December 31, 2016 @ Rs. 6 per share	-	-	-	(1,910,804)	(1,910,804)
Total comprehensive income for the half year ended June 30, 2017	-	-	-	1,426,275	1,426,275
Balance as at June 30, 2017	3,184,672	1,126,923	3,999,970	4,746,691	13,058,256

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.



M. Azizul Huq
Chief Executive Officer



Abdul Samad
Chief Financial Officer



Mehmod Mandviwalla
Director

Selected Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended June 30, 2017 (Un-audited)

1. THE COMPANY AND ITS OPERATIONS

The Company is incorporated in Pakistan as a limited liability company and is listed on the Pakistan Stock Exchange. It is primarily engaged in the manufacturing and marketing of research based ethical specialties and other pharmaceutical products.

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

Due to the pending transfer of marketing authorisations and certain permissions for Over the Counter (OTC) products of GlaxoSmithKline Consumer Healthcare Limited (GSK CH) with Drug Regulatory Authority of Pakistan (DRAP), the Company, for and on behalf of GSK CH is engaged in the procurement, manufacturing, marketing, sales and managing the related inventory and receivable balances pertaining to such products against a service fee charged by the Company.

2 BASIS OF PREPARATION

As per the requirements of circular no. CLD/CCD/PR(11)/2017 and the related press release dated July 20th, 2017 issued by the Securities & Exchange Commission of Pakistan (SECP), companies whose financial year, including quarterly and other interim period, closes on or before June 30, 2017, shall prepare their financial statements, including interim financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Accordingly, 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 financial statements for the year ended December 31, 2016.

2.1 Changes in accounting standards, interpretations and pronouncements

(a) Standards, interpretations and amendments to published approved accounting standards that are effective in the current year and are relevant

Following amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after January 1, 2017, and are considered to be relevant to the Company's operations.

IAS 7, 'Cashflow statements' - This amendment requires disclosure to explain changes in liabilities for which cashflows have been, or will be classified as financing activities in the statement of cashflows. The amendment is part of the IASB's Disclosure Initiative. In the first year of adoption, comparative information need not be provided.

The change will impact the disclosures of the Company's annual financial statements.

(b) Standards, interpretations and amendments to published approved accounting standards that are effective in the current year but are not relevant

Except as stated above, the new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2017, are considered not to be relevant to Company's financial statements and hence have not been detailed here.

(c) Standards, interpretations and amendments to published approved accounting standards that are not yet effective

Amendment to IFRS 2, 'Share based payments' clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Except as stated above, new standards, amendments and interpretations that are not yet effective are considered not to be relevant to the Company's financial statements and hence have not been detailed here.

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, 2016.

- 3.1 Taxes on income are accrued using the average tax rate that is expected to be applicable to the full financial year.
- 3.2 Actuarial valuations are carried out on annual basis. The last actuarial valuation was carried out on December 31, 2016, therefore, no impact has been calculated for the current period and comparative condensed financial information has also not been adjusted for the same reason.
- 3.3 Non-current assets (or disposal groups) are classified as assets held for sale when sale / disposal is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

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, 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, 2016.

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, 2016.

Rupees '000	Un-audited June 30, 2017	Audited December 31, 2016
5. FIXED ASSETS		
Operating assets - note 5.1	5,457,370	5,594,858
Capital work-in-progress	2,741,993	2,634,193
Major spare parts and standby equipments - note 5.1	104,401	89,383
	8,303,764	8,318,434

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

Rupees '000	Additions (at cost)		Disposals (at net book value)	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Improvements on buildings	38,772	25,052	223	-
Plant and machinery	147,856	176,787	7,631	7,995
Furniture and fixtures	13,820	9,445	-	-
Vehicles	98,038	126,621	26,810	34,963
Office equipments	46,842	23,334	883	1,259
Major spare parts and standby equipments	30,529	6,191	15,511	8,023
	375,857	367,430	51,058	52,240

Selected Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended June 30, 2017 (Un-audited)

Rupees '000	Un-audited June 30, 2017	Audited December 31, 2016
6. INTANGIBLES		
Goodwill	955,742	955,742
Marketing authorisation rights	83,330	83,330
	1,039,072	1,039,072

7. STOCK-IN-TRADE

- 7.1** Stock-in-trade includes items costing Rs. 1.79 billion (December 31, 2016: Rs. 1.37 billion) valued at net realisable value of Rs. 1.61 billion (December 31, 2016: Rs. 1.25 billion).
- 7.2** Stock of Rs. 19.61 million (December 31, 2016: Rs. 124.81 million) have been written off against provision during the period.

Rupees '000	Un-audited June 30, 2017	Audited December 31, 2016
8. INVESTMENTS		
3 months treasury bill - at amortised cost	249,231	793,873
9. CASH AND BANK BALANCES		
With banks		
on deposit accounts	1,000,000	3,150,000
on savings accounts	2,005,692	160,457
on current accounts	195,880	201,611
Cash and cheques in hand	14,857	3,570
	3,216,429	3,515,638

10. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

- 10.1** (Loss) / profit after taxation from discontinued operations:

Rupees '000	Quarter ended		Half year ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net Sales	3,477	47,396	60,648	1,716,516
Cost of sales	(26,307)	(41,483)	(82,232)	(1,079,375)
Gross (loss) / profit	(22,830)	5,913	(21,584)	637,141
Selling, marketing and distribution expenses	-	-	(6,411)	(391,035)
Administrative expenses	-	-	-	(22,339)
Other operating expenses	-	(584)	-	(16,866)
(Loss) / profit before taxation	(22,830)	5,329	(27,995)	206,901
Taxation	(3,726)	(3,333)	(3,726)	(68,085)
(Loss) / profit after taxation	(26,556)	1,996	(31,721)	138,816

10.2 Assets and liabilities of disposal group classified as discontinued operations:

Rupees '000	Un-audited June 30, 2017	Audited December 31, 2016
Assets		
Fixed assets	177,592	200,492
Stock-in-trade - note 10.2.1	-	83,556
Total assets	177,592	284,048
Liabilities		
Trade and other payables	-	67,912
Net assets	177,592	216,136

10.2.1 During the period, pursuant to the global three-part interconditional transaction with Novartis Pharma (Pakistan) Limited (NPPL), marketing authorisation rights of the Oncology portfolio have been transferred by the Drug Regulatory Authority of Pakistan (DRAP). As a result, stock-in-trade amounting to Rs. 119.13 million has been transferred to NPPL in May 2017.

10.3 Cash flows relating to discontinued operations for the half year ended:

Rupees '000	June 30, 2017	June 30, 2016
Net cash generated from operating activities	6,823	1,582,116
Net cash used in investing activities	-	(37,443)
11. TRADE AND OTHER PAYABLES		
Creditors and bills payable	4,030,234	2,250,943
Accrued liabilities	2,206,427	2,554,599
Others	901,221	1,441,217
	7,137,882	6,246,759
12. PROVISIONS		
Balance at beginning of the period	192,739	187,113
Charge for the period	27,732	95,953
Payments during the period	(14,627)	(90,327)
Balance at end of the period	205,844	192,739

12.1 Provisions include restructuring costs and government levies of Rs. 0.25 million and Rs. 205.6 million (December 31, 2016: Rs. 9.53 million and Rs. 183.21 million) respectively.

Selected Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended June 30, 2017 (Un-audited)

13. CONTINGENCIES AND COMMITMENTS

13.1 Following is the change in the status of contingencies as reported in the financial statements for the year ended December 31, 2016:

- (a) Income Tax
 - (i) While finalizing the assessment of the Company for tax year (TY) 2014 (accounting year ended December 31, 2013), the Deputy Commissioner Inland Revenue (DCIR) had issued an order raising tax demand amounting to Rs. 134 million on the contention that the Company had allegedly paid excessive amount on account of royalty and certain imported raw materials. The Company filed an appeal with the Commissioner Inland Revenue-Appeals (CIRA) in respect of the said matter. During the period, CIRA has decided the case on royalty in favour of the Company and on raw material in favour of tax department. The Company has filed an appeal before Appellate Tribunal Inland Revenue on the matter relating to raw material.
 - (ii) During the period, the Deputy Commissioner Inland Revenue issued orders under section 122(1) of the Income Tax Ordinance, 2001 for TY 2013, TY 2014, TY 2015 and TY 2016 (accounting years ended December 31, 2012, 2013, 2014 and 2015 respectively) raising tax demands aggregating to Rs. 107.92 million. The orders have been issued on the contention that the Company had allegedly paid excessive amount on account of certain imported raw materials. The Company has filed appeals before the Commissioner of Inland Revenue Appeals (CIRA) in respect of the said orders.
 - (iii) During the period, the Supreme Court of Pakistan decided the case of former Bristol- Myers Squibb Pakistan (Private) Limited for assessment years 1989-1990 and 1990-1991 (accounting years ended December 31, 1989 and 1990 respectively) in favor of the Company deleting tax demand of Rs 11.99 million raised on the contention that the Company had allegedly paid excessive amount on account of certain imported raw materials. The tax department has filed review application before the Supreme Court against the decision, admission of which is pending.

The management is confident that the ultimate decision in the above cases will be in favour of the Company, hence, no provision has been recognised in respect of the aforementioned tax demands.

13.2 Commitments for capital expenditure outstanding as at June 30, 2017, amounted to Rs. 518.92 million (December 31, 2016: Rs. 517.59 million).

14. NET SALES

14.1 This net sales includes sales of Over the Counter Products amounting to Rs. 1894.29 million to GSK Consumer Healthcare Pakistan Limited being manufactured by the Company due to pending transfer of marketing authorisations with Drug Regulatory Authority of Pakistan ('DRAP'). refer note 1

14.2 During the year ended December 31, 2015, the Drug Regulatory Authority of Pakistan (DRAP) issued the Drug Pricing Policy 2015 (the Policy) through a notification dated March 5, 2015. Under the Policy, pending hardship cases were to be decided within a period of nine months from the date of notification of the Policy. Prior to the promulgation of the Policy, the Company had submitted applications for hardship price increase in respect of certain products.

The Company increased prices of its certain products since DRAP did not decide on the hardship cases within the stipulated nine months period. The Company filed a suit before the High Court of Sindh ('SHC') in order to avail the hardship price increase. The SHC passed an interim order in this regard, and accordingly notified to DRAP and Federation of Pakistan not to take any coercive action against the Company in respect of hardship price increases.

On December 19, 2016, SHC passed Judgement in respect of the case ('the Judgement'). The DRAP, in pursuance of the said Judgement issued a letter on December 28, 2016 requiring the Company to recall all the products from the market on which the Company availed the price increase. The Company, based on legal advice, believes that there

are certain ambiguities in the Judgment and has filed an Appeal against the Judgement before the SHC in respect of which the SHC has notified to DRAP and Federation of Pakistan not to take any coercive action against the Company.

The management believes that there are strong grounds of Appeal to support the stance of the Company on hardship price increase.

15. COST OF SALES

This includes an impairment charge amounting to Rs. 166.87 million in respect of Hydrofluoroalkanes (HFA) manufacturing plant. This unit was acquired for the purpose of localising the product, however due to development and commercialization of new product globally, this unit has been assessed as not feasible.

A part of related liability of Rs. 145.98 million representing the cost of plant which remained unpaid to an associated company has also been written back as other income - refer note 17.

16. SELLING, MARKETING AND DISTRIBUTION EXPENSES

This includes advertising and sales promotion expenses of Rs. 320.13 million (June 30, 2016: Rs. 308.99 million).

17. OTHER INCOME

Rupees '000	Quarter ended		Half year ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Income from financial assets	42,198	40,934	99,880	100,220
Gain on disposal of operating assets	14,927	8,077	16,426	15,753
Scrap sales	4,798	11,317	17,404	20,139
Liabilities no longer payable - note 15	145,983	6,523	145,983	22,128
Others	-	27,863	14,906	38,276
	207,906	94,714	294,599	196,516

18. TAXATION

- 18.1** This includes prior year charge of super tax amounting to Rs. 159.0 million (June 30, 2016: Rs. 105.8 million) imposed for rehabilitation of temporarily displaced persons under section 4B of the Income Tax Ordinance, 2001 (as inserted by Finance Act 2015 and amended by Finance Act 2016 and Finance Act 2017).

Selected Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended June 30, 2017 (Un-audited)

Rupees '000	June 30, 2017	June 30, 2016
19. EARNINGS PER SHARE		
Profit after taxation from continuing operations	1,457,996	934,523
(Loss) / profit after taxation from discontinued operation	(31,721)	138,816

	Number of shares
Weighted average number of shares outstanding during the period	318,467,278
Earnings per share - continuing operations	Rs. 4.58
(Loss) / earnings per share - discontinued operation	Re. (0.10)
Earnings per share - basic	Rs. 4.48

- 19.1** 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.

Rupees '000	June 30, 2017	June 30, 2016
20. CASH GENERATED FROM OPERATIONS		
Profit before taxation	2,457,938	1,816,473
Add / (less): Adjustments for non-cash charges and other items		
Depreciation and impairment	487,008	273,647
Provision for / (reversal of) slow moving, obsolete and damaged stock-in-trade net of stock written off	24,678 (16,283)	(52,966) (15,753)
Gain on disposal of operating fixed assets	105,345	94,891
Provision for staff retirement benefits		
Profit before working capital changes	3,058,686	2,116,292
Effect on cash flow due to working capital changes		
(Increase) / decrease in current assets		
Stores and spares	(9,249)	(39,127)
Stock-in-trade	(335,010)	(1,014,352)
Trade debts	(1,022,697)	(219,820)
Loans and advances	(78,427)	145,581
Trade deposits and prepayments	(151,434)	(158,411)
Interest accrued	11,781	9,250
Refunds due from the government	19,049	55,555
Other receivables	(94,045)	58,399
	(1,660,032)	(1,162,925)
Increase / (decrease) in current liabilities		
Trade and other payables	(700,049)	32,237
Provisions	13,105	13,833
	(2,346,976)	(1,116,855)
	711,710	999,437

Rupees '000	June 30, 2017	June 30, 2016
21. CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,216,429	1,275,252
Short term investments - Treasury bill	249,231	298,965
	3,465,660	1,574,217

22. TRANSACTIONS WITH RELATED PARTIES

Relationship Rupees '000	Nature of transactions	June 30, 2017	June 30, 2016
Holding Company	Dividend	1,578,179	980,722
Associated companies:			
a.	Royalty expense charged	102,245	134,340
b.	Purchase of goods	2,771,060	2,961,863
c.	Purchase of property, plant and equipment	-	42,103
d.	Sale of goods	1,929,203	844,919
e.	Recovery of expenses	60,407	34,105
f.	Service fee on clinical trial studies	-	287
i.	Services fees	6,000	3,000
g.	Sales as an agent of GlaxoSmithKline Consumer Healthcare Pakistan Limited	2,853,342	1,094,416
Staff retirement funds:			
a.	Expense charged for retirement benefit plans	109,227	96,219
b.	Payments to retirement benefit plans	56,298	49,389
Key management personnel:			
a.	Salaries and other employee benefits	116,478	95,430
b.	Post employment benefits	7,467	6,300
c.	Proceeds from sale of fixed assets	3,102	11,616

23. 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 August 24, 2017.



M. Azizul Huq
Chief Executive Officer



Abdul Samad
Chief Financial Officer



Mehmoond Mandviwalla
Director



do more
feel better
live longer



GlaxoSmithKline Pakistan Limited

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