



PHILIP MORRIS  
(PAKISTAN) LIMITED

## QUARTERLY REPORT

For the third quarter ended September 30, 2014  
(Un-audited)



# QUARTERLY REPORT

For the third quarter ended September 30, 2014  
(Un-audited)



## CONTENTS

	PAGE
Company Information	2
Directors' Review	3
Condensed Interim Balance Sheet	4
Condensed Interim Profit & Loss Account	5
Condensed Interim Statement of Changes in Equity	6
Condensed Interim Cash Flow Statement	7
Notes to the Condensed Interim Financial Statements	8-19



## COMPANY INFORMATION

### BOARD OF DIRECTORS

KAMRAN Y. MIRZA (with effect from October 29, 2014)	(Chairman)
(Director with effect from September 27, 2014)	
ARPAD KONYE (until January 31, 2014)	(Chairman & Chief Executive)
ALEJANDRO PASCHALIDES	
(from February 1, 2014 until October 28, 2014)	(Chairman)
(with effect from February 1, 2014)	(Chief Executive)
NICOLAS FLOROS	
ANDREAS FRANZ KURALI (until June 30, 2014)	
DANIEL FAHRNY (with effect from July 1, 2014)	
JOSEPH ZIOMEK	
CHARLES BENDOTTI	
MUJTABA HUSSAIN (until September 26, 2014)	
ASMER NAIM (until September 26, 2014)	
ATHAR ABBAS (with effect from September 27, 2014)	

### COMPANY SECRETARY

MUJTABA HUSSAIN

### AUDIT COMMITTEE

ASMER NAIM (until September 26, 2014)	(Chairman)
ATHAR ABBAS (with effect from September 27, 2014)	(Chairman)
ANDREAS FRANZ KURALI (until June 30, 2014)	
DANIEL FAHRNY (with effect from July 1, 2014)	
CHARLES BENDOTTI (until September 26, 2014)	
NICOLAS FLOROS (with effect from September 27, 2014)	
MUJTABA HUSSAIN (until September 26, 2014)	

### HUMAN RESOURCE & REMUNERATION COMMITTEE

CHARLES BENDOTTI	(Chairman)
ARPAD KONYE (until January 31, 2014)	
ALEJANDRO PASCHALIDES (with effect from February 1, 2014)	
ANDREAS FRANZ KURALI (until June 30, 2014)	
DANIEL FAHRNY (with effect from July 1, 2014)	
DION LESWARA	(Secretary)

### AUDITORS

A. F. FERGUSON & CO.  
Chartered Accountants

### BANKERS

UNITED BANK LIMITED  
BARCLAYS BANK PLC, PAKISTAN  
STANDARD CHARTERED BANK PAKISTAN LIMITED  
MCB BANK LIMITED  
HABIB BANK LIMITED  
CITIBANK N.A.  
DEUTSCHE BANK A.G.  
NATIONAL BANK OF PAKISTAN  
FAYSAL BANK LIMITED

### REGISTERED OFFICE

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

### FACTORIES

1. PLOT NO. 14-17, EXPORT PROCESSING ZONE, KARACHI
2. E/15, S.I.T.E., KOTRI, DISTRICT: DADU (SINDH)
3. QUADIRABAD, DISTRICT: SAHIWAL
4. VILLAGE: MANDRA, TEHSIL: GUJJAR KHAN, DISTRICT: RAWALPINDI
5. ISMAILA, DISTRICT: SWABI

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## DIRECTORS' REVIEW

The Directors are pleased to report on the Company's performance for the nine month period ended September 30, 2014.

During the period, the Company's gross turnover increased by 7.1% compared to the same period in 2013. Distribution, marketing and administrative expenses increased by 15.8% versus 2013, mainly due to increased investment for launch of a new product.

The Company recorded a loss before taxation of Rs. 835.5 million for the nine months compared to loss before taxation of Rs. 505.2 million in the same period last year. The non-tax paid tobacco industry continues to adversely impact the Company's profitability. The non-tax paid tobacco brands are increasingly damaging the Company, and the legitimate industry as a whole, as excise tax-driven price increases in 2014 provided the non-tax paid products with an incentive to flourish.

During the period, the Company's contribution to the National Exchequer, in the form of excise tax, sales tax and other government levies, was Rs.19,032 million, as compared to Rs. 17,877 million in 2013. The strength and growth of the non-tax paid industry negatively affect the government's revenues. We actively support all efforts by the government to enforce regulation to stop illicit trade and establish a level playing field for the legitimate tobacco industry for the benefit of the National Exchequer.

The management team continues to be committed to improving the overall performance of the Company by utilizing global resources, pursuing initiatives such as new strategic marketing activities, improvements in product quality, technological advances by investment in operational capabilities, improving process and operational efficiency, developing and improving resource utilization and allocation. Growing volume and controlling the cost base remain key objectives for improving the Company's profitability.

On behalf of the Board of Directors, I would like to express my 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,

**KAMRAN Y. MIRZA**  
Chairman

Karachi: October 29, 2014



# CONDENSED INTERIM BALANCE SHEET (Un-audited-Note 2.2)

**AS AT SEPTEMBER 30, 2014**

	Note	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
(Rupees in thousand)			
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant and equipment	4	7,374,577	6,876,731
Intangible		25,846	26,195
		<u>7,400,423</u>	<u>6,902,926</u>
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments		42,802	41,101
Deferred taxation	6	682,563	379,978
		<u>8,125,789</u>	<u>7,324,006</u>
<b>CURRENT ASSETS</b>			
Stores and spares - net		580,538	588,330
Stock in trade - net	7	8,350,588	7,431,233
Trade debts - net		235,920	996
Loans and advances		48,788	69,434
Prepayments		681,361	256,141
Other receivables		14,408	215,022
Income tax - net		737,159	670,942
Cash and bank balances		14,819	12,753
		<u>10,663,581</u>	<u>9,244,851</u>
<b>TOTAL ASSETS</b>		<u><b>18,789,370</b></u>	<u><b>16,568,857</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital		1,000,000	1,000,000
Issued, subscribed and paid-up capital		615,803	615,803
Reserves		6,238,777	6,248,641
Accumulated loss		(1,974,234)	(1,370,865)
		<u>4,880,346</u>	<u>5,493,579</u>
<b>CURRENT LIABILITIES</b>			
Short term borrowings		9,634,057	8,776,634
Trade and other payables		2,285,960	2,027,811
Accrued mark-up on short term borrowings		94,078	78,072
Sales tax and excise duty payable		1,894,929	192,761
<b>TOTAL LIABILITIES</b>		<u><b>13,909,024</b></u>	<u><b>11,075,278</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>18,789,370</b></u>	<u><b>16,568,857</b></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	8		

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: October 29, 2014



## CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (Un-audited-Note 2.2)

### FOR THE QUARTER AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014

		Quarter ended		Nine month period ended	
	Note	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
(Rupees in thousand)					
Gross turnover		7,454,697	5,115,433	29,246,716	27,307,404
Less: Sales tax		1,156,844	741,717	4,478,625	3,846,778
Excise duty		3,674,945	2,368,400	14,115,779	12,811,719
		4,831,789	3,110,117	18,594,404	16,658,497
Turnover - net of sales tax and excise duty		2,622,908	2,005,316	10,652,312	10,648,907
Cost of sales	9	1,737,079	1,495,496	7,571,194	7,784,016
Gross profit		885,829	509,820	3,081,118	2,864,891
Distribution and marketing expenses		801,140	706,744	2,626,975	2,193,777
Administrative expenses		320,791	295,380	902,942	853,309
		1,121,931	1,002,124	3,529,917	3,047,086
Operating loss		(236,102)	(492,304)	(448,799)	(182,195)
Other expenses		186,015	173,812	549,065	300,350
		(422,117)	(666,116)	(997,864)	(482,545)
Other income		(6,898)	93,854	398,772	204,166
		(429,015)	(572,262)	(599,092)	(278,379)
Finance cost		93,745	95,350	236,358	226,845
Loss before taxation		(522,760)	(667,612)	(835,450)	(505,224)
Taxation	10	(158,798)	(122,918)	(232,081)	(48,483)
Loss after taxation		(363,962)	(544,694)	(603,369)	(456,741)
----- (Rupees) -----					
Loss per share - basic	11	(5.91)	(8.85)	(9.80)	(7.42)

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: October 29, 2014





# CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (Un-audited-Note 2.2)

## FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014

	Issued, subscribed and paid-up capital	General reserve	Reserve for share based payments	Re-measure- ment of staff retirement gratuity plan	Sub-total Reserves	Accumulated Loss	Total
	Reserves						
	(Rupees in thousand)						
Balance as at January 1, 2013	615,803	6,347,000	24,900	( 105,211)	6,266,689	(929,407)	5,953,085
Transactions with owners							
Share based payments							
- expense	-	-	5,021	-	5,021	-	5,021
- recharge by the ultimate parent	-	-	(29,053)	-	(29,053)	-	(29,053)
	-	-	(24,032)	-	(24,032)	-	(24,032)
Total comprehensive loss							
Loss after taxation for the nine month period ended September 30, 2013	-	-	-	-	-	(456,741)	(456,741)
	-	-	-	-	-	(456,741)	(456,741)
Balance as at September 30, 2013	615,803	6,347,000	868	( 105,211)	6,242,657	(1,386,148)	5,472,312
Balance as at January 1, 2014	615,803	6,347,000	13,230	( 111,589)	6,248,641	(1,370,865)	5,493,579
Transactions with owners							
Share based payments							
- expense	-	-	7,310	-	7,310	-	7,310
- recharge by the ultimate parent	-	-	(17,174)	-	(17,174)	-	(17,174)
	-	-	(9,864)	-	(9,864)	-	(9,864)
Total comprehensive loss							
Loss after taxation for the nine month period ended September 30, 2014	-	-	-	-	-	(603,369)	(603,369)
	-	-	-	-	-	(603,369)	(603,369)
Balance as at September 30, 2014	615,803	6,347,000	3,366	( 111,589)	6,238,777	(1,974,234)	4,880,346

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: October 29, 2014



## CONDENSED INTERIM CASH FLOW STATEMENT (Un-audited-Note 2.2)

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014

		Nine month period ended	
	Note	September 30, 2014	September 30, 2013
		(Rupees in thousand)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	13	768,916	(1,522,591)
Finance cost paid		(220,352)	(235,112)
Income taxes paid		(136,722)	(231,439)
Long term deposits and prepayments		(1,701)	5,390
<b>Net cash provided by operating activities</b>		<b>410,141</b>	<b>(1,983,752)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures		(997,001)	(1,561,337)
Acquisition of intangible		(6,218)	-
Proceeds from disposal of items of property, plant and equipment		72,582	60,088
Income received from short term deposits		139	940
<b>Net cash used in investing activities</b>		<b>(930,498)</b>	<b>(1,500,309)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		-	(13)
Proceeds of loan from associated undertaking		12,929,300	11,572,950
Repayment of loan from associated undertaking		(10,875,300)	(7,801,700)
<b>Net cash used in financing activities</b>		<b>2,054,000</b>	<b>3,771,237</b>
Net increase in cash and cash equivalent during the period		<b>1,533,643</b>	<b>287,176</b>
Cash and cash equivalents at the beginning of the period		<b>(2,944,881)</b>	<b>(2,961,548)</b>
Cash and cash equivalents at the end of the period	14	<b>(1,411,238)</b>	<b>(2,674,372)</b>

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: October 29, 2014



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2)

### FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014

#### 1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on February 10, 1969 as a public limited company under the Companies Act, 1913 (now Companies Ordinance, 1984) and its shares are quoted on the Karachi and Lahore Stock Exchanges. The principal activity of the Company is manufacturing and sale of cigarettes and tobacco. Its registered office is situated at 19th Floor, The Harbour Front, Dolmen City, HC - 3, Block 4, Clifton, Karachi, Pakistan.

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

2.1 These condensed interim financial statements of the Company for the nine month period ended September 30, 2014 have been prepared in accordance with the requirements of the International Accounting Standard 34, 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In cases where requirements differ, the provisions of or directives issued under the Ordinance have been followed. These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2013 as they provide an update of previously reported information.

2.2 The consolidated financial statements of the group comprising the Company and its subsidiary, LaksonPremier Tobacco Company (Private) Limited, have not been prepared due to the exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/02.39 dated July 3, 2014 from the requirement of Section 237 of the Ordinance. 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.

2.3 The comparative balance sheet presented in these condensed interim financial statements as at December 31, 2013 has been extracted from the audited financial statements of the Company for the year then ended (December 2013 financial statements). The comparative profit and loss account, statement of changes in equity and cash flow statement for the nine month period ended September 30, 2013 have been extracted from the condensed interim financial statements of the Company for the nine month period then ended, which were subjected to review but were not audited. The comparative profit and loss account for the quarter ended September 30, 2013 is also included in these condensed interim financial statements.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2)

Continued

### 2.4 **New standards, amendments to approved accounting standards and new interpretations which become effective during the nine month period ended September 30, 2014:**

There were certain amendments to the approved accounting standards and a new interpretation issued by the International Financial Reporting Interpretations Committee (IFRIC) which became effective during the period but are considered not to be relevant or have any significant effect on the Company's operations and are, therefore, not disclosed in these condensed interim financial statements.

### 2.5 **New standards, amendments to approved accounting standards and new interpretations published but are not effective:**

There are certain amendments to approved accounting standards that are mandatory for accounting periods beginning after January 1, 2014 but are considered not to be relevant or will not have any significant effect on the Company's operations and are, therefore, not detailed in these condensed interim financial statements.

### 2.6 **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 2013 financial statements.**

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

### 3.1 **The preparation of these condensed interim financial statements requires the use of certain 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 2013 financial statements.**

### 3.3 **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, 2013.**



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2)

Continued

### 4. PROPERTY, PLANT AND EQUIPMENT

	Note	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
		(Rupees in thousand)	
Operating property, plant and equipment	4.1 to 4.4	5,225,204	4,286,803
Capital work-in-progress	4.5	2,137,249	2,583,090
Major capital spares and stand-by equipment		12,124	6,838
		<u>7,374,577</u>	<u>6,876,731</u>
4.1 Operating property, plant and equipment			
Book value at the beginning of the period / year		4,286,803	3,208,561
Additions during the period / year		1,437,556	1,646,368
		<u>5,724,359</u>	<u>4,854,929</u>
Disposals during the period / year - net book value		(17,715)	(45,136)
Write offs during the period / year - net book value		(20,365)	(38)
Depreciation charge during the period / year		(461,075)	(522,952)
		<u>(499,155)</u>	<u>(568,126)</u>
Book value at the end of the period / year		<u>5,225,204</u>	<u>4,286,803</u>
		<b>Nine month period ended</b> <b>September 30, 2014      September 30, 2013</b> <b>(Un-audited)      (Un-audited)</b> <b>(Rupees in thousand)</b>	
4.2 Additions during the period			
Buildings on freehold land		238,255	35,017
Plant and machinery		680,284	604,205
Furniture and fixtures		79,381	11,729
Vehicles		144,363	429,594
Buildings and leasehold improvements		46,616	11,992
Power and other installations		196,873	-
Computer equipment		51,784	32,565
		<u>1,437,556</u>	<u>1,125,102</u>
4.3 Disposals during the period - net book value			
Plant and machinery		574	8,722
Furniture and fixtures		327	-
Vehicles		16,782	17,459
Power and other installations		32	-
		<u>17,715</u>	<u>26,181</u>
4.4 Depreciation charge during the period		<u>461,075</u>	<u>366,610</u>



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2)

Continued

	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
	(Rupees in thousand)	
4.5 Capital work-in-progress		
Civil works	361,275	530,288
Plant and machinery	1,234,057	1,262,194
Power and other installations	374,091	501,741
Furniture and fittings	15,784	46,150
Computer equipment pending installation	77,563	60,332
Advance to suppliers and contractors	74,479	182,385
	<u>2,137,249</u>	<u>2,583,090</u>

### 5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in LaksonPremier Tobacco Company (Private) Limited. Out of such 103 shares, two shares are in the name of the nominees. During the nine month period ended September 30, 2014, the subsidiary company has incurred loss after taxation amounting to Rs Nil resulting in an accumulated loss of Rs 1,030 as at that date. The net assets of the subsidiary company as at September 30, 2014 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the nine month period ended September 30, 2014.

### 6. DEFERRED TAXATION

	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
	(Rupees in thousand)	
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	(533,504)	(499,663)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	259	1,350
Amortisation of intangible	182	115
Unutilised tax loss and credit	955,395	652,017
Minimum tax	247,998	207,440
Provision for spares	9,718	-
Provision for obsolete stocks	1,621	17,798
Provision for doubtful debts	894	921
	<u>1,216,067</u>	<u>879,641</u>
Deferred tax asset	<u>682,563</u>	<u>379,978</u>



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2) Continued

### 7. STOCK IN TRADE - net

	Note	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
(Rupees in thousand)			
Raw and packing materials	7.1 to 7.3	7,406,111	6,314,446
Work-in-process		118,436	49,849
Finished goods	7.2	831,080	1,120,668
		<u>8,355,627</u>	<u>7,484,963</u>
Less: Provision for obsolete stocks		<u>(5,039)</u>	<u>(53,730)</u>
		<u>8,350,588</u>	<u>7,431,233</u>

- 7.1 Includes impact of seasonal purchases on account of harvest of tobacco crop during the months of July to September.
- 7.2 Includes raw & packing material in transit aggregating Rs 17.581 million (December 31, 2013: Rs 80.411 million) and finished goods in transit aggregating Rs Nil (December 31, 2013: Rs 12.417 million).
- 7.3 During the current period, the Company has written off raw & packing material aggregating Rs 28.273 million (December 31, 2013: Nil) and finished goods aggregating Rs 91.973 million (December 31, 2013: Rs 2.237 million).

### 8. CONTINGENCIES AND COMMITMENTS

#### 8.1 Guarantees

Indemnities given to banks for guarantees issued by it in the normal course of business aggregated Rs 98.193 million (December 31, 2013: Rs 78.22 million).

#### 8.2 Commitments

	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
(Rupees in thousand)		
Capital expenditure contracted for but not incurred	<u>532,593</u>	<u>496,181</u>
Letters of credit	<u>67,128</u>	<u>24,728</u>



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2)

Continued

### Operating lease commitments

The Company leases various offices and warehouses under non-cancellable operating lease arrangements. The lease terms are between 1 to 5 years, and majority of these lease agreements are renewable at the end of the lease period. Commitments in respect of such operating lease are as follows:

	<b>September 30, 2014 (Un-audited)</b>	<b>December 31, 2013 (Audited)</b>
	<b>(Rupees in thousand)</b>	
Not later than 1 year	<b>33,905</b>	22,116
Later than 1 year and not later than 5 years	<b>130,499</b>	176,108
	<b><u>164,404</u></b>	<b><u>198,224</u></b>

### 8.3 Contingencies

8.3.1 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 18.943 million (December 31, 2013: Rs 20.025 million) in respect of goods imported for re-export. In the event the goods are not re-exported within the stipulated time period, cheques issued as a security shall be encashable.

8.3.2 There is no change in the status of cases as set out in note 21.3.2 & 21.3.4 to the December 2013 financial statements.

8.3.3 Further to the matters as set out in note 21.3.3 to the December 2013 financial statements, during the current period, the High Court of Sindh through its order dated August 19, 2014 has extended the interim injunction available to the Company till the date of next hearing (November 18, 2014). Moreover, the appeal filed before the Appellate Tribunal Customs & Excise heard the matter on June 6, 2014 and reserved the matter for judgment. The management based on the merits of the case is confident that the ultimate decision shall be in the Company's favour, therefore, a provision has not been made in these condensed interim financial statements.

8.3.4 Further to the matters as set out in note 21.3.5 to the December 2013 financial statements, in relation to the assessment order pertaining to tax year 2009, during the current period an amount of Rs 27.401 million out of the total rectification order amounting to Rs 43.023 million (which was received during the year ended December 31, 2013) has been adjusted by the tax authorities against the Company's liabilities pertaining to Federal Excise Duty ("FED"). For the remaining portion of the rectification order i.e. Rs 15.622 million, the management is of the view that





## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2) Continued

the same shall also be allowed as adjustment towards the Company's tax liability (either pertaining to income tax, FED or sales tax) in due course. Further, for the pending appeal against the tax demand of Rs 57.502 million, the management is continuing with its view that the decision of the appeal shall be in the Company favour, therefore, a provision has not been recorded in these condensed interim financial statements.

8.3.5 While reviewing the income tax return of the Company for the tax year 2013 (accounting year ended December 31, 2012) the Additional Commissioner Inland Revenue (the "Assessing Officer") has under section 122(1) of the Income Tax Ordinance, 2001 (the "Tax Ordinance") served the Company with an order dated April 28, 2014 amending its assessment for that tax year and has disallowed certain deductions aggregating Rs 455.747 million, the tax impact of which is Rs 77.829 million. The Company has filed an appeal before the Commissioner Inland Revenue – Appeals III against the aforementioned order which is pending adjudication. The management is confident that the ultimate decision of the appeal shall be in its favour, therefore, a provision has not been recognised against the aforementioned disallowed deductions in these condensed interim financial statements.

8.3.6 The Company received audit observation letter dated July 17, 2014 from large taxpayers Unit ("tax authorities") to provide clarification regarding alleged abnormal variation in cigarette production during the period from July 2012 to June 2013. The tax authorities allege that the Company has short paid amount of Rs 4,294.790 million and Rs 1,785.071 million of Federal Excise Duty ("FED") and Sales tax respectively. On August 19, 2014, the Company replied to the tax authorities. In its reply the Company highlighted many errors in the tax authorities' calculations and grounds upon which they based their allegations. On September 11, 2014, LTU without intimation or assigning any reason, rejected the earlier reply of the Company and served a Show Cause Notice alleging an under-declared production by the Company resulting in the short payment of Federal Excise Duty amounting to Rs 2,716.012 million and Sales Tax amounting to Rs 1,128.873 million. Response to the show-cause notice was filed on September 29, 2014. However, the tax authorities dis-regarded our submissions and issued an order on the same date alleging under payment of Federal Excise Duty amounting to Rs 2,320.757 million and Sales Tax amounting to Rs 964.591 million. The management is of the view that impugned order was based on incorrect assumptions and calculations and was passed in haste disregarding the actual facts. The Company has taken the matter up with the pertinent authorities and filed a suit to restrain the tax authorities from recovering the amount allegedly underpaid. The management is of the view that the decision will be in the Company favour, therefore no provision has been recorded in these condensed financial statements.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2)

Continued

### 9. COST OF SALES

	Quarter ended	Nine month period ended	
	September 30, 2014	September 30, 2013	September 30, 2013
	(Un-audited)	(Un-audited)	(Un-audited)
	(Rupees in thousand)		
<b>Raw and packing material consumed</b>			
Opening stock	4,380,280	4,436,950	6,314,446
Purchases, redrying and related expenses	3,895,488	4,063,215	6,634,175
	8,275,768	8,500,165	12,948,621
Closing stock	(7,406,111)	(6,582,470)	(7,406,111)
	869,657	1,917,695	5,542,510
Government levies	6,546	8,450	23,805
Manufacturing expenses	868,555	785,591	1,491,356
	1,744,758	2,711,736	7,057,671
<b>Work-in-process</b>			
Opening stock	113,108	58,542	49,849
Closing stock	(118,436)	(65,689)	(118,436)
Sale of waste	(2,679)	(14,517)	(11,426)
	(8,007)	(21,664)	(80,013)
<b>Finished goods</b>			
Opening stock	702,118	198,037	1,120,668
Finished goods purchased	129,290	164,441	303,948
Closing stock	(831,080)	(1,557,054)	(831,080)
	328	(1,194,576)	593,536
	1,737,079	1,495,496	7,571,194

### 10. TAXATION

Current				
- for the period	(38,510)	57,082	70,505	117,996
- for the prior period	18,018	-	-	(13,360)
	<u>(20,492)</u>	<u>57,082</u>	<u>70,505</u>	<u>104,636</u>
Deferred	(138,306)	(180,000)	(302,586)	(153,119)
	<u>(158,798)</u>	<u>(122,918)</u>	<u>(232,081)</u>	<u>(48,483)</u>



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2) Continued

- 10.1 In the case of another company, the Division Bench of the Sindh High Court in its decision dated May 7, 2013 on carry forward of 'minimum tax' to further years in the case of a taxable loss for the year, has interpreted Section 113(2)(c) of the Tax Ordinance that the benefit of carry forward of minimum tax paid by a Company is only available if the tax paid in a particular year is less than the minimum tax payable. Accordingly, if no tax is paid / payable by the Company due to a taxable loss the right to carry forward the minimum tax does not arise. However, the management based on the advice of its legal counsel is of the view that this matter is subject to appeal in the larger bench of the High Court as well as in the Supreme Court and valid legal grounds are available to substantiate the Company's case for carry forward of minimum tax, therefore, the deferred tax asset on 'minimum tax' aggregating Rs. 247.998 million (December 31, 2013: Rs 207.440 million) has been recognised in these financial statements as at September 30, 2014.

### 11. (LOSS) PER SHARE – BASIC

	Quarter ended		Nine month period ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
	<b>(Rupees in thousand)</b>			
Loss for the period after taxation	<u><b>(363,962)</b></u>	<u>(544,694)</u>	<u><b>(603,369)</b></u>	<u>(456,741)</u>
	<b>(Number of shares)</b>			
Number of ordinary shares	<u><b>61,580,341</b></u>	<u>61,580,341</u>	<u><b>61,580,341</b></u>	<u>61,580,341</u>
	<b>(Rupees)</b>			
Loss per share – basic	<u><b>(5.91)</b></u>	<u>(8.85)</u>	<u><b>(9.80)</b></u>	<u>(7.42)</u>

There were no convertible dilutive potential ordinary shares outstanding as at September 30, 2014 or 2013.

### 12. RELATED PARTIES DISCLOSURES

- 12.1 Related parties comprise of Philip Morris Investments B.V., (the parent company) and Philip Morris Brands Sarl, related group undertakings, subsidiary company i.e. LaksonPremier Tobacco Company (Private) Limited, staff retirement benefits plan 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 (Un-audited-Note 2.2)

Continued

Relationship	Nature of transaction	Nine month period ended	
		September 30, 2014 (Un-audited)	September 30, 2013 (Un-audited)
		(Rupees in thousand)	
Associated undertakings	Sale of goods and service	428,238	894,077
	Purchase of goods and service	415,203	458,411
	Loans received / roll forward	12,929,300	11,572,950
	Loans repaid / adjusted	10,875,300	7,801,700
	Mark-up on loan	64,177	20,001
	Royalty charges	33,017	22,767
	Share based payment expense	7,310	5,021
	Share based payment recharge	17,174	29,053
Staff retirement benefit plans	Contribution to gratuity fund	62,000	30,838
	Contribution to provident fund	70,076	63,158
Key management personnel	Remuneration and benefits - note 12.1.1 and 12.1.2	44,426	68,344

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

- 12.1.1 The Company considers its chief executive and directors as members of key management personnel. Above represent's expenses related to executive directors.
- 12.1.2 Certain members of key management personnel are provided with free use of the Company maintained cars.
- 12.1.3 Certain executives are on secondment from the group undertakings and no remuneration is charged to the Company in respect of those executives.

	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
	(Rupees in thousand)	
12.2 The amount due from related parties (which is classified under 'Trade debts and other receivables') comprises:		
Group undertakings	11,863	209,557



# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2) Continued

	September 30, 2014 (Un-audited)	December 31, 2013 (Audited)
	(Rupees in thousand)	
12.3 The amount due to related parties comprises:		
<b>Trade and other payables</b>		
Group undertakings	358,427	314,784
Staff retirement plans	20,736	-
	<u>379,163</u>	<u>314,784</u>
<b>Short term borrowings</b>		
Loans from an associated undertaking	8,208,000	5,819,000
	<u>8,587,163</u>	<u>6,133,784</u>
12.4 Investment in subsidiary company	See note 5	

## 13. CASH GENERATED FROM OPERATIONS

	Note	Nine month period ended	
		September 30, 2014 (Un-audited)	September 30, 2013 (Un-audited)
		(Rupees in thousand)	
Loss before taxation		(835,450)	(505,224)
Adjustments for:			
Depreciation		461,075	366,610
Amortisation		6,567	5,937
Expenses arising from equity-settled share-based payment plan		7,310	5,021
Provision for obsolete stocks		5,039	-
Stock in trade - written off		120,246	-
Provision / (reversal) for slow moving stores and spares		30,205	(3,726)
Profit on short term deposits		(139)	(940)
Unrealised exchange gain		335,000	102,750
Profit on disposal of property, plant and equipment		(54,867)	(33,907)
Property, plant and equipment written off		20,365	22,481
Finance cost		236,358	226,845
Working capital changes	13.1	437,207	(1,708,438)
		<u>768,916</u>	<u>(1,522,591)</u>



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited-Note 2.2)

	<b>Nine month period ended</b>	
	<b>September 30, 2014</b>	<b>September 30, 2013</b>
	<b>(Un-audited)</b>	<b>(Un-audited)</b>
	<b>(Rupees in thousand)</b>	
<b>13.1 Working capital changes</b>		
Decrease / (increase) in current assets		
Stores and spares	<b>(22,413)</b>	(52,271)
Stock in trade	<b>(1,044,640)</b>	(1,364,054)
Trade debts	<b>(234,924)</b>	163,552
Loans and advances	<b>20,646</b>	15,320
Prepayments	<b>(425,220)</b>	(59,584)
Other receivables	<b>200,614</b>	50,010
	<b>(1,505,937)</b>	(1,247,027)
 Increase / (decrease) in current liabilities		
Trade and other payables	<b>240,976</b>	40,872
Sales tax and excise payable	<b>1,702,168</b>	(502,283)
	<b>1,943,144</b>	(461,411)
	<b>437,207</b>	(1,708,438)

### 14. CASH AND CASH EQUIVALENT

Cash and bank balances	<b>14,819</b>	9,480
Running finance under mark-up arrangements	<b>(1,426,057)</b>	(2,683,852)
	<b>(1,411,238)</b>	(2,674,372)

### 15. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on October 29, 2014 by the Board of Directors of the Company.

### 16. GENERAL

- 16.1 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.
- 16.2 For better presentation, prior period / year numbers have been restated where required.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: October 29, 2014





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